INVACARE CORP
Form 10-Q
August 07, 2017

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

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

For the quarterly period ended June 30, 2017
OR

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

For the transition period from to
Commission File Number 001-15103
INVACARE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	95-2680965
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One Invacare Way, Elyria, Ohio	44035
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨ Emerging growth company ¨

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

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

As of August 3, 2017, the registrant had 32,852,207 Common Shares and 18,357 Class B Common Shares outstanding.

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About Invacare Corporation

Invacare Corporation (NYSE: IVC) is a leading manufacturer and distributor in its markets for medical equipment used in non-acute care settings. At its core, the company designs, manufactures and distributes medical devices that help people to move, breathe, rest and perform essential hygiene. The company provides medical device solutions for congenital (e.g., cerebral palsy, muscular dystrophy, spina bifida), acquired (e.g., stroke, spinal cord injury, traumatic brain injury, post-acute recovery, pressure ulcers) and degenerative (e.g., ALS, multiple sclerosis, chronic obstructive pulmonary disease (COPD), elderly, bariatric) ailments. The company's products are important parts of care for people with a wide range of challenges, from those who are active and heading to work or school each day and may need additional mobility or respiratory support, to those who are cared for in residential care settings, at home and in rehabilitation centers. The company sells its products principally to home medical equipment providers with retail and e-commerce channels, residential care operators, dealers and government health services in North America, Europe and Asia/Pacific. For more information about the company and its products, visit Invacare's website at www.invacare.com.

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

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations between the periods specified in the condensed consolidated balance sheet at June 30, 2017 and December 31, 2016, and in the condensed consolidated statement of comprehensive income (loss) for the three and six months ended June 30, 2017 and June 30, 2016. All comparisons presented are with respect to the same period last year, unless otherwise stated. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes that appear elsewhere in this quarterly report on Form 10-Q and the MD&A included in the company's annual report on Form 10-K for the year ended December 31, 2016.

OVERVIEW

Strategy

For its first 35 years, the company had a strategy to be a leading provider of durable medical equipment to providers in global markets by providing the broadest portfolio available. This strategy had not kept pace with certain reimbursement changes, competitive dynamics and company-specific challenges, especially in the United States market. Since 2015, the company has made a major shift in its strategy to align its resources to produce products and solutions that assist customers and end-users with their most clinically complex needs. By focusing the company’s efforts to provide the best possible assistance and outcomes to the people and caregivers who use its products, the company aims to improve its financial condition for sustainable profit and growth. To execute this transformation, the company is undertaking a substantial three-phase, multi-year transformation plan.

Transformation

The company has been executing a multi-year transformation to shift to its new strategy, especially in North America. This is expected to yield better financial results from the application of the company’s resources to products and solutions that provide greater healthcare value in clinically complex rehabilitation and post-acute care. The transformation is divided into the following three phases:

Phase One - Assess and Reorient

- Increase commercial effectiveness;
- Shift and narrow the product portfolio;
- Align innovation resources to clinically complex solutions;
- Accelerate quality efforts with culture of quality excellence; and
- Develop and expand talent.

Phase One, which is largely complete in North America, was strategic alignment and investment phase with significant shifts in the mix of the company's business. During Phase One, the company made investments in SG&A, including hiring and training over 50% new North America/HME clinical sales representatives, mainly in 2016. The company reduced net sales of less accretive

product, including reducing net sales of aids for daily living, divested its Garden City Medical, Inc. (GCM) subsidiary, and discontinued non-core product categories such as consumer power wheelchairs in North America/HME. During Phase One, the North America/HME business also demonstrated gross margin percentage improvement through a more clinical mix of products from the integration of clinical subsidiaries, as well as an enhanced new product pipeline.

Phase Two - Build and Align
- Leverage commercial improvements;
- Optimize the business for cost and efficiency;
- Continue to improve quality systems;
- Launch new clinical product platforms; and
- Expand talent management and culture.

The company is currently in Phase Two of the transformation, focused on North America. By the end this phase, the company expects growth in sales and gross profit dollars, as well as an improvement in operating income and free cash flow. This is expected to come from the commercial execution of phase one investments and new product launches. The company also is optimizing its infrastructure and improving efficiencies. During the second quarter of 2017, the company took announced actions expected to yield $6.7 million in annualized cost savings, which is in addition to the previously announced $9.2 million of restructuring actions taken since October 2016.

Phase Three - Grow
- Lead in quality culture and operations excellence; and
- Grow above market.

By the end of phase three, the company expects continued improvements in net sales, operating margin, operating income and free cash flow.

Through the first half of 2017, the company expected continued lower net sales offset by favorable sales mix shift and increased gross margin as a percentage of net sales. In the second quarter of 2017, consolidated net sales decreased compared to the

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same period prior year, and sequentially decreased slightly compared to the first quarter of 2017. Gross margin as a percentage of net sales improved as a result of lower warranty costs and the strategic mix shift toward clinically complex products.

In the second quarter of 2017, the company issued $120,000,000 aggregate principal amount of 4.50% Convertible Senior Notes due 2022 in a private offering, and entered into related convertible note hedge and warrant transactions. Proceeds of the offering may be used to fund portions of the transformation and strengthen the company's working capital. For further information, see "Long-Term Debt" in the Notes to the Consolidated Financial Statements included elsewhere in this report.

The company expects to take advantage of opportunities for growth across its many product lines and businesses by providing clinical solutions to the growing demographic in need of the company's products. The company also remains focused on building an enterprise-wide quality culture, which it believes will ultimately be a competitive advantage. The company intends to move forward with its transformation, while managing through external uncertainty, such as changes in payor reimbursement policies. The company has demonstrated some improvements in the key short-term metrics as a result of its strategic shift. However, in spite of this, there may be interim periods where the company's investments do not fully yield expected financial improvements, particularly in light of various external factors.

STATUS OF THE CONSENT DECREE

On July 24, 2017, the company received notice from the United States Food and Drug Administration (FDA) that the company had satisfied the Agency's requirements under the consent decree to resume full operations at its Corporate and Taylor Street manufacturing facility in Elyria, Ohio. As a result, the company then became able to produce and sell all products made in the Taylor Street facility without the previous restrictions under the consent decree, which has been in effect since December 21, 2012.

The company is now able to sell its wheelchairs designed and manufactured at the Taylor Street facility without having to obtain the verification of medical necessity (VMN) documentation previously required under the consent decree. To ensure the facilities are in continuous compliance with FDA regulations and the consent decree, the consent decree requires the company to undergo five years of audits by a third-party auditor selected by Invacare. The third-party auditor will inspect the Corporate and Taylor Street facilities every six months for the first year, and then once every 12 months for the four years thereafter. Other Invacare manufacturing facilities were unaffected by the consent decree and have remained fully operational.

For a complete description of the consent decree, see the "Contingencies" note to the financial statements contained in Item

1 of this Quarterly Report on Form 10-Q and "Forward-Looking Statements" contained below in this Item.

OUTLOOK

The company is focused on transforming its business, especially in North America. Through the second half of 2017, the company should start to stabilize sales sequentially in its North America businesses through new product and service offerings, and increased productivity from its new commercial salesforce. The launch of the new Invacare® TDX® SP2 power wheelchair with LiNX® technology and the ability to sell power and manual wheelchairs from the Taylor Street facility without the previous restrictions from the consent decree are unlikely to have a material impact on the business until at least 2018 due to the time it takes to earn that business combined with the industry's extended quote-to-order process. The quote-to-order process can delay the successful conversion of sales quotes to shipments between 60-90 days.

The company will continue its focus on reducing costs and improving efficiencies. The company's priorities remain: emphasizing a culture of quality excellence and achieving its long-term earnings potential. The company remains committed to its long-term earnings objective, which is largely based upon four parts:

- Net sales growth in North America/HME mobility and seating segment;
- Net sales growth in the IPG post-acute care business;
- Cost reductions across the North America businesses; and
- Continued net sales growth and efficiency gains in Europe.

Because of the scope and magnitude of changes being undertaken and the realized and potential changes affecting the business, the company expects some variation in the timing and relative magnitude of these results.

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RESULTS OF OPERATIONS

On September 30, 2016, the company completed the sale of its subsidiary, Garden City Medical Inc. ("GCM"), to Compass Health Brands. GCM, doing business as PMI and Pinnacle Medsource, sourced and distributed primarily single-use products under the brand ProBasics™ by PMI. GCM was part of the North America/Home Medical Equipment (NA/HME) segment. This divestiture further refined the company’s focus on other lines of business where the company’s resources can best generate returns in areas of complex rehabilitation and post-acute care. CGM was not deemed a discontinued operation for financial reporting purposes, and therefore is included in the results below unless otherwise noted. For more information, see the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

References herein to "year-to-date" refer to the first six months of the fiscal year, ended June 30.

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NET SALES

($ in thousands USD)	Q2 17	Q2 16	Reported % Change	Foreign Exchange % Impact	Constant Currency % Change
Europe	128,485	135,735	(5.3)	(5.5)	0.2
NA/HME	77,689	110,700	(29.8)	(0.3)	(29.5)
IPG	15,320	16,115	(4.9)	(0.1)	(4.8)
Asia/Pacific	12,023	12,487	(3.7)	0.6	(4.3)
Consolidated	233,517	275,037	(15.1)	(2.8)	(12.3)
NA/HME less divested GCM	77,689	101,636	(23.6)	(0.4)	(23.2)
Consolidated less divested GCM	233,517	265,973	(12.2)	(2.9)	(9.3)

($ in thousands USD)	YTD Q2 17	YTD Q2 16	Reported % Change	Foreign Exchange % Impact	Constant Currency % Change
Europe	247,993	257,766	(3.8)	(5.4)	1.6
NA/HME	161,951	218,372	(25.8)	—	(25.8)
IPG	31,693	34,359	(7.8)	(0.1)	(7.7)
Asia/Pacific	23,603	22,092	6.8	2.3	4.5
Consolidated	465,240	532,589	(12.6)	(2.5)	(10.1)
NA/HME less divested GCM	161,951	200,149	(19.1)	(0.1)	(19.0)
Consolidated less divested GCM	465,240	514,366	(9.6)	(2.7)	(6.9)

For the quarter, constant currency net sales increased in the European segment but was more than offset by declines in the NA/HME, IPG and Asia/Pacific segments.

Year-to-date constant currency net sales increased in the European and Asia/Pacific segments but was more than offset by declines in the NA/HME and IPG segments.

Excluding the divestiture of the GCM business, consolidated constant currency net sales declined 9.3% and 6.9% for the quarter and year-to-date, respectively, compared to the same periods last year, with net sales declines in lifestyle and respiratory products partially offset by increases in mobility and seating products.

The company realized a favorable impact from sales mix year-to-date attributable to mobility and seating products, which comprise most of the company's clinically complex product

portfolio. Sales mix increased to 38% from 33% for constant currency net sales by product for the second quarter of 2017 as compared to same period last year.

The table above provides net sales change as reported and as adjusted to exclude the impact of foreign exchange translation (constant currency net sales) as well as net sales further adjusted to exclude the impact of the sale of GCM, which was sold in September 2016 and not deemed a discontinued operation from an external reporting perspective.

“Constant currency net sales" is a non-GAAP financial measure, which is defined as net sales excluding the impact of foreign currency translation. The current year's functional currency net sales are translated using the prior year's foreign exchange rates. These amounts are then compared to the prior year's sales to calculate the constant currency net sales change. Management believes that this financial measure provides meaningful information for evaluating the core operating performance of the company.

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This favorable net sales mix shift is the result of the company's continued transformation and, in particular, the implementation of Phase One of the transformation, where the company focused on shifting and narrowing the product portfolio and alignment of resources to focus on clinically complex solutions.

Constant currency net sales performance drivers by segment:

Europe - The improvement in constant currency net sales for the quarter and year-to-date was driven by mobility and seating products partially offset by declines in lifestyle and respiratory products.

North America/Home Medical Equipment (NA/HME) - Excluding the divestiture of the GCM business, constant currency net sales declined 23.2% for the quarter compared to the same period last year. The decrease in constant currency net sales was driven by decreases in all categories, though mostly in lifestyle and respiratory products. Mobility and seating sales were a lesser part of the net sales decline. Newer mobility and seating products grew during the quarter, including the Alber® Twion® power assist device, Invacare® MyON® HC manual wheelchair and the Rovi® power wheelchair from Motion Concepts.

Institutional Products Group (IPG) - The decrease in constant currency net sales for the quarter was driven by most product categories except beds and interior design projects. The

decrease in constant currency net sales year-to-date was driven by all product categories. As previously disclosed, the company is transforming its go-to-market strategy in the post-acute care (PAC) channel. With the support of IPG's Outcomes by Design™ service offering for customers that launched in the second quarter, the new post-acute commercial team continued to build its new customer base. The company expects this new sales approach within the capital selling environment to take time to yield growth.

Asia/Pacific - The decrease in constant currency net sales for the quarter was driven by the Australia distribution business partially offset by improvements in the New Zealand distribution business and at the company's subsidiary that produces microprocessor controllers. The year-to-date improvement in constant currency net sales was driven by the New Zealand distribution businesses and the company's subsidiary that produces microprocessor controllers partially offset by declines in the Australia distribution business.

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GROSS PROFIT

Gross profit as a percentage of net sales increased by 1.0 percentage point in the quarter as compared to the same period last year. This increase was driven by reduced warranty expense and favorable sales mix, partially offset by unfavorable manufacturing costs including the impact of foreign currency. Gross margin as a percentage of net sales increased for the Europe and Asia/Pacific segments and declined for the NA/HME and IPG segments. Gross profit dollars declined in all segments but principally in the NA/HME segment.

Gross profit as a percentage of net sales increased by 1.4 percentage points year-to-date as compared to the same period last year. This increase was driven by favorable sales mix and reduced warranty expense partially offset by unfavorable manufacturing variances including the impact of foreign currency and increased research and development expense. Gross margin as a percentage of net sales increased for all the segments. Gross profit dollars declined in all segments except Asia/Pacific but principally in the NA/HME segment.

Gross profit drivers by segment:

Europe - For the quarter, gross margin as a percentage of net sales increased 1.4 percentage points, while gross profit dollars decreased $27,000, compared to the same period last year. The slight decrease in gross profit dollars was driven by unfavorable foreign currency partially offset by reduced warranty costs and favorable net sales mix.

Year-do-date, gross margin as a percentage of net sales increased 1.0 percentage point, while gross profit dollars decreased $223,000, compared to the same period last year. The decrease in gross profit dollars was driven by unfavorable foreign currency and increased research and development expense partially offset by reduced warranty costs and favorable net sales mix.

NA/HME - For the quarter, gross margin as a percentage of net sales decreased by 0.1 percentage points, while gross profit dollars decreased $7,968,000, compared to the same period last year. Excluding the impact of the divested GCM business, gross margin as a percentage of net sales decreased by 0.4 of a percentage point, while gross profit dollars decreased by $6,077,000. The decrease in gross profit dollars was primarily due to net sales volume declines and unfavorable manufacturing costs partially offset by favorable net sales mix and reduced freight and warranty costs.

Year-to-date, gross margin as a percentage of net sales increased by 1.2 percentage points, while gross profit dollars decreased $11,047,000, compared to the same period last year. Excluding the impact of the divested GCM business, gross margin as a percentage of net sales increased by 0.9 of a percentage point, while gross profit dollars decreased by $7,106,000. The decrease in gross profit dollars was primarily due to net sales volume declines and unfavorable manufacturing variances partially offset by reduced freight and warranty costs and favorable net sales mix.

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IPG - For the quarter, gross margin as a percentage of net sales decreased 0.2 of a percentage point, and gross profit dollars decreased $194,000, compared to the same period last year. The slight decrease in gross profit dollars was driven by volume declines. Year-to-date, gross margin as a percentage of net sales increased 1.3 percentage points while gross profit dollars decreased $96,000, compared to the same period last year. The slight decrease in gross profit dollars was driven by volume declines partially offset by reduced warranty expense.

Asia/Pacific - For the quarter, gross margin as a percentage of net sales increased by 0.7 of a percentage point, while gross profit dollars decreased $210,000, compared to the same period last year. The decrease in gross profit dollars was primarily due to volume declines partially offset by a favorable net sales mix. Year-to-date, gross margin as a percentage of net sales increased by 0.7 of a percentage point, and gross profit dollars increased $21,000, compared to the same period last year. The slight increase in gross profit dollars was primarily attributable to favorable net sales mix and foreign currency.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

($ in thousands USD)	Q2 17	Q2 16	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A Expenses - $	75,721	78,722	(3,001)	(1,566)	(1,435)
SG&A Expenses - % change			(3.8)	(2.0)	(1.8)
% to net sales	32.4	28.6			
Consolidated less divested GCM - $	75,721	77,581	(1,860)	(1,566)	(294)
Consolidated less divested GCM - % change			(2.4)	(2.0)	(0.4)
% to net sales	32.4	29.2			

($ in thousands USD)	YTD Q2 17	YTD Q2 16	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A Expenses - $	148,234	151,556	(3,322)	(2,540)	(782)
SG&A Expenses - % change			(2.2)	(1.7)	(0.5)
% to net sales	31.9	28.5			
Consolidated less divested GCM - $	148,234	149,147	(913)	(2,540)	1,627
Consolidated less divested GCM - % change			(0.6)	(1.7)	1.1
% to net sales	31.9	29.0			

For the quarter, the decrease in SG&A expense, excluding the sale of GCM and the impact of foreign exchange, was primarily driven by reduced product liability and employment costs partially offset by increased foreign currency transactions.

Year-to-date, the increase in SG&A expense, excluding the sale of GCM and the impact of foreign exchange, was primarily driven by increased foreign currency transactions partially offset by reduced employment and product liability costs.

SG&A expense drivers by segment:

Europe - For the quarter, SG&A expenses decreased by 0.5%, or $154,000, compared to the same period last year with foreign currency translation decreasing SG&A expenses by approximately $1,441,000, or 4.7%. Constant currency SG&A expenses increased by $1,287,000, or 4.2%. Year-to-date, SG&A expenses increased by 0.9%, or $512,000, compared to the same period last year with foreign currency translation decreasing SG&A expenses by approximately $2,652,000, or 4.4%. Constant currency SG&A expenses increased by $3,164,000, or 5.3%. The increase in expense for the quarter and year-to-date is primarily attributable to increased employment costs and foreign currency transactions.

NA/HME - For the quarter, SG&A expenses decreased 6.4%, or $2,224,000, compared to the same period last year with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased $2,077,000, or 6.0%. Excluding the impact of the divested GCM business and foreign currency translation impact, constant currency SG&A expense decreased by $936,000 or 2.8% driven primarily by decreased employment and product liability costs. The reduction in employment costs included a reduction in bonus expense. Year-to-date, SG&A expenses decreased 3.4%, or $2,286,000, compared to the same period last year with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased $2,191,000, or 3.3%. Excluding the impact of the divested GCM business, constant currency SG&A expense increased by $218,000 or 0.3% driven primarily by unfavorable foreign currency transactions, partially offset by decreased employment and product liability costs.

IPG - For the quarter, SG&A expenses for IPG decreased by 4.7%, or $133,000, compared to the same period last year with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased by $128,000 or 4.5%. Year-to-date, SG&A expenses for IPG decreased by 8.5% or $510,000, compared to the same period last year with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased by $512,000 or 8.5%. The decline in expense for the quarter and year-to-date was primarily related to employment costs.

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Asia/Pacific - For the quarter, SG&A expenses decreased 10.4%, or $429,000, compared to the same period last year with foreign currency translation increasing SG&A expenses by $27,000, or 0.7 percentage points. Constant currency SG&A expenses decreased by $456,000, or 11.1%. Year-to-date, SG&A expenses decreased 6.0%, or $470,000, compared to the same period last year with foreign currency translation increasing SG&A expenses by $205,000, or 2.6%. Constant currency SG&A expenses decreased $675,000, or 8.6%. The decline in expense for the quarter and year-to-date was primarily related to employment costs and foreign currency transactions.

Other - For the quarter, SG&A expenses decreased by 1.0%, or $61,000, compared to the same period last year primarily driven by declines in legal expense and employment costs, primarily related to reduced bonus expense, partially offset by increased equity compensation expense. Year-to-date, SG&A expenses decreased by 5.0%, or $568,000, compared to the same period last year primarily driven by decline in legal expense, partially offset by increased equity compensation expense.

MD&A Operating Income (Loss)

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OPERATING INCOME (LOSS)

($ in thousands USD)	Q2 17	Q2 16	$ Change	% Change	YTD Q2 17	YTD Q2 16	$ Change	% Change
Europe	7,077	6,949	128	1.8	12,177	12,912	(735)	(5.7)
NA/HME	(12,395)	(6,649)	(5,746)	(86.4)	(21,821)	(13,058)	(8,763)	(67.1)
IPG	1,472	1,532	(60)	(3.9)	3,370	2,956	414	14.0
Asia/Pacific	(118)	(337)	219	65.0	(548)	(1,040)	492	47.3
All Other	(6,735)	(6,622)	(113)	(1.7)	(11,245)	(11,871)	626	5.3
Charges related to restructuring activities	(4,987)	(689)	(4,298)	(623.8)	(8,270)	(791)	(7,479)	(945.5)
Consolidated Operating Loss	(15,686)	(5,816)	(9,870)	(169.7)	(26,337)	(10,892)	(15,445)	(141.8)

For the quarter and year-to-date, the increase in consolidated operating loss was significantly impacted by an increase in restructuring charges and increased segment operating losses primarily related to volume declines and unfavorable foreign currency partially offset by reduced warranty expense, freight and employment costs.

Operating income (loss) by segment:

Europe - For the quarter, operating income increased compared to the same period last year primarily related to reduced warranty expense partially offset by unfavorable foreign exchange and increased employment costs. Year-to-date, operating income decreased compared to the same period last year primarily related to unfavorable foreign currency, increased R&D expense, increased employment costs partially offset by increased constant currency net sales and reduced warranty expense.

NA/HME - For the quarter, operating loss increased compared to the same period last year primarily related to net sales declines and unfavorable manufacturing costs partially offset by favorable sales mix and reduced employment, warranty and freight expense. In addition, the second quarter of 2016 included approximately $750,000 in operating income for GCM. Year-to-date, operating loss increased compared to the same period last year primarily related to net sales declines partially offset by favorable sales mix and reduced employment, warranty and freight expense. In addition, the first six months of 2016 included $1,532,000 in operating income for GCM.

IPG - For the quarter, operating income decreased as compared to the same period last year primarily related to net sales declines partially offset by reduced SG&A expense, primarily due to lower employment costs. Year-to-date, operating income increased as compared to the same period last year primarily related to reduced SG&A, warranty and freight expense partially offset by net sales declines.

Asia/Pacific - For the quarter, operating loss decreased as compared to the same period last year primarily related to reduced employment costs, favorable foreign currency and favorable sales mix partially offset by net sales declines. Year-to-date, operating loss decreased as compared to the same period last year primarily related to increased net sales, favorable sales mix and reduced SG&A partially offset by increased research and development costs.

All Other - For the quarter, operating loss increase was primarily impacted by increased intercompany profit in inventory elimination as result of higher inventory levels. Year-to-date, operating loss was impacted by reduced

SG&A expense.

Charge Related to Restructuring Activities

Restructuring charges recorded in 2017 were primarily related to previously disclosed facility closures and reduction in force actions in each of the segments.

Restructuring charges totaled $8,270,000 in the first six months of 2017 related to severance and contract terminations in the NA/HME segment ($6,170,000) and severance in the Europe ($1,204,000) and Asia/Pacific ($896,000) segments. Charges in the NA/HME segment include the impact of the June 2017 closure of the company's Suzhou, China, manufacturing facility, which is expected to generate approximately $4,000,000 in annualized pre-tax savings for the segment.

In the first six months of 2016, the company incurred restructuring charges of $791,000 related principally to severance costs incurred in the NA/HME segment ($723,000) and the Asia/Pacific segment ($68,000). Most of the outstanding restructuring accruals at June 30, 2017 are expected to be paid out in the next twelve months.

MD&A Other Items