NOVADEL PHARMA INC
Form 10-K
October 27, 2006

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-K

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

For the fiscal year ended July 31, 2006

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 NO. 001-32177*

# NOVADEL PHARMA INC.

(Exact Name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 22-2407152 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**25 MINNEAKONING ROAD, FLEMINGTON, NEW JERSEY 08822**

(Address of principal executive offices) (Zip Code)

(908) 782-3431

Registrant s telephone number, including area code

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

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| **COMMON STOCK, PAR VALUE $.001 PER SHARE** | **American Stock Exchange** |

**Securities registered pursuant to Section 12(g) of**

**the Exchange Act:**

**NONE**

**(Title of Class)**

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

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

As of October 2, 2006, the aggregate market value of the voting and non-voting common equity of the issuer held by non-affiliates of the registrant was approximately $45.7 million based upon the closing sale price of $1.24 for the Registrant s common stock, $.001 par value, as reported by the American Stock Exchange on that date. Common stock held by each officer and director and by each person known to the registrant who owned 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of October 2, 2006, the issuer had 49,236,369 shares of common stock, $.001 par value, outstanding.

**NOVADEL PHARMA INC.**

**ANNUAL REPORT ON FORM 10-K**

**FOR THE FISCAL YEAR ENDED JULY 31, 2006**

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Unless the context otherwise requires, all references to we, us, our, and the Company include NovaDel Pharma Inc. (NovaDel).

**SAFE HARBOR STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This Annual Report on Form 10-K includes forward-looking statements , including statements regarding NovaDel Pharma Inc. s (the Company, we, us or NovaDel ) expectations, beliefs, intentions or strategies for the future and the Company s internal controls and procedures and outstanding financial reporting obligations and other accounting issues. The Company intends that all forward-looking statements be subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are only predictions and reflect the Company s views as of the date they are made with respect to future events and financial performance. In particular, the Management s Discussion and Analysis of Financial Condition and Results of Operations section in Part II, Item 7 of this Annual Report includes forward-looking statements that reflect the Company s current views with respect to future events and financial performance. The Company uses words such as expect, anticipate, believe, intend and similar expressions to identify forward-looking statements. You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. A number of important risks and uncertainties could, individually or in the aggregate, cause actual results to differ materially from those expressed or implied in any forward-looking statements.

Examples of the risks and uncertainties include, but are not limited to: the inherent risks and uncertainties in developing products of the type the Company is developing (independently and through collaborative arrangements); the inherent risks and uncertainties in completing the pilot pharmacokinetic feasibility studies being conducted by the Company; possible changes in the Company s financial condition; the progress of the Company s research and development; clinical trials require adequate supplies of drug substance and drug product, which may be difficult or uneconomical to procure or manufacture; timely obtaining sufficient patient enrollment in the Company s clinical trials; the impact of development of competing therapies and/or technologies by other companies; the Company s ability to obtain additional required financing to fund its research programs; the Company s ability to enter into agreements with collaborators and the failure of collaborators to perform under their agreements with the Company; the progress of the Food and Drug Administration, or FDA, approvals in connection with the conduct of the Company s clinical trials and the marketing of the Company s products; the additional costs and delays which may result from requirements imposed by the FDA in connection with obtaining the required approvals; acceptance for filing by the FDA does not mean that the New Drug Application, or NDA, has been or will be approved, nor does it represent an evaluation of the adequacy of the data submitted; the risks related to the Company s internal controls and procedures; and the risks identified under the section entitled Risk Factors included as Item 1A in Part I of this Annual Report on Form 10-K and other reports, including this report and other filings filed with the Securities and Exchange Commission from time to time.

**PART I**

**ITEM 1. BUSINESS.**

**GENERAL**

NovaDel Pharma Inc., a Delaware corporation, is a specialty pharmaceutical company engaged in the development of novel drug delivery systems for prescription and over-the-counter, or OTC, drugs. Our oral spray therapeutics are administered by a novel application drug delivery system for presently marketed prescription, OTC, and veterinary drugs. This patented and patent-pending delivery system is an oral spray potentially enabling drug absorption through the oral mucosa, potentially increasing the benefits of clinically proven compounds, including more rapid absorption into the bloodstream than presently available oral delivery systems. Our proprietary delivery system potentially enhances and accelerates the onset of the therapeutic benefits within minutes of administration. Our development efforts for our proprietary novel drug delivery system are concentrated on making such system available for drugs that are already available and proven in the marketplace. We believe that our proprietary drug delivery system could offer the following significant advantages: (i) more rapid delivery of drugs to the bloodstream allowing for quicker onset of therapeutic effects compared to conventional oral dosage forms; (ii) increased bioavailability of a drug by avoiding metabolism by the liver (iii) improved drug safety profile by reducing the required dosage, including possible reduction of

side-effects; (iv) improved dosage reliability; (v) allowing medication to be taken without water; (vi) avoiding the need to swallow as is the case with many medications; and (vii) improved patient convenience and compliance. Currently, we have eight patents which have been issued in the U.S. and 52 patents which have been issued outside of the U.S. Additionally, we have over 80 patents pending around the world.

Since inception, substantially all of our revenues have been derived from consulting activities, primarily in connection with product development for various pharmaceutical companies. More recently, we have begun to derive revenues from license fees and milestone payments stemming from our partnership agreements. Our future growth and profitability will be principally dependent upon our ability to successfully develop our products and to market and distribute the final products either internally or with the assistance of strategic partners.

At our inception in 1982, then known as Pharmaconsult, we consulted to the pharmaceutical industry, focusing on product development activities of various European pharmaceutical companies. Since 1992, we have used our consulting revenues to fund our own product development activities. Our focus on developing our own products evolved naturally out of our consulting experience for other pharmaceutical companies. Substantially all of our revenues previously were derived from our consulting activities. Consulting activities are no longer a material part of our business. In 1991, we changed our name to Flemington Pharmaceutical Corporation. Effective October 1, 2002, we again changed our name to NovaDel Pharma Inc. Our principal business address is 25 Minneakoning Road, Flemington, New Jersey, 08822, and our telephone number is (908) 782-3431. We maintain a website at www.novadel.com.

On June 28, 2006, our Board of Directors approved a change of our fiscal year end from July 31 to December 31. Accordingly, the new fiscal year will begin on January 1, and end on December 31. We have filed this Annual Report on Form 10-K for the period ending July 31, 2006 and we intend to file a transition report on Form 10-K for the period ending December 31, 2006.

Highlights for our fiscal year ended July 31, 2006, and additionally through the date of filing of this Annual Report on Form 10-K, include the following product development and business achievements:

Completed two pre-Investigational New Drug Application, or IND, meetings with the Food and Drug Administration, or the FDA, including meetings for our sumatriptan (Imitrex®) and zolpidem (Ambien®) product candidates. In addition, we participated in a pre-IND meeting with our partner Hana Biosciences, Inc. or Hana Biosciences, for the ondansetron (Zofran®) (Zensana ) product candidate.

Announced that Dr. Henry Kwan would no longer serve as Head of Pharmaceutical Sciences on October 20, 2005.

Filed an IND for ondansetron (Zensana ) through our partner, Hana Biosciences.

Announced through our partner, Hana Biosciences, positive study results of a pivotal clinical trial for Zensana ondansetron oral spray, a study which demonstrated Zensana 8mg dose is bioequivalent to the current commercially available 8mg tablet (Zofran®). Hana Biosciences filed an NDA for Zensana which was accepted for review by the FDA.

Addition of Jan Egberts, M.D. who assumed the positions of President and Chief Executive Officer on December 23, 2005 and Chairman of the Board of Directors on January 17, 2006.

Issued two patents by the U.S. Patent and Trademark Office and one additional patent in Canada that further strengthens our intellectual property position in the oral delivery of pharmaceuticals. The issued patents cover the use of multiple classes of drugs in oral sprays, including those for the treatment of pain, central nervous system disorders, and for anesthesia under our oral spray delivery system.

Completed a private placement in April 2006 of our common stock, raising gross proceeds of approximately $11.8 million.

On April 24, 2006, Ms. Jean Frydman ceased to serve as Vice President, General Counsel and Corporate Secretary.

Received notice from the FDA indicating acceptance of our New Drug Application, or NDA, submission for our nitroglycerin lingual spray (NitroMist ) as a complete response and an indicated target date of November 3, 2006 for action on the submission.

Added two new central nervous system product candidates to our development pipeline, including tizanidine oral spray potentially for spasticity and ropinirole oral spray potentially for Parkinson s disease.

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Appointment of Mr. Steven B. Ratoff as Chairman of the Board effective September 15, 2006 with Dr. Egberts remaining a member of the Board of Directors.

Announcement of positive study results of a pharmacokinetic study of our improved oral spray formulation of sumatriptan, a study which demonstrated that sumatriptan oral spray achieves a statistically significant faster rate of absorption than Imitrex® tablets.

**PRODUCT DEVELOPMENT**

Drug development in the U.S. and most countries throughout the world is a process that includes several steps defined by the FDA or comparable regulatory authorities in foreign countries. The FDA approval processes relating to new drugs differ, depending on the nature of the particular drug for which approval is sought. With respect to any drug product with active ingredients not previously approved by the FDA, a prospective drug manufacturer is required to submit an NDA, which includes complete reports of pre-clinical, clinical and laboratory studies to prove such product s safety and efficacy. Prior to submission of the NDA, it is necessary to submit an IND, to obtain permission to begin clinical testing of the new drug. Given that our current product candidates are based on a new technology for formulation and delivery of active pharmaceutical ingredients that have been previously approved and that have been shown to be safe and effective in previous clinical trials, we believe that we will be eligible to submit what is know as a 505(b)(2) NDA. We estimate that the development of new formulations of our pharmaceutical product candidates, including formulation, testing and obtaining FDA approval, will take two to three years for the 505(b)(2) NDA process and will require significantly lower investments in direct research and development expenditures than is the case for the discovery and development of new chemical entities. However, our estimates may prove to be inaccurate; or pre-marketing approval relating to our proposed products may not be obtained on a timely basis, if at all, and research and development expenditures may significantly exceed management s expectations.

It is not anticipated that we will generate any revenues from royalties or sales of our product candidates until regulatory approvals are obtained and marketing activities begin. Any one or more of our product candidates may not prove to be commercially viable, or if viable, may not reach the marketplace on a basis consistent with our desired timetables, if at all. The failure or the delay of any one or more of our proposed products to achieve commercial viability would have a material adverse effect on us.

The successful development of our product candidates is highly uncertain. Estimates of the nature, timing and estimated expenses of the efforts necessary to complete the development of, and the period in which material net cash inflows are expected to commence from, any of our product candidates are subject to numerous risks and uncertainties, including:

- the scope, rate of progress and expense of our clinical trials and other research and development activities;
- results of future clinical trials;
- the expense of clinical trials for additional indications;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the expense and timing of regulatory approvals;
- the expense of establishing clinical and commercial supplies of our product candidates and any products that we may develop;

the effect of competing technologies and market developments; and

the expense of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.

We expect to continue to spend significant amounts on the development of our product candidates and we expect our costs to increase as we continue to develop and ultimately commercialize our product candidates. Over the next fiscal year, we expect to devote the majority of our research and development resources to the following product candidates:

NitroMist (nitroglycerin lingual aerosol). This product candidate is for acute relief of an attack or acute prophylaxis of angina pectoris due to coronary artery disease. We have partnered with Par Pharmaceutical, Inc., or Par, who has exclusive rights to market, sell and distribute NitroMist in the U.S. and Canada. On June 1, 2005, we received an approvable letter from the FDA regarding our NDA for NitroMist . The FDA is not requiring any additional clinical studies for approval, but has requested that we complete certain manufacturing process validation commitments. On April 30, 2006, we submitted the additional documentation to the FDA for the manufacturing process validation commitments. On May 26, 2006, we announced that the FDA had accepted our submission regarding our NDA as a complete response and, further, that the FDA indicated a target date of November 3, 2006 for action on the submission. We will receive a milestone payment from Par should final approval from the FDA be obtained. In addition, we will receive royalty payments based upon a percentage of net sales.

Zolpidem oral spray. Zolpidem is the active ingredient in Ambien®, the leading hypnotic marketed by Sanofi-Aventis. A pilot pharmacokinetic, or PK, study in zolpidem oral spray with 10 healthy subjects suggested that the formulation of zolpidem oral spray had a comparable PK profile to the Ambien® tablet but with a more rapid time to detectable drug levels. The study demonstrated a mean time to therapeutic concentration level that was 23 minutes shorter with the 10mg oral spray compared with the 10mg Ambien® tablet (15.5 min. and 38.5 min., respectively). This time was also approximately 16 minutes shorter for the 5mg dose of the oral spray. Zolpidem oral spray has the potential to provide patients with the meaningful benefit of faster onset of sleep as compared to existing sleep remedies should future studies validate the already completed Pilot PK study. We are currently targeting a NDA submission for our zolpidem product candidate in the first half of calendar 2007. If this timeline is met, we may obtain final approval from the FDA in calendar 2008.

Sumatriptan oral spray. Sumatriptan is the active ingredient in Imitrex® which is the largest selling migraine remedy marketed by GlaxoSmithKline, or GSK. A pilot PK study of our sumatriptan oral spray with 9 healthy subjects, completed in the second half of calendar 2004, suggested that the formulation achieved serum concentrations of sumatriptan in the therapeutic range. In September 2006 we announced positive results from a pharmacokinetic study of our improved oral spray formulation of sumatriptan which demonstrated that sumatriptan oral spray achieves a statistically significant increase in absorption rate as compared with Imitrex® tablets. The rate of drug absorption is believed to be the most important predictor of the degree and speed of migraine relief. Sumatriptan oral spray was evaluated in a four-arm, crossover pharmacokinetic study comparing 50mg Imitrex® tablets to 20mg and 30mg of the oral spray in 10 healthy male volunteers under fasting conditions. Additionally, the pharmacokinetics of 20mg oral spray after a meal were evaluated. At least 90% of subjects receiving sumatriptan oral spray had detectable drug levels at three minutes post-dosing, while at the same timepoint, only 10% of subjects receiving 50mg Imitrex® tablets had detectable drug levels. These differences are statistically significant. At 3 to 6 minutes post dosing, all oral spray groups had statistically significantly higher mean concentration levels compared to 50mg Imitrex® tablets. Using published data for the currently marketed Imitrex® nasal spray as a proxy for therapeutic blood levels, we observed that by 6 minutes post-dosing, 100% of the 20mg oral spray users achieved these critical plasma concentration levels while none of the subjects from the Imitrex® tablet group did so by this timepoint. This result was also statistically significant. Furthermore, the study indicates up to a 50% increase in relative bioavailability of oral spray in comparison to the Imitrex® tablet. Sumatriptan oral spray was well tolerated.

*Comparison to Imitrex® Nasal Spray Published Data*

Time to the first peak plasma concentration of sumatriptan -- which represents drug absorbed directly across the oral mucosa -- was approximately 70% faster with the 20mg oral spray than what has been reported in the literature for the same dose of the Imitrex® nasal spray (6 min. vs. 20 min.). The mean concentration level achieved during this critical first phase of absorption is approximately 30% greater for the oral spray than what was observed in published studies of the nasal spray (10.9 ng/mL vs. 8.5 ng/mL). Relative bioavailability after administration of 20mg oral spray appears to be greater than published estimates for the same dose of the Imitrex® nasal spray. Imitrex® nasal spray was not included in this clinical study.

Sumatriptan oral spray may provide clinical benefits to migraine sufferers including, possibly, faster relief than Imitrex® tablets as well as greater tolerability than triptan nasal sprays. Further, if proven to be safe and effective, sumatriptan oral spray may be attractive to patients who have trouble taking oral medications due to nausea and vomiting caused by the migraine attack. We are currently targeting a NDA submission for our sumatriptan product candidate in the second half of calendar 2007. If this timeline is met, we may obtain final approval from the FDA in calendar 2008; however, we will not be able to launch this product candidate until after the expiration of the relevant Imitrex® patents and extensions thereof in February 2009.

Tizanidine oral spray. Tizanidine is indicated for the treatment of spasticity, a symptom of several neurological disorders, including multiple sclerosis, spinal cord injury, stroke and cerebral palsy, which leads to involuntary tensing, stiffening and contracting of muscles. Tizanidine treats spasticity by blocking nerve impulses through pre-synaptic inhibition of motor neurons. This method of action results in decreased spasticity without a corresponding reduction in muscle strength. Because patients experiencing spasticity may have difficulty swallowing the tablet formulation of the drug, our tizanidine oral spray may provide patients suffering from spasticity with a very convenient solution to this serious treatment problem. We are currently targeting a NDA submission for our tizanidine product candidate in calendar 2008. If this timeline is met, we may obtain final approval from the FDA in calendar 2009.

Ropinirole oral spray. Ropinirole is indicated for the treatment of the signs and symptoms of idiopathic Parkinson's disease. Ropinirole oral spray is ideal for the geriatric population who may be suffering from dysphagia (difficulty swallowing); 85% of sufferers of Parkinson's are 65 years of age or older and 45% of elderly people have some difficulty in swallowing. Our formulation of ropinirole oral spray may represent a more convenient way for the patient or healthcare provider to deliver ropinirole to patients suffering stiffness and/or tremors. We are currently targeting a NDA submission for our ropinirole product candidate in calendar 2008. If this timeline is met, we may obtain final approval from the FDA in calendar 2009.

We will also support our partners, as necessary, with the following product candidates and opportunities although we do not expect to devote a significant amount of corporate resources to such activities:

Zensana (ondansetron oral spray). Ondansetron is the active ingredient in Zofran®, the leading anti-emetic marketed by GSK. Our partner for Zensana , Hana Biosciences, is overseeing all clinical development and regulatory approval activities for this product in the U.S. and Canada. We believe that Zensana is the only multidose oral spray product candidate currently in development which utilizes a spray technology to deliver full doses of ondansetron to patients experiencing chemo and radiotherapy-induced nausea and vomiting. Ondansetron, a selective blocking agent of the hormone serotonin, is an FDA-approved drug that is commonly used in tablet form to prevent chemotherapy and radiation-induced and post-operative nausea and vomiting. Many patients receiving chemo and radiation therapy have difficulty swallowing and are potentially unable to tolerate other forms of ondansetron and other therapies intended to prevent nausea and vomiting, known as anti-emetics. The convenience of drug delivery via a spray may offer a desirable alternative to tablets and other forms of ondansetron. In January 2006, Hana Biosciences announced positive study results of a pivotal clinical trial for Zensana . Hana Biosciences submitted its NDA on June 30, 2006 and such NDA was accepted for review by the FDA in August 2006. Hana Biosciences is currently targeting final approval from the FDA and commercial launch in calendar 2007. We will receive a milestone payment from Hana Biosciences upon final approval from the FDA. In addition, we will receive royalty payments based upon a percentage of net sales. We retain the rights to our ondansetron oral spray outside of the U.S. and Canada.

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Propofol oral spray. Propofol is the active ingredient in Diprivan®, a leading intravenous anesthetic marketed by AstraZeneca. We continue to support our partner, Manhattan Pharmaceuticals, Inc., or Manhattan Pharmaceuticals, who will oversee all clinical development and regulatory approval for this product. Our partner has not provided guidance regarding the clinical and regulatory development plan for this product candidate.

Our veterinary initiatives are being carried out largely by our partner, Velcera Pharmaceuticals, Inc., or Velcera. Our partner has not provided guidance regarding the clinical and regulatory development plan for the potential veterinary product candidates.

**BUSINESS DEVELOPMENT**

To date, we have entered into license agreements with (i) Hana Biosciences., for the marketing rights in the U.S. and Canada for our ondansetron oral spray, (ii) Par, for the marketing rights in the U.S. and Canada for our nitroglycerin lingual aerosol, (iii) Manhattan Pharmaceuticals, in connection with propofol, and (iv) Velcera, in connection with veterinary applications for currently marketed veterinary drugs. Lindsay A. Rosenwald, M.D., a significant stockholder, directly and indirectly, of us, is the Chairman and sole shareholder of Paramount BioCapital, Inc., Paramount. In the regular course of its business and the business of its affiliates, and outside of its arrangement with us, Paramount and/or its affiliates identify, evaluate and pursue investment opportunities in biomedical and pharmaceutical products, technologies and companies. In addition, as of October 2, 2006, Dr. Rosenwald may be deemed to beneficially own approximately 16.8% of our outstanding common stock (assuming exercise of certain warrants beneficially owned by Dr. Rosenwald). As such, Dr. Rosenwald and Paramount may be deemed to be our affiliates. Dr. Rosenwald and Paramount may also be deemed to be affiliates of Manhattan Pharmaceuticals, Velcera and Hana Biosciences. See Item 13, Certain Relationships and Related Transactions . We intend to pursue additional strategic alliances, as well as to consider fully developing and commercializing product candidates internally. We have added two new central nervous system product candidates to our development pipeline, tizanidine oral spray for spasticity and ropinirole oral spray for Parkinson s disease. We intend to file NDA s on these products during 2008, with commercialization targeted for 2009. We intend to enter into additional license agreements and strategic alliances, including:

Marketing partners outside of North America for Zensana , for which we retain marketing rights outside of North America.

Marketing partners for our zolpidem oral spray and sumatriptan oral spray, to commercialize these products assuming that we are successful in attaining approval for these products from the FDA.

Additional marketing partners and strategic alliances as may be appropriate for future products in our development pipeline.

**AGREEMENT WITH HANA BIOSCIENCES, INC.**

In October 2004, we entered into a 20-year license and development agreement with Hana Biosciences. Hana Biosciences will develop and market our oral spray version of ondansetron, the most widely prescribed anti-emetic for preventing chemotherapy-induced nausea and vomiting. Under the agreement, Hana Biosciences has exclusive rights to market, sell and distribute our ondansetron oral spray in the U.S. and Canada. We are entitled to receive milestone payments at several junctures of development, including completion of a pharmacokinetic study, filing of an IND, FDA acceptance of the NDA and NDA approval. In August 2005, our license and development agreement with Hana Biosciences was amended to transfer the responsibility to Hana Biosciences of selecting and managing a contract manufacturer who will provide clinical and commercial quantities of the ondansetron oral spray product. Double-digit royalties on net sales of the product may be due to us if and when the product launches. In October 2004, in exchange for $1 million, Hana Biosciences purchased 400,000 newly issued shares of our common stock, at a price of $2.50 per share, and has issued to us, for no additional consideration, 73,121 shares of its common stock, valued at $500,000 based upon the average price of Hana Biosciences common stock during the 10 business days prior to the effective date of the agreement ($6.84 per share).

**LICENSE AND SUPPLY AGREEMENT WITH PAR PHARMACEUTICAL, INC.**

In July 2004, we entered into a 10-year license and supply agreement with Par, a wholly owned subsidiary of Par Pharmaceutical Companies, Inc., whereby Par has the exclusive rights to market, sell and distribute our nitroglycerin lingual spray in the U.S. and Canada. The terms of the agreement call for an upfront license fee which was paid to us in July 2004, a milestone payment made to us upon the FDA s acceptance of an NDA for our nitroglycerin lingual spray for review in September 2004, another potential milestone payment if and when the NDA is approved for marketing in the U.S., and double-digit percentage royalties on net sales of the product in the U.S. and Canada. We are responsible for obtaining regulatory approval for the product and for supplying the product to Par.

**AGREEMENT WITH MANHATTAN PHARMACEUTICALS, INC.**

In April 2003, we entered into a 10-year license and development agreement with Manhattan Pharmaceuticals for the worldwide, exclusive rights to our oral spray technology to deliver propofol for pre-procedural sedation. Manhattan Pharmaceuticals is a development stage company and has no revenues to date. The terms of the agreement require Manhattan Pharmaceuticals to achieve certain milestones and to make certain up-front license fee payments to us, the first $500,000 of which we received from June 2003 through November 2003.

**AGREEMENT WITH VELCERA PHARMACEUTICALS, INC. (FORMERLY VETCO)**

On September 14, 2004, we announced the granting of an exclusive worldwide 20-year license for our proprietary oral spray technology to Velcera, formerly known as Vetco Pharmaceuticals, for development of innovative veterinary medicines. We received an equity stake of 529,500 shares of common stock in Velcera, representing approximately 15% of its outstanding common stock as of October 23, 2003, along with an upfront cash technology fee of $1,500,000 in September 2004. The agreement, which amends an earlier agreement, provides that Velcera shall make certain milestone payments to us upon the achievement of key events associated with product development. Velcera will be obligated to make additional similar payments to us for each product developed by it, and double-digit royalty payments on product sales will be due to us. Products will be formulated by Velcera, at Velcera s expense, and Velcera will fund all development and regulatory expenses. We will manufacture and supply Velcera with the resulting pharmaceutical products.

**BUSINESS STRATEGY**

***Strategy***

Our goal is to become a leading specialty pharmaceutical company that develops and commercializes improved formulations of existing drugs using our patented oral spray technology. We believe that our technology has application to a broad number of therapeutic areas and product categories. Our strategy is to concentrate our product development activities primarily on pharmaceutical products which meet the following characteristics:

- Significant prescription sales already exist;
- Our proprietary novel drug delivery technology enhances the performance of the active ingredient of the target compound, potentially addressing unmet patient needs;

Increasing focus on products in targeted therapeutic areas (e.g., neurology) where the benefits of our technology may apply to multiple target compounds, and where we can achieve distribution with a small specialized sales and marketing group; and
Applicability of an efficient regulatory pathway to approval using the 505(b)(2) pathway.

In today s environment of escalating drug development costs and time to market, we believe that the ability to bring products with some degree of differentiation and competitive advantage to the marketplace in a timely and cost-effective manner is a viable strategy.

***Products***

We currently have six product candidates in our pipeline. Two of these product candidates, NitroMist and Zensana , are currently licensed to marketing partners who will commercialize these product candidates, with us receiving milestone and royalty income from revenue upon product approval. For our zolpidem oral spray and sumatriptan oral spray, currently in development, we will most likely seek marketing partners to commercialize these product candidates, as their broad distribution will require significant resources. No current marketing partners exist for these product candidates. We expect to secure marketing partners for these product candidates after we have generated sufficient clinical data to demonstrate the effectiveness of these product candidates, and would anticipate that such marketing partners would provide us with milestone payments and royalties based on revenues.

Our two remaining product candidates, tizanidine and ropinirole, are targeted for a specific therapeutic area: neurology. Among other alternatives, we will consider developing and commercializing these product candidates ourselves, as we believe that the neurology market has the potential to be served with a small, specialized marketing and sales group. If we determine that commercializing these product candidates ourselves is appropriate, we would begin building such sales and marketing infrastructure in conjunction with our clinical development process, such that we will be in a position to begin marketing these products as soon as possible after attaining approval from the FDA.

In addition to our existing product candidates, we intend to continue to identify and pursue additional product candidates for development.

**PATENTED AND PATENT PENDING DELIVERY SYSTEMS**

We have certain patents and pending patent applications for our oral spray delivery system. FDA approval is not a prerequisite for patent approval. The expected year of marketability of a given product candidate will vary depending upon the specific drug product with which the delivery system will be utilized. Each individual use of the delivery system will require registration with and/or approval by the FDA or other relevant health authority prior to marketability, and the amount of regulatory oversight required by the FDA or other regulatory agencies will also depend on the specific type of drug product for which the delivery system is implemented. Our aerosol and pump spray formulations release drugs in the form of a fine mist into the buccal portion of the mouth for rapid absorption into the bloodstream via the mucosal membranes. We believe that this delivery system may offer certain advantages, including more rapid delivery of drugs to the bloodstream, improving the safety profile of certain drugs by lowering the required dosage to be administered, improving dose reliability, allowing medication to be taken without water, avoiding the need to swallow as is the case with many medications and improved patient convenience and compliance. Drug absorption through the mucosal membranes of the mouth is rapid and minimizes the first-pass metabolism effect (i.e., total or partial inactivation of a drug as it passes through the gastrointestinal tract and liver).

**MARKETING AND DISTRIBUTION**

To date, we have chosen to license products developed with our technology to other drug companies. We intend to pursue additional strategic alliances, as well as to consider fully developing and commercializing product candidates internally.

We anticipate that promotion of our product candidates, whether conducted by us or by a strategic partner, will be characterized by an emphasis on their distinguishing characteristics, such as dosage form and packaging, as well as possible therapeutic advantages of such product candidates. We intend to position our product candidates as alternatives or as line extensions to brand-name products. We believe that to the extent our formulated products are patent-protected, such formulations may offer brand-name manufacturers the opportunity to expand their product lines. Alternatively, products which are not patented may be offered to brand-name manufacturers as improved substitute products after patent protection on existing products expire.

Inasmuch as we do not have the financial or other resources to undertake extensive marketing activities, we generally intend to seek to enter into marketing arrangements, including possible joint ventures or license or distribution arrangements, with third parties. We believe that such third-party arrangements will permit us to maximize the promotion and distribution of pharmaceutical products while minimizing our direct marketing and distribution costs. If we are unable to enter into additional agreements, we may not be able to successfully market our product candidates.

We have not yet determined strategies relating to marketing of our other proposed formulated products; these will be formulated in advance of anticipated completion of development activities relating to the particular formulated product. As a company, we have no experience in marketing or distribution of our product candidates, and our ability to fund such marketing activities will require us to raise additional funds and/or consummate a strategic alliance or combination with a well-funded business partner.

**MANUFACTURING**

We intend to both internalize and contract out the manufacturing of our product candidates. Our current facility does not yet have a pilot manufacturing operation that meets current Good Manufacturing Practices, or cGMP, and would require additional investment in order to attain that capability. We will have to contract out manufacturing and/or invest additional funds in the current facility in order to provide internal manufacturing capability. The manufacture of our pharmaceutical product candidates is subject to cGMP prescribed by the FDA and pre-approval inspections by the FDA and foreign authorities prior to the commercial manufacture of any such products. See Item 1, Business- Raw Materials and Suppliers and Government Regulation.

On November 18, 2004, we entered into a manufacturing and supply agreement with INyX USA, Ltd, or INyX, whereby INyX will manufacture and supply our nitroglycerin lingual spray. For a five-year period that began November 18, 2004, INyX will be the exclusive provider of the nitroglycerin lingual spray to us worldwide, excluding Poland, Byelorussia, the former Russian Republics of Ukraine, Latvia, Lithuania, Estonia and the United Arab Emirates. Pursuant to the terms and conditions of the agreement, it will be INyX s responsibility to manufacture, package and supply the nitroglycerin lingual spray in such territories. Thereafter, INyX will have a non-exclusive right to manufacture such spray for an additional five years.

**RAW MATERIALS AND SUPPLIERS**

We believe that the active ingredients used in the manufacture of our product candidates are presently available from numerous suppliers located in the U.S., Europe and Japan and can be delivered to our manufacturing facility by such suppliers. We intend to enter into arrangements with such third-party suppliers for supplies of active and inactive pharmaceutical ingredients and packaging materials used in the manufacture of our product candidates. Accordingly, we may be subject to various import duties applicable to both finished products and raw materials and may be affected by various other import and export restrictions as well as other developments impacting upon international trade. These international trade factors will, under certain circumstances, have an impact on the manufacturing costs (which will, in turn, have an impact on the cost of our product candidates). To the extent that transactions relating to the purchase of raw materials involve currencies other than U.S. dollars, our operating results will be affected by fluctuations in foreign currency exchange rates.

Generally, certain raw materials, including inactive ingredients, are available from a limited number of suppliers and certain packaging materials intended for use in connection with our product candidates may be available only from sole source suppliers. Although we believe that we will not encounter difficulties in obtaining the inactive ingredients or packaging materials necessary for the manufacture of our products, we may not be able to enter into satisfactory agreements or arrangements for the purchase of commercial quantities of such materials. A failure to enter into agreements or otherwise arrange for adequate or timely supplies of principal raw materials and the possible inability to secure alternative sources of raw material supplies could have a material adverse effect on our ability to manufacture formulated products.

Development and regulatory approval of our product candidates are dependent upon our ability to procure active ingredients and certain packaging materials from FDA-approved sources. Since the FDA approval process requires manufacturers to specify their proposed suppliers of active ingredients and certain packaging materials in their applications, FDA approval of a supplemental application to use a new supplier would be required if active ingredients or such packaging materials were no longer available from the specified supplier, which could result in manufacturing delays. Accordingly, we intend to locate alternative FDA approved suppliers.

**GOVERNMENT REGULATION**

The development, testing, manufacture and commercialization of pharmaceutical products are generally subject to extensive regulation by various federal and state governmental entities. The FDA, which is the principal U.S. regulatory authority, has the power to seize adulterated or misbranded products and unapproved new drugs, to request their recall from the market, to enjoin further manufacture or sale, to publicize certain facts concerning a product and to initiate criminal proceedings. As a result of federal statutes and FDA regulations, pursuant to which new pharmaceuticals are required to undergo extensive and rigorous testing, obtaining pre-market regulatory approval requires extensive time and expenditures.

Under the Federal Food, Drug and Cosmetic Act, or FFDCA, a new drug may not be commercialized or otherwise distributed in the U.S. without the prior approval of the FDA or pursuant to an applicable exemption from the FFDCA.

The FDA approval process relating to a new drug differs, depending on the nature of the particular drug for which approval is sought. With respect to any drug product with active ingredients not previously approved by the FDA, a prospective drug manufacturer is required to submit an NDA, including complete reports of pre-clinical, clinical and laboratory studies to prove such product s safety, quality and efficacy. Prior to submission of the NDA, it is necessary to submit an IND to obtain permission to begin clinical testing of the new drug. Given that our current product candidates are based on a new technology for formulation and delivery of active pharmaceutical ingredients that have been previously approved and that have been shown to be safe and effective in previous clinical trials, we believe that we will be eligible to submit what is known as a 505(b)(2) NDA.

While the Abbreviated New Drug Application, or ANDA, process requires a manufacturer to establish bioequivalence to the previously approved drug, it permits the manufacturer to rely on the safety and efficacy studies contained in the NDA for the previously approved drug.

The NDA approval process generally requires between 10 to 24 months from NDA submission to pre-marketing approval, although in the case of an NDA submitted pursuant to Section 505(b)(2) of the FFDCA this time frame may be significantly shorter. We believe that most products developed in oral spray delivery systems (dosage forms) usually will require submission of an NDA under Section 505(b)(2). This is because the safety and efficacy of the drug compound used in the oral spray formulation generally can be established in previous trials in NDA submissions and publications.

We estimate that the development of new formulations of pharmaceutical products, including formulation, testing and obtaining FDA approval, will take four to seven years for the NDA process, although NDA s submitted under Section 505(b)(2) of the FFDCA are generally less complex than an ordinary NDA and may be acted upon by the FDA in a shorter period of time.

Our product candidates are subjected to laboratory testing and stability studies and tested for therapeutic comparison to the originators products by qualified laboratories and clinics. To the extent that two drug products with the same active ingredients are substantially identical in terms of their rate and extent of absorption in the human body (bioavailability), they are considered bioequivalent. If the accumulated data demonstrates bioequivalency and the product forms are identical, submission is then made to the FDA (through the filing of an ANDA), for its review and approval to manufacture and market. If the accumulated data demonstrates that there are differences in the two drugs rate and extent of absorption into the human body, or if it is intended to make additional or different claims regarding therapeutic effect for the newly developed product, or if it is a different form or route of administration, submission is made to the FDA via an NDA for its review and approval under Section 505(b)(1) or Section 505(b)(2) of the FFDCA. An NDA submitted under Section 505(b)(2) of the FFDCA, is generally less complex than an ordinary Section 505(b)(1) NDA. We expect that the majority of our product candidates in development will require the filing of Section 505(b)(2) NDA s because, although such products are known chemical entities, we or our licensees may be making new claims as to therapeutic effects or lessene inline; FONT-SIZE: 10pt; FONT-FAMILY: times new roman">

130,931

115,451

368,312

324,453

Selling, general and administrative expense

106,181

92,536

308,396

274,153

Charge related to restructuring activities

283

2,994

1,653

7,807

Charges, interest and fees associated with debt refinancing

-

22

-

13,403

Interest expense

9,634

11,412

29,330

33,525

Interest income

(753
)

(552
)

(2,343
)

(1,549
)

Earnings (loss) before income taxes

15,586

9,039

| | | | | |
|---|---|---|---|---|
| | | | 31,276 | |
| | | | (2,886 | ) |
| Income taxes (benefit) | | | | |
| | | | 3,925 | |
| | | | (2,600 | ) |
| | | | 10,265 | |
| | | | 2,925 | |
| NET EARNINGS (LOSS) | | | | |
| $ | | | 11,661 | |
| $ | | | 11,639 | |
| $ | | | 21,011 | |
| $ | | | (5,811 | ) |
| DIVIDENDS DECLARED PER COMMON SHARE | | | | |
| | | | .0125 | |
| | | | .0125 | |
| | | | .0375 | |
| | | | .0375 | |
| Net earnings (loss) per share – basic | | | | |
| $ | | | 0.37 | |
| $ | | | 0.37 | |
| $ | | | 0.66 | |
| $ | | | | |

(0.18
)
Weighted average shares outstanding - basic

31,908

31,844

31,896

31,836

Net earnings (loss) per share – assuming dilution

$
0.36

$
0.36

$
0.66

$
(0.18
)
Weighted average shares outstanding - assuming dilution

32,031

31,958

31,977

31,836

See notes to condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| OPERATING ACTIVITIES | (In thousands) | |
| Net earnings (loss) | $ 21,011 | $ (5,811) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Debt finance charges, interest and fees associated with debt refinancing | - | 13,403 |
| Depreciation and amortization | 33,305 | 32,409 |
| Provision for losses on trade and installment receivables | 10,576 | 7,312 |
| Provision for other deferred liabilities | 2,313 | 2,311 |
| Provision (benefit) for deferred income taxes | 619 | (7,317) |
| Provision for stock-based compensation | 2,173 | 1,787 |
| Gain (loss) on disposals of property and equipment | (110) | 464 |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (26,799) | (5,948) |
| Installment sales contracts, net | (3,082) | (6,057) |
| Inventories | (18,047) | 1,895 |
| Other current assets | 4,436 | 32,749 |
| Accounts payable | (8,002) | (13,751) |
| Accrued expenses | 785 | (22,355) |
| Other deferred liabilities | (3,544) | (679) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 15,634 | 30,412 |
| | | |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (15,007) | (13,715) |
| Proceeds from sale of property and equipment | 58 | 477 |
| Other long term assets | 4,470 | (417) |
| Business acquisitions, net of cash acquired | (2,152) | - |
| Other | 1,348 | 658 |
| NET CASH USED FOR INVESTING ACTIVITIES | (11,283) | (12,997) |
| | | |
| FINANCING ACTIVITIES | | |
| Proceeds from revolving lines of credit, securitization facility and long-term borrowings | 266,054 | 603,252 |
| Payments on revolving lines of credit, securitization facility and long-term debt and capital lease obligations | (294,448) | (620,015) |
| Proceeds from exercise of stock options | 834 | - |
| Payment of financing costs | - | (20,615) |
| Payment of dividends | (1,199) | (1,196) |
| NET CASH USED BY FINANCING ACTIVITIES | (28,759) | (38,574) |
| Effect of exchange rate changes on cash | (412) | 2,606 |
| Decrease in cash and cash equivalents | (24,820) | (18,553) |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at beginning of period | | 62,200 | | 82,203 |
| Cash and cash equivalents at end of period | $ | 37,380 | $ | 63,650 |

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated
Financial Statements
(Unaudited)
September 30, 2008

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

Principles of Consolidation - The consolidated financial statements include the accounts of the company, its majority owned subsidiaries and a variable interest entity for which the company was the primary beneficiary in 2007 and includes all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the company as September 30, 2008, the results of its operations for the nine months ended September 30, 2008 and 2007, respectively, and changes in its cash flows for the nine months ended September 30, 2008 and 2007, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using an August 31 quarter end in order to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the company's financial statements. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year. All significant intercompany transactions are eliminated.

Reclassifications - Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the period ended September 30, 2008, including the proper presentation of the provision for stock option and award expense on the Consolidated Statement of Cash Flows, which had no net effect on operating cash flows for the quarter ended September 30, 2007.

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

Business Segments - The company operates in five primary business segments: North America / Home Medical Equipment (NA/HME), Invacare Supply Group, Institutional Products Group, Europe and Asia/Pacific.

The NA/HME segment sales consist of Rehab (power wheelchairs, custom manual wheelchairs, personal mobility and seating and positioning), Standard (manual wheelchairs, personal care, home care beds, low air loss therapy and patient transport) and Respiratory (oxygen concentrators, HomeFill® transfilling systems, sleep apnea products, aerosol therapy and associated respiratory products) product lines.

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

Institutional Products Group is a manufacturer and distributor of healthcare furnishings including beds, case goods and patient handling equipment for the long-term care markets, specialty clinical recliners for dialysis and oncology clinics and certain other home medical equipment and accessory products.

The Asia/Pacific segment consists of Invacare Australia, which distributes the Invacare range of products which includes: manual and power wheelchairs, lifts, ramps, beds, furniture and pressure care products; Dynamic Controls, a manufacturer of electronic operating components used in power wheelchairs, scooters and other products; Invacare New Zealand, a distributor of a wide range of home medical equipment; and Invacare Asia, which imports and distributes home medical equipment to the Asian markets.

Europe sells a wide range of product lines, which continues to broaden and more closely resemble those of NA/HME. Each business segment may sell to the home health care, retail and extended care markets.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues from external customers | | | | |
| North America / HME | $ 191,218 | $ 167,861 | $ 554,162 | $ 496,225 |
| Invacare Supply Group | 67,604 | 64,068 | 197,383 | 188,440 |
| Institutional Products Group | 26,320 | 20,144 | 74,794 | 65,133 |
| Europe | 151,478 | 132,665 | 423,458 | 358,908 |
| Asia/Pacific | 25,216 | 22,565 | 75,469 | 66,769 |
| Consolidated | $ 461,836 | $ 407,303 | $ 1,325,266 | $ 1,175,475 |
| Intersegment Revenues | | | | |
| North America / HME | $ 15,456 | $ 12,530 | $ 43,843 | $ 34,919 |
| Invacare Supply Group | 189 | 89 | 424 | 210 |
| Institutional Products Group | 694 | 255 | 2,077 | 255 |
| Europe | 2,549 | 2,856 | 9,688 | 7,760 |
| Asia/Pacific | 8,499 | 7,762 | 24,369 | 21,260 |
| Consolidated | $ 27,387 | $ 23,492 | $ 80,401 | $ 64,404 |
| Charge related to restructuring before income taxes | | | | |
| North America / HME | $ (153) | $ 810 | $ 100 | $ 3,621 |
| Invacare Supply Group | 1,598 | 31 | 1,598 | 45 |
| Institutional Products Group | - | 163 | 115 | 172 |
| Europe | 213 | 1,123 | 996 | 3,064 |
| Asia/Pacific | 223 | 1,242 | 513 | 1,525 |
| Consolidated | $ 1,881 | $ 3,369 | $ 3,322 | $ 8,427 |
| Earnings (loss) before income taxes | | | | |
| North America / HME | $ 6,380 | $ 3,295 | $ 18,812 | $ 3,178 |
| Invacare Supply Group | (323) | 806 | 470 | 2,417 |
| Institutional Products Group | 1,654 | (724) | 3,023 | (41) |
| Europe | 14,012 | 12,847 | 28,167 | 23,367 |
| Asia/Pacific | (54) | (1,771) | 352 | (3,790) |
| All Other * | (6,083) | (5,414) | (19,548) | (28,017) |
| Consolidated | $ 15,586 | $ 9,039 | $ 31,276 | $ (2,886) |

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

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Net Earnings Per Common Share - The following table sets forth the computation of basic and diluted net earnings (loss) per common share for the periods indicated (amounts in thousands, except per share amounts).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands, except per share data) | | | |
| Basic | | | | |
| Average common shares outstanding | 31,908 | 31,844 | 31,896 | 31,836 |
| Net earnings (loss) | $ 11,661 | $ 11,639 | $ 21,011 | $ (5,811) |
| Net earnings (loss) per common share | $ .37 | $ .37 | $ .66 | $ (.18) |
| Diluted | | | | |
| Average common shares outstanding | 31,908 | 31,844 | 31,896 | 31,836 |
| Stock options and awards | 123 | 114 | 81 | - |
| Average common shares assuming dilution | 32,031 | 31,958 | 31,977 | 31,836 |
| Net earnings (loss) | $ 11,661 | $ 11,639 | $ 21,011 | $ (5,811) |
| Net earnings (loss) per common share | $ .36 | $ .36 | $ .66 | $ (.18) |

At September 30, 2008, 2,881,198 and 4,299,531 shares were excluded from the average common shares assuming dilution for the three and nine months ended September 30, 2008, respectively, as they were anti-dilutive. At September 30, 2007, 4,178,612 shares were excluded from the average common shares assuming dilution for the three months ended September 30, 2007 as they were anti-dilutive while all of the company's shares associated with stock options were anti-dilutive for the nine months ended September 30, 2007 because of the company's net loss in the first nine months of 2007. For the three and nine months ended September 30, 2008, the majority of the anti-dilutive shares were granted at an exercise price of $41.87 which was higher than the average fair market value prices of $23.71 and $22.27, respectively. For the three months ended September 30, 2007, the majority of the anti-dilutive shares were granted at exercise prices of $41.87 which was higher than the average fair market value prices of $21.92.

Concentration of Credit Risk - The company manufactures and distributes durable medical equipment and supplies to the home health care, retail and extended care markets. The company performs credit evaluations of its customers' financial condition. Prior to December 2000, the company financed equipment to certain customers. In December 2000, Invacare entered into an agreement with De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to Invacare's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The company retains a recourse obligation of $32,583,000 at September 30, 2008 to DLL for events of default under the contracts, which total $91,842,000 at September 30, 2008. FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, requires the company to record a guarantee liability as it relates to the limited recourse obligation. As such, the company has recorded a liability of $850,000 for this guarantee obligation within accrued expenses. The company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts in accordance with SFAS No. 5, Accounting for Contingencies. Credit losses are provided for in the financial statements.

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

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Goodwill and Other Intangibles - The change in goodwill reflected on the balance sheet from December 31, 2007 to September 30, 2008 was the result of foreign currency translation and the acquisition by the NA/HME segment of Naylor Medical Sales & Rentals, Inc., which increased goodwill by $1,221,000 and is deductible for tax purposes. As a result of the acquisition, the company also recorded $100,000 for a non-compete agreement and $200,000 for a customer list.

All of the company's other intangible assets have definite lives and are amortized over their useful lives, except for $35,596,000 related to trademarks, which have indefinite lives.

As of September 30, 2008 and December 31, 2007, other intangibles consisted of the following (in thousands):

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Historical Cost | Accumulated Amortization | Historical Cost | Accumulated Amortization |
| Customer lists | $ 76,894 | $ 26,821 | $ 77,329 | $ 21,238 |
| Trademarks | 35,596 | — | 36,505 | — |
| License agreements | 4,535 | 4,455 | 4,559 | 4,335 |
| Developed technology | 7,336 | 1,822 | 7,316 | 1,425 |
| Patents | 6,858 | 4,679 | 6,909 | 4,313 |
| Other | 8,767 | 6,019 | 8,650 | 5,221 |
| | $ 139,986 | $ 43,796 | $ 141,268 | $ 36,532 |

Amortization expense related to other intangibles was $7,265,000 in the first nine months of 2008 and is estimated to be $9,301,000 in 2009, $8,814,000 in 2010, $8,465,000 in 2011, $8,040,000 in 2012 and $7,181,000 in 2013.

Accounting for Stock-Based Compensation - Effective January 1, 2006, the company adopted SFAS No. 123R using the modified prospective application method. Under the modified prospective method, compensation cost has been recognized for: 1) all stock-based payments granted subsequent to January 1, 2006 based upon the grant-date fair value calculated in accordance with SFAS No. 123R, and 2) all stock-based payments granted prior to, but not vested as of, January 1, 2006 based upon grant-date fair value as calculated for previously presented pro forma footnote disclosures in accordance with the original provisions of SFAS No. 123, Accounting for Stock Based Compensation. The amounts of stock-based compensation expense recognized were as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Stock-based compensation expense recognized as part of selling, general and administrative expense | $ 894 | $ 710 | $ 2,173 | $ 1,787 |

The 2008 and 2007 amounts above reflect compensation expense related to restricted stock awards and nonqualified stock options awarded under the 2003 Performance Plan. Stock-based compensation is not allocated to the business segments, but is reported as part of "All Other" as shown in the company's Business Segment Note to the Consolidated Financial Statements.

Stock Incentive Plans - The 2003 Performance Plan (the "2003 Plan") allows the Compensation, Management Development and Corporate Governance Committee of the Board of Directors (the "Committee") to grant up to 3,800,000 Common Shares in connection with incentive stock options, non-qualified stock options, stock appreciation

rights and stock awards (including the use of restricted stock). The Committee has the authority to determine which employees and directors will receive awards, the amount of the awards and the other terms and conditions of the awards. During the first nine months of 2008, the Committee granted 655,452 non-qualified stock options for a term of ten years at the market value of the company's Common Shares on the date of grant under the 2003 Plan.

Under the terms of the company's outstanding restricted stock awards, all of the shares granted vest ratably over the four years after the grant date. Compensation expense of $873,000 was recognized in the first nine months of 2008 compared to $948,000 in the first nine months of 2007 and as of September 30, 2008, outstanding restricted stock awards totaling 238,012 were not yet vested. Restricted stock awards totaling 93,800 were granted in the first nine months of 2008.

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Stock option activity during the nine months ended September 30, 2008 was as follows:

| | 2008 | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at January 1 | 4,732,965 | $ 30.02 |
| Granted | 655,452 | 25.60 |
| Exercised | (243,357) | 23.60 |
| Cancelled | (257,974) | 34.54 |
| Options outstanding at September 30 | 4,887,086 | $ 29.50 |
| | | |
| Options price range at September 30 | $ 16.03 to | |
| | $ 47.80 | |
| Options exercisable at September 30 | 3,656,802 | |
| Options available for grant at September 30* | 778,850 | |

* Options available for grant as of September 30, 2008 reduced by net restricted stock award activity of 288,763.

The following table summarizes information about stock options outstanding at September 30, 2008:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Prices | Number Outstanding At 9/30/08 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable At 9/30/08 | Weighted Average Exercise Price |
| $ 16.03 - $23.71 | 1,952,080 | 4.2 years | $ 22.25 | 1,385,568 | $ 21.97 |
| $ 24.43 - $36.40 | 1,705,323 | 5.8 | $ 29.07 | 1,041,551 | $ 30.96 |
| $ 37.70 - $47.80 | 1,229,683 | 6.0 | $ 41.61 | 1,229,683 | $ 41.61 |
| Total | 4,887,086 | 5.2 | $ 29.50 | 3,656,802 | $ 31.14 |

The stock options awarded become exercisable over a four-year vesting period whereby options vest in equal installments each year. Options granted with graded vesting are accounted for as single options. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | 2008 |
|---|---|
| Expected dividend yield | .2% |
| Expected stock price volatility | 31.5% |
| Risk-free interest rate | 2.7% |
| Expected life (years) | 3.7 |

The assumed expected life is based on the company's historical analysis of option history. The expected stock price volatility is also based on actual historical volatility, and expected dividend yield is based on historical dividends as

the company has no current intention of changing its dividend policy.

The weighted-average fair value of options granted during the first nine months of 2008 was $7.03. The 2003 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 participants to exchange shares for payment of withholding taxes, which results in the company acquiring treasury shares.

As of September 30, 2008 there was $13,461,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the company's plans, which is related to non-vested shares and includes $4,920,000 related to restricted stock awards. The company expects the compensation expense to be recognized over approximately 4 years.

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Warranty Costs - Generally, the company's products are covered by warranties against defects in material and workmanship for periods of up to six years from the date of sale to the customer. Certain components carry a lifetime warranty. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. The company continuously assesses the adequacy of its product warranty accrual and makes adjustments as needed. Historical analysis is primarily used to determine the company's warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the company does consider other events, such as a product recall, which could warrant additional warranty reserve provision. No material adjustments to warranty reserves based on other events were necessary in the first nine months of 2008.

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

| | | |
|---|---|---|
| Balance as of January 1, 2008 | $ | 16,616 |
| Warranties provided during the period | | 9,044 |
| Settlements made during the period | | (8,667) |
| Changes in liability for pre-existing warranties during the period, including expirations | | 649 |
| Balance as of September 30, 2008 | $ | 17,642 |

Charges Related to Restructuring Activities - Previously, the company announced multi-year cost reductions and profit improvement actions, which included: reducing global headcount, outsourcing improvements utilizing the company's China manufacturing capability and third parties, shifting substantial resources from product development to manufacturing cost reduction activities and product rationalization, reducing freight exposure through freight auctions and changing the freight policy, general expense reductions and exiting manufacturing and distribution facilities. The restructuring was necessitated by the continued decline in reimbursement by the U.S. government as well as similar reimbursement pressures abroad and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations.

To date, the company has made substantial progress on its restructuring activities, including exiting manufacturing and distribution facilities and eliminating positions, which resulted in restructuring charges of $3,322,000 and $8,427,000 incurred in the first nine months of 2008 and 2007, respectively, of which $1,669,000 and $620,000, respectively, were recorded in cost of products sold as it relates to inventory markdowns and the remaining charge amount is included on the Charge Related to Restructuring Activities in the Condensed Consolidated Statement of Operations as part of operations. There have been no material changes in accrued balances related to the charge, either as a result of revisions in the plan or changes in estimates, and the company expects to utilize the accruals recorded through September 30, 2008 during 2008.

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A progression of the accruals by segment recorded as a result of the restructuring is as follows (in thousands):

| | Balance at 12/31/06 | Accruals (Reversals) | Payments | Balance at 12/31/07 | Accruals | Payments | Balance at 9/30/08 |
|---|---|---|---|---|---|---|---|
| North America/HME | | | | | | | |
| Severance | $ 1,359 | $ 3,705 | $ (4,362) | $ 702 | $ 100 | $ (610) | $ 192 |
| Product line discontinuance | 2,037 | 178 | (2,183) | 32 | — | (31) | 1 |
| Contract terminations | 557 | (19) | (172) | 366 | — | (156) | 210 |
| Total | $ 3,953 | $ 3,864 | $ (6,717) | $ 1,100 | $ 100 | $ (797) | $ 403 |
| Invacare Supply Group | | | | | | | |
| Severance | $ 166 | $ 67 | $ (228) | $ 5 | $ — | $ (5) | $ — |
| Product line discontinuance | — | — | — | — | 1,598 | — | 1,598 |
| Total | $ 166 | $ 67 | $ (228) | $ 5 | $ 1,598 | $ (5) | $ 1,598 |
| Institutional Products Group | | | | | | | |
| Severance | $ — | $ 19 | $ (19) | $ — | $ — | $ — | $ — |
| Contract terminations | — | 98 | (98) | — | 115 | (115) | — |
| Other | — | 55 | (55) | — | — | — | — |
| Total | $ — | $ 172 | $ (172) | $ — | $ 115 | $ (115) | $ — |
| Europe | | | | | | | |
| Severance | $ 3,734 | $ 862 | $ (4,591) | $ 5 | $ 446 | $ (451) | $ — |
| Product line discontinuance | — | 386 | (386) | — | 60 | (60) | — |
| Other | — | 3,247 | (3,202) | 45 | 490 | (421) | 114 |
| Total | $ 3,734 | $ 4,495 | $ (8,179) | $ 50 | $ 996 | $ (932) | $ 114 |
| Asia/Pacific | | | | | | | |
| Severance | $ — | $ 1,258 | $ (746) | $ 512 | $ 423 | $ (935) | $ — |
| Product line discontinuance | — | 1,253 | (1,253) | — | 11 | (11) | — |
| Contract terminations | 122 | 299 | (382) | 39 | 79 | (118) | — |
| Other | — | — | — | — | — | — | — |
| Total | $ 122 | $ 2,810 | $ (2,381) | $ 551 | $ 513 | $ (1,064) | $ — |
| Consolidated | | | | | | | |
| Severance | $ 5,259 | $ 5,911 | $ (9,946) | $ 1,224 | $ 969 | $ (2,001) | $ 192 |
| Product line discontinuance | 2,037 | 1,817 | (3,822) | 32 | 1,669 | (102) | 1,599 |
| Contract terminations | 679 | 378 | (652) | 405 | 194 | (389) | 210 |
| Other | — | 3,302 | (3,257) | 45 | 490 | (421) | 114 |
| Total | $ 7,975 | $ 11,408 | $ (17,677) | $ 1,706 | $ 3,322 | $ (2,913) | $ 2,115 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings (loss) | $ 11,661 | $ 11,639 | $ 21,011 | $ (5,811) |
| Foreign currency translation gain (loss) | (57,500) | (1,613) | (19,714) | 24,137 |
| Unrealized gain (loss) on available for sale securities | 19 | (13) | (60) | 41 |
| SERP/DBO amortization of prior service costs and unrecognized losses | 647 | 443 | 1,746 | 1,847 |
| Current period unrealized gain (loss) on cash flow hedges | 1,338 | 4,557 | 829 | (1,852 ) |
| Total comprehensive earnings (loss) | $ (43,835) | $ 15,013 | $ 3,812 | $ 18,362 |

Receivables - On May 12, 2008, the company initiated foreclosure proceedings against the assets of a customer which is in default with respect to amounts due the company. On September 26, 2008, the court issued a foreclosure order, which allowed the company to receive $2,400,000 of the amount owed to Invacare. As of September 30, 2008, the company had gross receivables and other payments due from the customer of approximately $22,800,000, of which, 96% is specifically reserved for by the company's bad debt allowance. While there can be no assurance of the ultimate settlement of the amount owed the company, based on an evaluation of existing bad debt reserves and estimated values assigned to the assets to be potentially liquidated, the company believes it has adequate bad debt reserves to cover its exposure on this account.

Inventories - Inventories determined under the first in, first out method consist of the following components (in thousands):

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Finished goods | $ 121,683 | $ 116,808 |
| Raw Materials | 70,263 | 63,815 |
| Work in Process | 16,493 | 14,981 |
| | $ 208,439 | $ 195,604 |

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

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Machinery and equipment | $ 326,777 | $ 308,904 |
| Land, buildings and improvements | 100,209 | 97,478 |
| Furniture and fixtures | 30,771 | 33,204 |
| Leasehold improvements | 16,748 | 16,390 |
| | 474,505 | 455,976 |
| Less allowance for depreciation | (315,633) | (286,600) |
| | $ 158,872 | $ 169,376 |

Acquisitions– In the second quarter of 2008, the company acquired Naylor Medical Sales & Rentals, Inc., a rental business operating primarily in Kentucky, Tennessee and Arkansas for $2,152,000.

Income Taxes - The company had an effective tax rate of 25.2% and 32.8% on earnings before tax compared to an expected rate at the U.S. statutory rate of 35% for the three and nine month periods ended September 30, 2008. For the three and nine month periods ended September 30, 2007, the company had an effective rate of (28.8%) and 101.4% compared to an expected U.S. statutory rate for the quarter and benefit for the nine month period of 35%. The company's effective tax rate for the three and nine months ended September 30, 2008 was lower than the U.S. federal statutory rate due to foreign taxes at rates lower than the U.S. statutory rate. In addition, the company did not recognize tax benefits in countries which had tax valuation allowances. The company's effective tax rate for the three and nine months ended September 30, 2007 were less and greater than the U.S. statutory tax rate, respectively due to three main items: a net benefit recorded in the third quarter of 2007 of $6,300,000 principally related to a tax rate change in Germany resulting in the reduction of deferred tax liabilities, the benefit of foreign taxes at rates lower than the U.S. statutory rate and the negative impact of not recognizing tax benefits in countries which had valuation allowances.

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Fair Value Measurements - In September, 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157 (FAS 157), Fair Value Measurements, which creates a framework for measuring fair value, clarifies the definition of fair value and expands the disclosures regarding fair value measurements. FAS 157 does not require any new fair value measurements. The company adopted the new standard, to the extent required, as of January 1, 2008 and the adoption had no material impact on the company's financial position, results of operations or cash flows. The application of FAS 157 for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value on a nonrecurring basis was deferred until January 1, 2009 and the company is currently assessing the impact on its non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis.

Pursuant to FAS 157, 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 observable.

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 | | |
|---|---|---|---|---|
| | September 30, 2008 | Quoted Prices in Active Markets for Identical Assets / (Liabilities) Level I | Significant Other Observable Inputs Level II | Significant Other Unobservable Inputs Level III |
| Marketable Securities | $ 153 | $ 153 | $ - | $ - |
| Forward Exchange Contracts | 259 | - | 259 | - |
| Interest Rate Swaps | (1,885) | - | (1,885) | - |
| Total | $ (1,473) | $ 153 | $ (1,626) | $ - |

Marketable Securities: The company's marketable securities are recorded based on quoted prices in active markets multiplied by the number of shares owned without any adjustments for transactional costs or other costs that may be incurred to sell the securities.

Interest Rate Swaps: The company is a party to interest rate swap agreements, which are entered into in the normal course of business, to reduce exposure to fluctuations in interest rates. The agreements are with major financial institutions, which are expected to fully perform under the terms of the agreements thereby mitigating the credit risk from the transactions. The agreements are contracts to exchange floating rate payments for fixed rate payments without the exchange of the underlying notional amounts. The notional amounts of such agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The amounts to be paid or received under the interest rate swap agreements are accrued consistent with the terms of the agreements and market interest rates. Fair value for the company's interest rate swaps are based on pricing models in which all significant inputs, such as interest rates and yield curves, are observable in active markets. The company believes that the fair values reported would not be materially different from the amounts that would be realized upon settlement.

The gains and losses that result from the company's current cash flow hedge interest rate swaps are recognized as part of interest expense. Swap assets are recorded in either Other Current Assets or Other Assets, while swap liabilities are recorded in Accrued Expenses or Other Long-Term Obligations in the Condensed Consolidated Balance Sheets.

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, GBP, CAD, CHF, CNY, DKK, EUR, NOK, NZD, SEK 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.

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The gains and losses that result from the majority of the forward contracts are deferred and recognized when the offsetting gains and losses for the identified transactions are recognized. Gains or losses recognized as the result of the settlement of forward contracts are recognized in cost of products sold for hedges of inventory transactions or selling, general and administrative expenses for other hedged transactions. The company's forward contracts are included in Other Current Assets or Accrued Expenses in the Condensed Consolidated Balance Sheets.

Recently Issued Accounting Pronouncements - On May 9, 2008, the FASB issued FASB Staff Position APB 14-1 (FSP APB 14-1) to provide clarification of the accounting for convertible debt that can be settled in cash upon conversion. The FASB believed this clarification was needed because the accounting being applied for convertible debt does not fully reflect the true economic impact on the issuer since the conversion option is not captured as a borrowing cost and its full dilutive effect is not included in earnings per share. The FSP requires separate accounting for the liability and equity components of the convertible debt in a manner that would reflect Invacare's nonconvertible debt borrowing rate. The company will have to bifurcate a component of its convertible debt as a component of stockholders' equity and accrete the resulting debt discount as interest expense. It is currently estimated that the adoption FSP APB 14-1 will increase reported interest expense and decrease net earnings by $2,904,000 and $3,695,000 for 2007 and 2008, respectively. The effective date is January 1, 2009 with retrospective application required for all periods presented and no grandfathering for existing instruments.

Supplemental Guarantor Information - Effective February 12, 2007, substantially all of the domestic subsidiaries (the "Guarantor Subsidiaries") of the company became guarantors of the indebtedness of Invacare Corporation under its 9 ¾% Senior Notes due 2015 (the "Senior Notes") with an aggregate principal amount of $175,000,000 and under its 4.125% Convertible Senior Subordinated Debentures due 2027 (the "Debentures") with an aggregate principal amount of $135,000,000. The majority of the company's subsidiaries are not guaranteeing the indebtedness of the Senior Notes or Debentures (the "Non-Guarantor Subsidiaries"). Each of the Guarantor Subsidiaries has fully and unconditionally guaranteed, on a joint and several basis, to pay principal, premium, and interest related to the Senior Notes and to the Debentures and each of the Guarantor Subsidiaries are directly or indirectly wholly-owned subsidiaries of the company.

Presented below are the consolidating condensed financial statements of Invacare Corporation (Parent), its combined Guarantor Subsidiaries and combined Non-Guarantor Subsidiaries with their investments in subsidiaries accounted for using the equity method. The company does not believe that separate financial statements of the Guarantor Subsidiaries are material to investors and accordingly, separate financial statements and other disclosures related to the Guarantor Subsidiaries are not presented.

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CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

| Three month period ended September 30, 2008 | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales | $ 100,366 | $ 169,877 | $ 210,841 | $ (19,248) | $ 461,836 |
| Cost of products sold | 74,605 | 136,829 | 138,637 | (19,166) | 330,905 |
| Gross Profit | 25,761 | 33,048 | 72,204 | (82) | 130,931 |
| Selling, general and administrative expenses | 29,717 | 34,062 | 42,402 | - | 106,181 |
| Charge related to restructuring activities | (155) | - | 438 | - | 283 |
| Income (loss) from equity investee | 22,561 | 12,097 | 16,205 | (50,863) | - |
| Interest expense - net | 7,088 | (451) | 2,244 | - | 8,881 |
| Earnings (loss) before Income Taxes | 11,672 | 11,534 | 43,325 | (50,945) | 15,586 |
| Income taxes | 11 | 300 | 3,614 | - | 3,925 |
| Net Earnings (loss) | $ 11,661 | $ 11,234 | $ 39,711 | $ (50,945) | $ 11,661 |
| | | | | | |
| Three month period ended September 30, 2007 | | | | | |
| Net sales | $ 89,270 | $ 150,919 | $ 183,218 | $ (16,104) | $ 407,303 |
| Cost of products sold | 68,328 | 120,868 | 118,794 | (16,138) | 291,852 |
| Gross Profit | 20,942 | 30,051 | 64,424 | 34 | 115,451 |
| Selling, general and administrative expenses | 27,404 | 30,866 | 34,266 | - | 92,536 |
| Charge related to restructuring activities | 603 | 31 | 2,360 | - | 2,994 |
| Charges, interest and fees associated with debt refinancing | (5) | - | 27 | - | 22 |
| Income (loss) from equity investee | 26,747 | 12,019 | 13,789 | (52,555) | - |
| Interest expense - net | 7,123 | 107 | 3,630 | - | 10,860 |
| Earnings (loss) before Income Taxes | 12,564 | 11,066 | 37,930 | (52,521) | 9,039 |
| Income taxes (benefit) | 925 | 315 | (3,840) | - | (2,600) |
| Net Earnings (loss) | $ 11,639 | $ 10,751 | $ 41,770 | $ (52,521) | $ 11,639 |

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CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

| Nine month period ended September 30, 2008 | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales | $ 272,946 | $ 509,923 | $ 599,262 | $ (56,865) | $ 1,325,266 |
| Cost of products sold | 204,993 | 409,707 | 399,078 | (56,824) | 956,954 |
| Gross Profit | 67,953 | 100,216 | 200,184 | (41) | 368,312 |
| Selling, general and administrative expenses | 87,256 | 93,193 | 127,947 | - | 308,396 |
| Charge related to restructuring activities | 100 | - | 1,553 | - | 1,653 |
| Income (loss) from equity investee | 61,570 | 31,448 | 8,750 | (101,768) | - |
| Interest expense - net | 20,306 | (1,124) | 7,805 | - | 26,987 |
| Earnings (loss) before Income Taxes | 21,861 | 39,595 | 71,629 | (101,809) | 31,276 |
| Income taxes | 850 | 900 | 8,515 | - | 10,265 |
| Net Earnings (loss) | $ 21,011 | $ 38,695 | $ 63,114 | $ (101,809) | $ 21,011 |
| | | | | | |
| Nine month period ended September 30, 2007 | | | | | |
| Net sales | $ 245,880 | $ 466,451 | $ 507,547 | $ (44,403) | $ 1,175,475 |
| Cost of products sold | 190,907 | 371,534 | 333,152 | (44,571) | 851,022 |
| Gross Profit | 54,973 | 94,917 | 174,395 | 168 | 324,453 |
| Selling, general and administrative expenses | 81,829 | 83,937 | 108,387 | - | 274,153 |
| Charge related to restructuring activities | 3,053 | 45 | 4,709 | - | 7,807 |
| Debt finance charges, interest and fees associated with debt refinancing | 13,329 | - | 74 | - | 13,403 |
| Income (loss) from equity investee | 59,822 | 23,019 | 9,501 | (92,342) | - |
| Interest expense - net | 21,014 | 851 | 10,111 | - | 31,976 |
| Earnings (loss) before Income Taxes | (4,430) | 33,103 | 60,615 | (92,174) | (2,886) |
| Income taxes | 1,381 | 855 | 689 | - | 2,925 |
| Net Earnings (loss) | $ (5,811) | $ 32,248 | $ 59,926 | $ (92,174) | $ (5,811) |

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CONSOLIDATING CONDENSED BALANCE SHEETS

| (in thousands) September 30, 2008 | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | $ 4,331 | $ 2,566 | $ 30,483 | $ - | $ 37,380 |
| Marketable securities | 153 | - | - | - | 153 |
| Trade receivables, net | 110,710 | 57,130 | 135,246 | (7,755) | 295,331 |
| Installment receivables, net | - | 779 | 2,652 | - | 3,431 |
| Inventories, net | 63,287 | 38,893 | 107,841 | (1,582) | 208,439 |
| Deferred income taxes | - | - | 2,366 | - | 2,366 |
| Other current assets | 14,902 | 6,626 | 37,572 | - | 59,100 |
| Total Current Assets | 193,383 | 105,994 | 316,160 | (9,337) | 606,200 |
| Investment in subsidiaries | 1,435,442 | 671,580 | - | (2,107,022) | - |
| Intercompany advances, net | 208,795 | 854,116 | 47,493 | (1,110,404) | - |
| Other Assets | 58,588 | 7,210 | 1,328 | - | 67,126 |
| Other Intangibles | 1,123 | 10,055 | 85,012 | - | 96,190 |
| Property and Equipment, net | 53,142 | 10,063 | 95,667 | - | 158,872 |
| Goodwill | - | 24,294 | 511,143 | - | 535,437 |
| Total Assets | $ 1,950,473 | $ 1,683,312 | $ 1,056,803 | $ (3,226,763) | $ 1,463,825 |
| | | | | | |
| Liabilities and Shareholders' Equity | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | $ 70,160 | $ 13,436 | $ 56,779 | $ - | $ 140,375 |
| Accrued expenses | 44,547 | 20,525 | 89,591 | (7,755) | 146,908 |
| Accrued income taxes | 500 | - | 3,616 | - | 4,116 |
| Short-term debt and current maturities of long-term obligations | 24,344 | - | 656 | - | 25,000 |
| Total Current Liabilities | 139,551 | 33,961 | 150,642 | (7,755) | 316,399 |
| Long-Term Debt | 471,734 | - | 11,444 | - | 483,178 |
| Other Long-Term Obligations | 57,916 | 2,040 | 44,828 | - | 104,784 |
| Intercompany advances, net | 721,808 | 346,483 | 42,113 | (1,110,404) | - |
| Total Shareholders' Equity | 559,464 | 1,300,828 | 807,776 | (2,108,604) | 559,464 |
| Total Liabilities and Shareholders' Equity | $ 1,950,473 | $ 1,683,312 | $ 1,056,803 | $ (3,226,763) | $ 1,463,825 |

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CONSOLIDATING CONDENSED BALANCE SHEETS

| (in thousands) December 31, 2007 | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | $ 27,133 | $ 1,773 | $ 33,294 | $ - | $ 62,200 |
| Marketable securities | 255 | - | - | - | 255 |
| Trade receivables, net | 93,533 | 52,996 | 121,431 | (3,817) | 264,143 |
| Installment receivables, net | - | 1,841 | 2,216 | - | 4,057 |
| Inventories, net | 69,123 | 34,115 | 93,895 | (1,529) | 195,604 |
| Deferred income taxes | - | - | 2,478 | - | 2,478 |
| Other current assets | 20,693 | 6,489 | 36,438 | (1,272) | 62,348 |
| Total Current Assets | 210,737 | 97,214 | 289,752 | (6,618) | 591,085 |
| Investment in subsidiaries | 1,393,220 | 640,178 | - | (2,033,398) | - |
| Intercompany advances, net | 250,765 | 824,519 | 43,460 | (1,118,744) | - |
| Other Assets | 66,616 | 23,482 | 1,564 | - | 91,662 |
| Other Intangibles | 934 | 11,315 | 92,487 | - | 104,736 |
| Property and Equipment, net | 57,984 | 10,231 | 101,161 | - | 169,376 |
| Goodwill | - | 23,531 | 519,652 | - | 543,183 |
| Total Assets | $ 1,980,256 | $ 1,630,470 | $ 1,048,076 | $ (3,158,760) | $ 1,500,042 |
| | | | | | |
| Liabilities and Shareholders' Equity | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | $ 68,786 | $ 12,516 | $ 68,868 | $ - | $ 150,170 |
| Accrued expenses | 48,332 | 18,284 | 84,431 | (5,089) | 145,958 |
| Accrued income taxes | 500 | - | 5,473 | - | 5,973 |
| Short-term debt and current maturities of long-term obligations | 23,500 | - | 1,010 | - | 24,510 |
| Total Current Liabilities | 141,118 | 30,800 | 159,782 | (5,089) | 326,611 |
| Long-Term Debt | 481,896 | 7 | 31,439 | - | 513,342 |
| Other Long-Term Obligations | 61,370 | - | 44,676 | - | 106,046 |
| Intercompany advances, net | 741,829 | 326,028 | 50,887 | (1,118,744) | - |
| Total Shareholders' Equity | 554,043 | 1,273,635 | 761,292 | (2,034,927) | 554,043 |
| Total Liabilities and Shareholders' Equity | $ 1,980,256 | $ 1,630,470 | $ 1,048,076 | $ (3,158,760) | $ 1,500,042 |

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CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

| Nine month period ended September 30, 2008 | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net Cash Provided (Used) by Operating Activities | $ (13,939) | $ 2,340 | $ 27,233 | $ - | $ 15,634 |
| Investing Activities | | | | | |
| Purchases of property and equipment | (3,292) | (916) | (10,799) | - | (15,007) |
| Proceeds from sale of property and equipment | - | - | 58 | - | 58 |
| Increase in other long-term assets | 4,470 | - | - | - | 4,470 |
| Business acquisitions, net of cash acquired | - | (2,152) | - | - | (2,152) |
| Other | (1,499) | 1,521 | 1,326 | - | 1,348 |
| Net Cash Used for Investing Activities | (321) | (1,547) | (9,415) | - | (11,283) |
| Financing Activities | | | | | |
| Proceeds from revolving lines of credit and long-term borrowings | 243,919 | - | 22,135 | - | 266,054 |
| Payments on revolving lines of credit and long-term borrowings | (252,096) | - | (42,352) | - | (294,448) |
| Proceeds from exercise of stock options | 834 | - | - | - | 834 |
| Payment of dividends | (1,199) | - | - | - | (1,199) |
| Net Cash Used by Financing Activities | (8,542) | - | (20,217) | - | (28,759) |
| Effect of exchange rate changes on cash | - | - | (412) | - | (412) |
| Increase (decrease) in cash and cash equivalents | (22,802) | 793 | (2,811) | - | (24,820) |
| Cash and cash equivalents at beginning of period | 27,133 | 1,773 | 33,294 | - | 62,200 |
| Cash and cash equivalents at end of period | $ 4,331 | $ 2,566 | $ 30,483 | $ - | $ 37,380 |
| | | | | | |
| Nine month period ended September 30, 2007 | | | | | |
| Net Cash Provided (Used) by Operating Activities | $ (99,833) | $ 1,603 | $ 128,642 | $ - | $ 30,412 |
| Investing Activities | | | | | |
| Purchases of property and equipment | (2,919) | (1,078) | (9,718) | - | (13,715) |
| Proceeds from sale of property and equipment | - | - | 477 | - | 477 |
| Increase in other long-term assets | - | - | (417) | - | (417) |

| | | | | | |
|---|---|---|---|---|---|
| Other | 657 | - | 1 | - | 658 |
| Net Cash Used for Investing Activities | (2,262) | (1,078) | (9,657) | - | (12,997) |
| Financing Activities | | | | | |
| Proceeds from revolving lines of credit, securitization facility and long-term borrowings | 586,084 | - | 17,168 | - | 603,252 |
| Payments on revolving lines of credit, securitization facility and long-term borrowings | (487,050) | - | (132,965) | - | (620,015) |
| Payment of dividends | (1,196) | - | - | - | (1,196) |
| Payment of financing costs | (20,615) | - | - | - | (20,615) |
| Net Cash Provided (Used) by Financing Activities | 77,223 | - | (115,797) | - | (38,574) |
| Effect of exchange rate changes on cash | - | - | 2,606 | - | 2,606 |
| Increase (decrease) in cash and cash equivalents | (24,872) | 525 | 5,794 | - | (18,553) |
| Cash and cash equivalents at beginning of period | 35,918 | 2,202 | 44,083 | - | 82,203 |
| Cash and cash equivalents at end of period | $ 11,046 | $ 2,727 | $ 49,877 | $ - | $ 63,650 |

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

The following discussion and analysis should be read in conjunction with the company's Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in the company's Current Report on Form 8-K as furnished to the Securities and Exchange Commission on October 23, 2008.

OUTLOOK

Although the global financial crisis will impact all businesses, including the company's, demand for home medical products and services should remain strong. Additionally, the company's cash flow continues to improve sequentially and existing credit availability of $123 million puts Invacare in a strong position to continue to grow in the current environment. The likely adverse trend in the short term is the sudden strengthening of the U.S. dollar, which will cause the translation of overseas profits into lower U.S. dollar results, all other factors being equal. Looking at risks over the medium term, the company will remain judicious in its extension of credit to customers, since it is uncertain what potential impact the credit crisis will have on Invacare's customers' funding sources.

During the third quarter, the company continued to experience reimbursement and pricing pressures, particularly in Germany. Late in the third quarter, French health care authorities reduced reimbursement for beds and other select product. As previously communicated, the Centers for Medicare and Medicaid Services (CMS) announced U.S. reimbursement cuts of 9.5% for those product categories which were included in phase one of the now delayed National Competitive Bidding (NCB) program. While these U.S. cuts are not effective until January 2009, the HME (Home Medical Equipment) industry may be cautious in its buying patterns with such changes. In addition, while the company has implemented numerous cost reduction programs to increase profitability during the year, the benefits from these programs have been hampered by rising commodity costs in the first nine months. Although some commodity costs are now falling, the company has largely locked in costs for commodities in the fourth quarter.

With the factors above in mind, for fiscal year 2008, the company expects organic growth in net sales of between 6% and 7%, excluding the impact from acquisitions and foreign currency translation adjustments. Operating cash flows are estimated to be $57 million to $62 million with net purchases of property, plant and equipment of up to approximately $22 million. The full year earnings are expected to be consistent with the guidance furnished in the company's press release on October 23, 2008.

RESULTS OF OPERATIONS

NET SALES

Net sales for the three months ended September 30, 2008 were $461,836,000, compared to $407,303,000 for the same period a year ago, representing a 13.4% increase. Organic sales growth was 9.3% as foreign currency translation increased net sales by four percentage points while acquisitions increased net sales by less than one percentage point for the three month period. The positive sales growth was driven by improved performance in all segments, particularly North America/Home Medical Equipment (NA/HME) and Institutional Products Group (IPG). For the nine months ended September 30, 2008, net sales increased 12.7% to $1,325,266,000 compared to $1,175,475,000 for the same period a year ago. Organic sales growth was 7.7% as foreign currency translation increased net sales by five percentage points while acquisitions increased net sales by less than one percentage point for the nine month period. The positive sales growth was driven primarily by performance in NA/HME and Europe.

North American/Home Medical Equipment (NA/HME)

NA/HME net sales increased 13.9% for the quarter to $191,218,000 as compared to $167,861,000 for the same period a year ago. The increase for the quarter was driven primarily by sales increases in all principal product lines. For the first nine months of 2008, net sales increased 11.7% to $554,162,000 as compared to $496,225,000 for the same period a year ago. Foreign currency and acquisitions combined to increase net sales by slightly more than a percentage point for the quarter and two percentage points for the first nine months ended September 30, 2008.

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Rehab product line net sales increased by 2.2% compared to the third quarter last year, despite volume declines in the consumer power product line caused by the company's previous decision to terminate sales to a large national account. Excluding consumer power products, Rehab product line net sales increased 7.6% compared to the third quarter last year, driven by volume increases in custom power and custom manual wheelchairs. Standard product line net sales for the third quarter increased 21.7% compared to the third quarter of last year, driven by increased volumes in manual wheelchairs and patient aids. Respiratory product line net sales increased 20.6%, driven by volume increases in oxygen concentrators and HomeFill®, with strong purchases by national providers.

Invacare Supply Group (ISG)

ISG net sales for the quarter increased 5.5% to $67,604,000 compared to $64,068,000 last year driven by growth in home delivery program sales, increased volumes with larger providers, and growth in urological, incontinence and infusion product lines. For the first nine months of 2008, net sales increased 4.7% to $197,383,000 as compared to $188,440,000 for the same period a year ago.

Institutional Products Group (IPG)

IPG net sales increased by 30.7% to $26,320,000 compared to $20,144,000 last year. Foreign currency translation increased net sales by less than one percentage point. The net sales increase was driven by new products introduced late last year including beds, therapeutic support surfaces and clinical recliners along with strong sales in durable medical equipment (DME) and bathing products. For the first nine months of 2008, net sales increased 14.8% to $74,794,000 as compared to $65,133,000 for the same period a year ago. Foreign currency translation increased net sales by two percentage points for the first nine months of 2008.

Europe

European net sales increased 14.2% for the quarter to $151,478,000 as compared to $132,665,000 for the same period a year ago. Foreign currency translation increased net sales by eleven percentage points for the quarter. Net sales performance continues to be strong in most regions, especially the United Kingdom as a result of new product introductions including HomeFill®. However, business performance in Germany continues to be negatively impacted by reimbursement and pricing pressures in the market place. European net sales for the first nine months of 2008 increased 18.0% to $423,458,000 as compared to $358,908,000 for the same period a year ago. Foreign currency translation increased net sales by twelve percentage points in the first nine months of 2008.

Asia/Pacific

Asia/Pacific net sales increased 11.7% for the quarter to $25,216,000 as compared to $22,565,000 for the same period a year ago with foreign currency decreasing net sales by one percentage point. The net sales improvement was the result of volume increases in the company's distribution business in Australia and at the company's subsidiary which manufactures microprocessor controllers. For the first nine months of the year, net sales increased 13.0% to $75,469,000 as compared to $66,769,000 for the same period a year ago with foreign currency translation increasing net sales by seven percentage points.

GROSS PROFIT

Gross profit as a percentage of net sales for the three and nine-month periods ended September 30, 2008 was 28.4% and 27.8%, respectively, compared to 28.3% and 27.6%, respectively, in the same periods last year. Gross margin as

a percentage of net sales for the third quarter was higher by .1 percentage points compared to last year's third quarter primarily due to increased volumes, price increases and cost reduction activities which were largely offset by increased commodity costs as well as unfavorable product mix in Europe.

For the first nine months of the year, NA/HME gross margin as a percentage of net sales increased to 30.4% compared with 29.9% in the same period last year, primarily due to increased volumes, price increases and cost reduction initiatives partially offset by commodity cost increases and discounts associated with higher sales to national providers in respiratory products. ISG gross margin decreased by 1.2 percentage points due to higher freight costs, discounts associated with sales to larger providers and charges related to inventory markdowns which were partially offset by freight recovery programs. IPG gross margin increased by .8 of a percentage point primarily due to price increases. In Europe, gross margin as a percentage of net sales declined by 1.7 percentage points primarily due to higher freight costs, unfavorable product mix toward lower margin products, and unfavorable foreign currency impact from the weakness of the British Pound as compared to the Euro. Gross margin as a percentage of net sales in Asia/Pacific increased by 7.6 percentage points, largely due to cost reduction activities and increased volumes.

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SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative ("SG&A") expense as a percentage of net sales for the three and nine months ended September 30, 2008 was 23.0% and 23.3%, respectively, compared to 22.7% and 23.3%, respectively, for the same periods a year ago. The dollar increases were $13,645,000 and $34,243,000, or 14.7% and 12.5%, respectively, for the quarter and first nine months of the year, as compared to the same periods a year ago. Acquisitions increased these expenses by $925,000 in the quarter and $2,276,000 in the first nine months of the year, while foreign currency translation increased these expenses by $3,975,000 in the quarter and $14,389,000 in the first nine months of the year compared to the same periods a year ago. Excluding the impact of foreign currency translation and acquisitions, SG&A expense increased 9.5% for the quarter and 6.4% for the first nine months of 2008 as compared to the same periods a year ago. The increase in SG&A expense is primarily attributable to increased variable costs attributed with increased sales volume, including wages, commissions, bonus and bad debt.

North American/HME SG&A cost increased $6,325,000, or 13.5%, for the quarter and $13,203,000, or 9.5%, in the first nine months of 2008 compared to the same periods a year ago. For the quarter, foreign currency translation increased SG&A by $22,000 or .0% while acquisitions increased SG&A by $925,000 or 2.0%. For the first nine months of 2008, foreign currency translation increased SG&A by $969,000 or .7% while acquisitions increased SG&A by $2,276,000 or 1.6%. Excluding the impact of foreign currency translation and acquisitions, SG&A increased by 11.4% for the quarter and 7.2% year to date.

Invacare Supply Group SG&A expense increased $402,000, or 6.4%, for the quarter and increased by $847,000, or 4.5%, in the first nine months of 2008 compared to the same periods a year ago. The year to date increase is primarily due to higher distribution costs associated with increased sales volumes.

Institutional Products Group SG&A expense increased $187,000, or 5.1%, for the quarter and $221,000, or 1.9%, in the first nine months of 2008 compared to the same periods a year ago. Foreign currency translation decreased SG&A by $6,000 or .2% for the quarter and increased SG&A $130,000 or 1.1% for the first nine months of the year.

European SG&A cost increased $5,409,000, or 18.4%, for the quarter and $15,357,000, or 17.7%, for the first nine months of 2008 compared to the same periods a year ago. For the quarter, foreign currency translation increased SG&A by $3,894,000, or 13.2%. For the first nine months of 2008, foreign currency translation increased SG&A by $11,616,000, or 13.4%, respectively. Excluding the impact of foreign currency translation, the year-to-date increase in expense is primarily due to higher sales and marketing costs for people and programs to drive future sales growth.

Asia/Pacific SG&A cost increased $1,322,000, or 21.7%, for the quarter and $4,615,000, or 26.4%, in the first nine months of the year compared to the same periods a year ago. For the quarter, foreign currency translation increased SG&A expense by $65,000, or 1.1%. For the first nine months of 2008, foreign currency translation increased SG&A by $1,674,000, or 9.6%. Excluding the impact of foreign currency translation, SG&A expense increased 20.6% and 16.8% for the quarter and first nine months of 2008, respectively as compared to last year due to higher sales and marketing costs for people and programs to drive future sales growth.

CHARGE RELATED TO RESTRUCTURING ACTIVITIES

Previously, the company announced multi-year cost reductions and profit improvement actions, which included: reducing global headcount, outsourcing improvements utilizing the company's China manufacturing capability and third parties, shifting substantial resources from product development to manufacturing cost reduction activities and product rationalization, reducing freight exposure through freight auctions and changing the freight policy, general

expense reductions and exiting manufacturing and distribution facilities.

The restructuring was necessitated by the continued decline in reimbursement, continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations and commodity cost increases for steel, aluminum and fuel.

Restructuring charges of $3,322,000 were incurred in the first nine months of 2008, of which $1,669,000 are recorded as “cost of products sold” as it relates to inventory markdowns and the remaining charge amount of $1,653,000 is reflected as “charge related to restructuring activities” in the Condensed Consolidated Statement of Operations included in Item 1 – Financial Statements of this report.

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The restructuring charges included $100,000 in NA/HME, $1,598,000 in ISG, $115,000 in IPG, $996,000 in Europe and $513,000 in Asia/Pacific. Of the total charges incurred to date, $2,115,000 remained unpaid as of September 30, 2008 with $403,000 unpaid related to NA/HME; and $1,598,000 unpaid related to ISG; and $114,000 unpaid related to Europe. There have been no material changes in accrued balances related to the charge, either as a result of revisions in the plan or changes in estimates, and the company expects to utilize the accruals recorded through September 30, 2008 during 2008. With additional actions to be undertaken during the remainder of 2008, the company anticipates recognizing pre-tax restructuring charges of approximately $5,500,000 for the year.

CHARGES, INTEREST AND FEES ASSOCIATED WITH DEBT REFINANCING

As a result of the company's refinancing completed in the first quarter of 2007, the company incurred in the quarter ended March 31, 2007 one-time make whole payments to the holders of previously outstanding senior notes and incremental interest totaling $10,900,000 and wrote-off previously capitalized costs of $2,500,000 related to the old debt structure.

INTEREST

Interest expense decreased $1,778,000 and $4,195,000 for the third quarter and first nine months of 2008, respectively, compared to the same periods last year due to lower debt levels. Interest income for the third quarter and first nine months of 2008 increased $201,000 and $794,000, respectively, compared to the same periods last year, primarily due to interest on higher average foreign cash balances.

INCOME TAXES

The company had an effective tax rate of 25.2% and 32.8% on earnings before tax compared to an expected rate at the U.S. statutory rate of 35% for the three and nine month periods ended September 30, 2008. For the three and nine month periods ended September 30, 2007, the company had an effective rate of (28.8%) and 101.4% compared to an expected U.S. statutory rate for the quarter and benefit for the nine month period of 35%. The company's effective tax rate for the three and nine months ended September 30, 2008 was lower than the U.S. federal statutory rate due to foreign taxes at rates lower than the U.S. statutory rate. In addition, the company did not recognize tax benefits in countries which had tax valuation allowances. The company's effective tax rate for the three and nine months ended September 30, 2007 were less and greater than the U.S. statutory tax rate, respectively due to three main items: a benefit recorded in the third quarter of 2007 of $6,300,000 principally related to a tax rate change in Germany resulting in the reduction of deferred tax liabilities, the benefit of foreign taxes at rates lower than the U.S. statutory rate and the negative impact of not recognizing tax benefits in countries which had valuation allowances.

LIQUIDITY AND CAPITAL RESOURCES

The company's reported level of debt decreased by $29,674,000 from December 31, 2007 to $508,178,000 at September 30, 2008, as a result of positive cash flow in the third quarter and increased earnings. As compared to June 30, 2008, reported debt decreased by $18,015,000. The debt-to-total-capitalization ratio was 47.6% at September 30, 2008 as compared to 46.6% at June 30, 2008. The increase in debt-to-total-capitalization ratio was due to lower shareholders' equity resulting from foreign currency translation, particularly for the European segment, as the U.S. Dollar strengthened at the end of the third quarter.

The company's cash and cash equivalents were $37,380,000 at September 30, 2008, down from $62,200,000 at the end of the year. The cash was primarily utilized to pay annual bonus payments, required interest payments on debt outstanding and additional payments to reduce the company's debt outstanding.

The company's borrowing arrangements contain covenants with respect to maximum amount of debt, minimum loan commitments, interest coverage, net worth, dividend payments, working capital, and funded debt to capitalization, as defined in the company's bank agreements and agreements with its note holders. As of September 30, 2008, the company was in compliance with all covenant requirements. Under the most restrictive covenant of the company's borrowing arrangements as of September 30, 2008, the company had the capacity to borrow up to an additional $123,400,000.

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CAPITAL EXPENDITURES

The company had no individually material capital expenditure commitments outstanding as of September 30, 2008. The company estimates that capital investments for 2008 will approximate up to $22,000,000 as compared to $20,068,000 in 2007. The company believes that its balances of cash and cash equivalents, together with funds generated from operations and existing borrowing facilities will be sufficient to meet its operating cash requirements and to fund required capital expenditures for the foreseeable future. However, if the current credit crisis and economic downturn were to continue to worsen such that the company was unable to access existing borrowing facilities or that funds generated from operations were significantly curtailed, it could impair the company's ability to fund capital expenditures or meet its operating cash requirements.

CASH FLOWS

Cash flows provided by operating activities were $15,634,000 for the first nine months of 2008 compared to $30,412,000 in the first nine months of 2007. The decrease in operating cash flows for the first nine months of 2008 compared to the same period a year ago was principally due to an increase in accounts receivable due to higher sales levels and an inventory increase driven by the need to support stronger than expected organic sales growth. In addition, the third quarter of 2007 also benefitted from a greater reduction in recoverable income taxes compared to the third quarter of 2008.

Cash used for investing activities was $11,283,000 for the first nine months of 2008 compared to $12,997,000 used in the first nine months of 2007. The cash used for investing activities in 2008 was primarily for purchases of property, plant and equipment and an acquisition partially offset by cash receipts on company-owned life insurance policies.

Cash used by financing activities was $28,759,000 for the first nine months of 2008 compared to cash required of $38,574,000 in the first nine months of 2007. The first nine months of 2007 financing cash flow included $20,615,000 of financing cost payments as a result of the company refinancing which was completed in the first quarter of 2007.

During the first nine months of 2008, the company generated free cash flow of $3,394,000 as compared to $28,125,000 generated by the company in the first nine months of 2007. The decrease was primarily attributable to the same items as noted above which impacted operating cash flows. Free cash flow is a non-GAAP financial measure that is comprised of net cash provided by operating activities, excluding net cash impact related to restructuring activities, less net purchases of property and equipment, net of proceeds from sales of property and equipment. Management believes that this financial measure provides meaningful information for evaluating the overall financial performance of the company and its ability to repay debt or make future investments (including, for example, acquisitions). However, it should be noted that the company's definition of free cash flow may not be comparable to similar measures disclosed by other companies because not all companies calculate free cash flow in the same manner.

The non-GAAP financial measure is reconciled to the GAAP measure as follows (in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| Net cash provided by operating activities | $ 15,634 | $ 30,412 |
| Net cash impact related to restructuring activities | 2,709 | 10,951 |
| Less: Purchases of property and equipment - net | (14,949) | (13,238) |

| | | | | |
|---|---|---|---|---|
| Free Cash Flow | $ | 3,394 | $ | 28,125 |

DIVIDEND POLICY

On August 20, 2008, the company's Board of Directors declared a quarterly cash dividend of $0.0125 per Common Share to shareholders of record as of October 3, 2008, which was paid on October 10, 2008. At the current rate, the cash dividend will amount to $0.05 per Common Share on an annual basis.

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CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements included in this Quarterly Report on Form 10-Q include accounts of the company, all majority-owned subsidiaries and a variable interest entity for which the company was the primary beneficiary in 2007. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying Consolidated Financial Statements and related footnotes. In preparing 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, as a result, actual results could differ from these estimates.

The following critical accounting policies, among others, affect the more significant judgments and estimates used in preparation of the company's consolidated financial statements.

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

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

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

Distributed products sold by the company are accounted for in accordance with Emerging Issues Task Force, or "EITF" No. 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent. The company records distributed product sales gross as a principal since the company takes title to the products and has the risks of loss for collections, delivery and returns.

Product sales that give rise to installment receivables are recorded at the time of sale when the risks and rewards of ownership are transferred. In December 2000, the company entered into an agreement with DLL, a third party financing company, to provide the majority of future lease financing to Invacare customers. As such, interest income is recognized based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments, interest income is no longer recognized. All installment accounts are accounted for using the same methodology, regardless of duration of the installment agreements.

Allowance for Uncollectible Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the company's receivables are due from health care, medical equipment dealers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to dealers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability. The estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of the customer. In addition, as a result of the third party financing arrangement, 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.

The company continues to closely monitor the credit-worthiness of its customers and adhere to tight credit policies. Due to delays in the implementation of various government reimbursement policies, including national competitive bidding, there still remains significant uncertainty as to the impact that those changes will have on the company's customers.

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Inventories and Related Allowance for Obsolete and Excess Inventory
Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out method. Inventories have been reduced by an allowance for excess and obsolete inventories. The estimated allowance is based on management's review of inventories on hand compared to estimated future usage and sales. A provision for excess and obsolete inventory is recorded as needed based upon the discontinuation of products, redesigning of existing products, new product introductions, market changes and safety issues. Both raw materials and finished goods are reserved for on the balance sheet.

In general, Invacare reviews inventory turns as an indicator of obsolescence or slow moving product as well as the impact of new product introductions. Depending on the situation, the company may partially or fully reserve for the individual item. The company continues to increase its overseas sourcing efforts, increase its emphasis on the development and introduction of new products, and decrease the cycle time to bring new product offerings to market. These initiatives are sources of inventory obsolescence for both raw material and finished goods.

Goodwill, Intangible and Other Long-Lived Assets
Property, equipment, intangibles and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Under SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Furthermore, goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The company completes its annual impairment tests in the fourth quarter of each year. The discount rates used have a significant impact upon the discounted cash flow methodology utilized in our annual impairment testing as higher discount rates decrease the fair value estimates used in our testing.

The company utilizes a discounted cash flow method model to analyze reporting units for impairment in which the company forecasts income statement and balance sheet amounts based on assumptions regarding future sales growth, profitability, inventory turns, days' sales outstanding, etc. to forecast future cash flows. The cash flows are discounted using a weighted average cost of capital discount rate where the cost of debt is based on quoted rates for 20-year debt of companies of similar credit risk and the cost of equity is based upon the 20-year treasury rate for the risk free rate, a market risk premium, the industry average beta, a small cap stock adjustment and company specific risk premiums. While no impairment was indicated in 2007 for any reporting units, a future potential impairment is possible for any or the company's reporting units should actual results differ materially from forecasted results.

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

Product liability reserves are recorded for individual claims based upon historical experience, industry expertise and indications from the third-party actuary. Additional reserves, in excess of the specific individual case reserves, are provided for incurred but not reported claims based upon third-party actuarial valuations at the time such valuations are conducted. Historical claims experience and other assumptions are taken into consideration by the third-party actuary to estimate the ultimate reserves. For example, the actuarial analysis assumes that historical loss experience is

an indicator of future experience, that the distribution of exposures by geographic area and nature of operations for ongoing operations is expected to be very similar to historical operations with no dramatic changes and that the government indices used to trend losses and exposures are appropriate. Estimates made are adjusted on a regular basis and can be impacted by actual loss award settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company accepts responsibility for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

Warranty

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

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Accounting for Stock-Based Compensation
Effective January 1, 2006, the company adopted Statement of Financial Accounting Standard No. 123 (Revised 2004), Share Based Payment ("SFAS 123R") using the modified prospective application method. Under the modified prospective method, compensation cost was recognized for: (1) all stock-based payments granted subsequent to January 1, 2006 based upon the grant-date fair value calculated in accordance with SFAS 123R, and (2) all stock-based payments granted prior to, but not vested as of, January 1, 2006 based upon grant-date fair value previously calculated for previously presented pro forma footnote disclosures in accordance with the original provisions of SFAS No. 123, Accounting for Stock Based Compensation.

Upon adoption of SFAS 123R, the company did not make any other modifications to the terms of any previously granted options. However, the terms of new awards granted since the adoption of SFAS 123R have been modified, as compared to the terms of the awards granted prior to the adoption of SFAS 123R, so that the vesting periods are deemed to be substantive for those who may be retiree eligible. No changes were made regarding the valuation methodologies or assumptions used to determine the fair value of options granted and the company continues to use a Black-Scholes valuation model. As of September 30, 2008, there was $13,461,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the company's plans, which is related to non-vested shares, and includes $4,920,000 related to restricted stock awards. The company expects the compensation expense to be recognized over approximately four years.

The majority of the options awarded have been granted at exercise prices equal to the market value of the underlying stock on the date of grant. Restricted stock awards granted without cost to the recipients are expensed on a straight-line basis over the vesting periods.

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS
In September, 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157 (FAS 157), Fair Value Measurements, which creates a framework for measuring fair value, clarifies the definition of fair value and expands the disclosures regarding fair value measurements. FAS 157 does not require any new fair value measurements. The company adopted the new standard as of January 1, 2008 and the adoption had no material impact on the company's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS 141(R), Business Combinations (SFAS 141R), which changes the accounting for business acquisitions. SFAS 141(R) requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction and establishes principles and requirements as to how an acquirer should recognize and measure in its financial statements the assets acquired, liabilities assumed, any non-controlling interest and goodwill acquired. SFAS 141(R) also requires expanded disclosure regarding the

nature and financial effects of a business combination. SFAS 141(R) is effective for the company beginning January 1, 2009 and the company is currently evaluating the future impacts and disclosures of this standard.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the company beginning January 1, 2009 and the company is currently evaluating the effect that adoption will have on its 2009 financial statements.

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On April 25, 2008, the FASB issued FASB Staff Position FAS 142-3 (FSP FAS 142-3), Determination of the Useful Life of Intangible Assets, to amend the factors that should be considered in developing renewal and extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 (FAS 142), Goodwill and Other Intangible Assets. FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognizable intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under Statement No. 141, Business Combinations. FSP FAS 142-3 is effective for the company beginning January 1, 2009 and the company is currently evaluating the effect that adoption will have on its 2009 financial statements.

On May 9, 2008, the FASB issued FASB Staff Position APB 14-1 (FSP APB 14-1) to provide clarification of the accounting for convertible debt that can be settled in cash upon conversion. The FASB believed this clarification was needed because the accounting being applied for convertible debt does not fully reflect the true economic impact on the issuer since the conversion option is not captured as a borrowing cost and its full dilutive effect is not included in earnings per share. The FSP requires separate accounting for the liability and equity components of the convertible debt in a manner that would reflect Invacare's nonconvertible debt borrowing rate. The company will have to bifurcate a component of its convertible debt as a component of stockholders' equity and accrete the resulting debt discount as interest expense. It is currently estimated that the adoption FSP APB 14-1 will increase reported interest expense and decrease net earnings by $2,904,000 and $3,695,000 for 2007 and 2008, respectively. The effective date is January 1, 2009 with required historical application for all periods presented and no grandfathering for existing instruments.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The company is exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. The company uses interest swap agreements to mitigate its exposure to interest rate fluctuations. Based on September 30, 2008 debt levels, a 1% change in interest rates would impact interest expense by approximately $326,000. Additionally, the company operates internationally and, as a result, is exposed to foreign currency fluctuations. Specifically, the exposure results from intercompany loans and third party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized. The company does not believe that any potential loss related to these financial instruments would have a material adverse effect on the company's financial condition or results of operations.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Terms such as "will," "should," "plan," "intend," "expect," "continue," "forecast", "anticipate" and "seek," as well as similar comments, are forward-looking in nature. Actual results and events may differ significantly from those expressed or anticipated as a result of risks and uncertainties which include, but are not limited to, the following: possible adverse effects of being substantially leveraged, which could impact our ability to raise capital, limit our ability to react to changes in the economy or our industry or expose us to interest rate or event of default risks; changes in government and other third-party payor reimbursement levels and practices, including the Medicare Improvements for Patients and Providers Act of 2008; consolidation of health care providers and our competitors; loss of key health care providers; ineffective cost reduction and restructuring efforts; inability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs; extensive government regulation of our products; lower cost imports; increased freight costs; failure to comply with regulatory requirements or receive regulatory clearance or approval for our products or operations in the United States or abroad; potential product recalls; uncollectible accounts receivable; the uncertain impact on our providers, suppliers and on the demand for our products of the recent economic downturn and general volatility in the credit and stock markets; difficulties in implementing a new Enterprise Resource Planning system; legal actions or regulatory

proceedings and governmental investigations; product liability claims; inadequate patents or other intellectual property protection; incorrect assumptions concerning demographic trends that impact the market for our products; provisions of Ohio law or in our debt agreements, our shareholder rights plan or our charter documents that may prevent or delay a change in control; the loss of the services of our key management and personnel; decreased availability or increased costs of raw materials which could increase our costs of producing our products; inability to acquire strategic acquisition candidates because of limited financing alternatives; risks inherent in managing and operating businesses in many different foreign jurisdictions; exchange rate fluctuations; possible adverse effects of the global credit crisis, as well as the risks described from time to time in Invacare's reports as filed with the Securities and Exchange Commission. Except to the extent required by law, we do not undertake and specifically decline 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

As of September 30, 2008, 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, 2008, 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. There were no changes in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in the company's Annual Report on Form 10-K.

As is the case for many companies operating in the current economic environment, the company is exposed to a number of risks arising out of the global credit crisis. These risks include the possibility that: one or more of the lenders participating in the company's revolving credit facility may be unable or unwilling to extend credit to the company; the third party company that provides lease financing to the company's customers may refuse or be unable to fulfill its financing obligations or extend credit to the company's customers; one or more customers of the company may be unable to pay for purchases of the company's products on a timely basis; one or more key suppliers may be unable or unwilling to provide critical goods or services to the company; and one or more of the counterparties to the company's hedging arrangements may be unable to fulfill its obligations to the company. Although the company has taken actions in an effort to mitigate these risks, during periods of economic downturn, the company's exposure to these risks increases. Events of this nature may adversely affect the company's liquidity or sales and revenues, and therefore have an adverse effect on the company's business and results of operations.

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

(c) The following table presents information with respect to repurchases of common shares made by the company during the three months ended September 30, 2008. In the quarter ended September 30, 2008, no shares were repurchased and surrendered to the company by employees for tax withholding purposes in conjunction with the

vesting of restricted shares held by the employees under the company's 2003 Performance Plan.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| 7/1/2008-7/31/08 | - | $ - | - | 1,362,900 |
| 8/1/2008-8/31/08 | - | - | - | 1,362,900 |
| 9/1/2008-9/30/08 | - | - | - | 1,362,900 |
| Total | - | $ - | - | 1,362,900 |

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On August 17, 2001, the Board of Directors authorized the company to purchase up to 2,000,000 Common Shares. To date, the company has purchased 637,100 shares with authorization remaining to purchase 1,362,900 more shares. The company purchased no shares pursuant to this Board authorized program during the first nine months of 2008.

Item 6. Exhibits.

| Exhibit No. | |
|---|---|
| 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). |

SIGNATURES

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

INVACARE CORPORATION

Date: November 6, 2008

By: /s/ Robert K. Gudbranson
Name: Robert K. Gudbranson
Title: Chief Financial Officer
(As Principal Financial and Accounting Officer and on behalf of the registrant)