Inogen Inc
Form 10-Q
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 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: 001-36309

INOGEN, INC.

(Exact name of registrant as specified in its charter)

Delaware	33-0989359
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
326 Bollay Drive Goleta, California	93117
(Address of principal executive offices)	(Zip Code)

(805) 562-0500

(Registrant’s telephone number, including area code)

None

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

Indicate by check mark whether the registrant has submitted electronically 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
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

As of July 28, 2017, the registrant had 20,726,405 shares of common stock, par value $0.001, outstanding.

TABLE OF CONTENTS

INOGEN, INC.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Inogen, Inc.

Consolidated Balance Sheets

(amounts in thousands)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 114,711	$ 92,851
Marketable securities	29,498	21,033
Accounts receivable, net	34,803	30,828
Inventories, net	15,920	14,343
Deferred cost of revenue	385	398
Income tax receivable	1,500	433
Prepaid expenses and other current assets	2,030	1,659
Total current assets	198,847	161,545
Property and equipment		
Rental equipment, net	52,183	54,582
Manufacturing equipment and tooling	6,470	6,133
Computer equipment and software	5,138	4,705
Furniture and equipment	780	779
Leasehold improvements	921	816
Land and building	125	125
Construction in process	230	75
Total property and equipment	65,847	67,215
Less accumulated depreciation	(43,886)	(42,016)
Property and equipment, net	21,961	25,199
Goodwill	2,253	—
Intangible assets, net	1,684	241
Deferred tax asset - noncurrent	25,992	26,654
Other assets	493	410
Total assets	$ 251,230	$ 214,049

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Consolidated Balance Sheets (continued)

(amounts in thousands, except share and per share amounts)

	June 30, 2017 (unaudited)	December 31, 2016
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable and accrued expenses	$ 21,981	$ 12,795
Accrued payroll	4,603	6,123
Warranty reserve - current	1,962	1,688
Deferred revenue - current	3,585	2,239
Income tax payable	59	—
Total current liabilities	32,190	22,845
Long-term liabilities		
Warranty reserve - noncurrent	2,691	1,792
Deferred revenue - noncurrent	7,924	7,042
Deferred tax liability - noncurrent	400	—
Other noncurrent liabilities	248	282
Total liabilities	43,453	31,961
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock, $0.001 par value per share; 200,000,000 authorized; 20,709,797 and 20,389,860 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	21	20
Additional paid-in capital	205,883	194,466
Retained earnings (accumulated deficit)	1,907	(12,363)
Accumulated other comprehensive loss	(34)	(35)
Total stockholders' equity	207,777	182,088
Total liabilities and stockholders' equity	$ 251,230	$ 214,049

See accompanying condensed notes to the consolidated financial statements.

4

Inogen, Inc.

Consolidated Statements of Comprehensive Income

(unaudited)

(amounts in thousands, except share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue				
Sales revenue	$58,038	$45,578	$104,004	$78,389
Rental revenue	6,083	8,989	12,617	19,167
Total revenue	64,121	54,567	116,621	97,556
Cost of revenue				
Cost of sales revenue	27,993	23,046	49,906	39,553
Cost of rental revenue, including depreciation of $2,522 and $2,908 for the three months ended and $5,211 and $5,855 for the six months ended, respectively	4,561	5,306	9,404	10,509
Total cost of revenue	32,554	28,352	59,310	50,062
Gross profit				
Gross profit-sales revenue	30,045	22,532	54,098	38,836
Gross profit-rental revenue	1,522	3,683	3,213	8,658
Total gross profit	31,567	26,215	57,311	47,494
Operating expense				
Research and development	1,260	1,379	2,569	2,547
Sales and marketing	11,945	9,576	22,474	18,541
General and administrative	9,865	7,241	18,200	15,110
Total operating expense	23,070	18,196	43,243	36,198
Income from operations	8,497	8,019	14,068	11,296
Other income (expense)				
Interest expense	—	(2)	—	(5)
Interest income	146	36	247	65
Other income (expense)	523	(11)	730	86
Total other income, net	669	23	977	146
Income before provision for income taxes	9,166	8,042	15,045	11,442
Provision for income taxes	828	550	775	1,429
Net income	8,338	7,492	14,270	10,013
Other comprehensive income (loss), net of tax				
Change in foreign currency translation adjustment	197	—	197	—
Change in net unrealized gains (losses) on foreign currency hedging	(300)	63	(246)	(35)

Less: reclassification adjustment for net (gains) losses included in net income	49	44	(8)	50
Total net change in unrealized gains (losses) on foreign currency hedging	(251)	107	(254)	15
Change in net unrealized gains (losses) on available-for-sale investments	(6)	9	58	20
Total other comprehensive income (loss), net of tax	(60)	116	1	35
Comprehensive income	$8,278	$7,608	$14,271	$10,048
Basic net income per share attributable to common stockholders (Note 5)	$0.40	$0.38	$0.69	$0.50
Diluted net income per share attributable to common stockholders (Note 5)	$0.38	$0.36	$0.66	$0.48
Weighted-average number of shares used in calculating net income per share attributable to common stockholders:				
Basic common shares	20,622,320	19,972,395	20,556,293	19,900,032
Diluted common shares	21,848,359	20,997,429	21,731,592	20,931,802

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Consolidated Statements of Stockholders’ Equity

(amounts in thousands, except share amounts)

	Common stock		Additional paid-in	Retained earnings (accumulated	Accumulated other comprehensive income	Total stockholders'
	Shares	Amount	capital	deficit)	(loss)	equity
Balance, December 31, 2015	19,782,403	$ 20	$ 179,143	$ (45,108)	$ (37)	$ 134,018
Cumulative effect of change in accounting principle	—	—	—	12,226	—	12,226
Stock-based compensation	—	—	3,451	—	—	3,451
Employee stock purchases	17,724	—	500	—	—	500
Stock options exercised	268,828	—	1,992	—	—	1,992
Net income	—	—	—	10,013	—	10,013
Other comprehensive income	—	—	—	—	35	35
Balance, June 30, 2016 (unaudited)	20,068,955	$ 20	$ 185,086	$ (22,869)	$ (2)	$ 162,235
Balance, December 31, 2016	20,389,860	20	194,466	(12,363)	(35)	182,088
Stock-based compensation	—	—	4,107	—	—	4,107
Employee stock purchases	11,805	—	581	—	—	581
Stock options exercised	308,132	1	6,729	—	—	6,730
Net income	—	—	—	14,270	—	14,270
Other comprehensive income	—	—	—	—	1	1
Balance, June 30, 2017 (unaudited)	20,709,797	$ 21	$ 205,883	$ 1,907	$ (34)	$ 207,777

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Consolidated Statements of Cash Flows

(unaudited)

(amounts in thousands)

	Six months ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income	$14,270	$10,013
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,321	6,874
Loss on rental units and other fixed assets	604	567
Gain on sale of former rental assets	(50)	(203)
Provision for sales returns and doubtful accounts	6,702	5,053
Provision for rental revenue adjustments	2,903	5,470
Provision for inventory obsolescence and other inventory losses, net of recoveries	102	108
Stock-based compensation expense	4,107	3,451
Deferred tax assets	662	1,454
Changes in operating assets and liabilities:		
Accounts receivable	(12,369)	(18,436)
Inventories	(2,154)	(4,980)
Deferred cost of revenue	13	(106)
Income tax receivable	(1,062)	930
Prepaid expenses and other current assets	(157)	(1,493)
Accounts payable and accrued expenses	8,466	6,383
Accrued payroll	(1,551)	(743)
Warranty reserve	1,171	1,048
Deferred revenue	2,228	1,415
Income tax payable	(61)	(11)
Other noncurrent liabilities	(34)	3
Net cash provided by operating activities	30,111	16,797
Cash flows from investing activities		
Purchases of available-for-sale investments	(22,725)	(14,857)
Maturities of available-for-sale investments	14,318	18,054
Investment in property and equipment	(969)	(1,226)
Production and purchase of rental equipment	(1,834)	(2,957)
Proceeds from sale of former assets	91	298
Payment for acquisition, net of cash acquired	(4,442)	—
Net cash used in investing activities	(15,561)	(688)

(continued on next page)

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Consolidated Statements of Cash Flows (continued)

(unaudited)

(amounts in thousands)

	Six months ended June 30, 2017	2016
Cash flows from financing activities		
Proceeds from stock options exercised	6,730	1,992
Proceeds from employee stock purchases	581	500
Repayment of debt from investment in intangible assets	—	(156)
Net cash provided by financing activities	7,311	2,336
Effect of exchange rates on cash	(1)	(51)
Net increase in cash and cash equivalents	21,860	18,394
Cash and cash equivalents, beginning of period	92,851	66,106
Cash and cash equivalents, end of period	$114,711	$84,500
Supplemental disclosures of cash flow information		
Cash paid during the period for interest	$—	$7
Cash paid (received) during the period for income taxes, net of refunds received	1,070	(927)
Supplemental disclosure of non-cash transactions		
Property and equipment in accounts payable and accrued liabilities	$153	$—

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements

(unaudited)

(amounts in thousands, except share and per share amounts)

1. Business overview

Inogen, Inc. (Company or Inogen) was incorporated in Delaware on November 27, 2001. The Company is a medical technology company that primarily develops, manufactures and markets innovative portable oxygen concentrators used to deliver supplemental long-term oxygen therapy to patients suffering from chronic respiratory conditions. Traditionally, these patients have relied on stationary oxygen concentrator systems for use in the home and oxygen tanks or cylinders for mobile use, which the Company calls the delivery model. The tanks and cylinders must be delivered regularly and have a finite amount of oxygen, which requires patients to plan activities outside of their homes around delivery schedules and a finite oxygen supply. Additionally, patients must attach long, cumbersome tubing to their stationary concentrators simply to enable mobility within their homes. The Company's proprietary Inogen One® systems concentrate the air around the patient to offer a single source of supplemental oxygen anytime, anywhere with a portable device weighing approximately 2.8, 4.8 or 7.0 pounds with a single battery. The Company's Inogen One G4®, Inogen One G3® and Inogen One G2® have up to 2.6, 4.7 and 5.0 hours of battery life, respectively, with a single battery and can be plugged into an outlet when at home, in a car, or in a public place with outlets available. The Company's Inogen One systems reduce the patient's reliance on stationary concentrators and scheduled deliveries of tanks with a finite supply of oxygen, thereby improving patient quality of life and fostering mobility.

Portable oxygen concentrators represented the fastest-growing segment of the Medicare oxygen therapy market between 2012 and 2015. The Company estimates based on 2015 Medicare data that patients using portable oxygen concentrators represent approximately 8% of the total addressable oxygen market in the United States, although the Medicare data does not account for private insurance and cash-pay sales into the market. Based on 2015 industry data, the Company believes it was the leading worldwide manufacturer of portable oxygen concentrators, as well as the largest provider of portable oxygen concentrators to Medicare patients, as measured by dollar volume. The Company believes it is the only manufacturer of portable oxygen concentrators that employs a direct-to-consumer strategy in the United States, meaning the Company markets its products to patients, processes their physician paperwork, provides clinical support as needed and bills Medicare or insurance on their behalf. To pursue a direct-to-consumer strategy, the Company's manufacturing competitors would need to meet national accreditation and state-by-state licensing requirements and secure Medicare billing privileges, including Medicare competitive bidding contracts, as well as compete with the home medical equipment providers who many of the Company's manufacturing competitors sell to across their entire homecare business.

Since adopting the Company's direct-to-consumer strategy in 2009 following its acquisition of Comfort Life Medical Supply, LLC, which had an active Medicare billing number but few other assets and limited business activities, the Company has directly sold or rented more than 289,000 of its Inogen oxygen concentrators as of June 30, 2017.

The Company incorporated Inogen Europe Holding B.V., a Dutch limited liability company, on April 13, 2017. The Company owns all outstanding stock of Inogen Europe Holding B.V., which became a wholly owned subsidiary of the Company.

On May 4, 2017, the Company, through its wholly owned subsidiary, Inogen Europe Holding B.V., acquired all issued and outstanding capital stock of MedSupport Systems B.V. (MedSupport) for approximately $5,934, comprised of $5,779 of cash paid at closing and estimated net working capital adjustments of approximately $155 to be paid in the third quarter of 2017 classified in accounts payable and accrued expenses. In aggregate, $1,337 was cash acquired, $1,529 was attributed to intangible assets, $2,154 was attributed to goodwill, and $914 was attributed to net assets assumed. MedSupport is engaged in the business of importing and distributing medical devices throughout Europe. The acquisition allows the Company to add a European customer support and repair site in the Netherlands and is currently operating as Inogen Europe B.V.. Goodwill associated with this acquisition is not deductible for tax purposes. Acquisition expenses of approximately $370 were expensed in 2017 and are classified within general and administrative expense.   The Company's allocation of the purchase price remains incomplete and any measurement period adjustments that result from the finalization of the purchase price allocation will be recorded retrospectively to the acquisition date. Pro forma results of operations for this acquisition have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

2. Basis of presentation and summary of significant accounting policies

The accompanying consolidated financial statements are unaudited. The balance sheet at December 31, 2016 has been derived from the audited financial statements of the Company. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for interim financial information, and in management's opinion, includes all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company's financial position, its results of operations, stockholders' equity and cash flows for the interim periods presented. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

The accompanying consolidated financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 28, 2017. There have been no significant changes in the Company's accounting policies from those disclosed in its Annual Report on Form 10-K filed with the SEC on February 28, 2017.

Basis of consolidation

The consolidated financial statements include the accounts of Inogen, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases these estimates and assumptions upon historical experience, existing and known circumstances, authoritative accounting pronouncements and other factors that management believes to be reasonable. Significant areas requiring the use of management estimates relate to revenue recognition, inventory and rental asset valuations and write-downs, accounts receivable allowances for bad debts, returns and adjustments, stock compensation expense, depreciation and amortization, income tax provision and uncertain tax positions, fair value of financial instruments, and fair value of acquired intangible assets and goodwill. Actual results could differ from these estimates.

Business combinations

The results of operations of the businesses acquired by the Company are included as of the acquisition date. The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed, such excess is allocated to goodwill. The Company may adjust the preliminary purchase price allocation, as necessary, for up to one year after the acquisition closing date if it obtains more information regarding asset valuations and liabilities assumed. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Goodwill and other acquired intangibles

Goodwill is tested for impairment on an annual basis as of October 1. Interim testing of goodwill for impairment is also required whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit or asset below its carrying amount. Intangible assets with definite lives are amortized over their estimated useful lives on a straight-line basis.

Foreign currency

The functional currency of the Company's international subsidiary is in the local currency. The financial statements of the subsidiary are translated to U.S. dollars using month-end exchange rates for assets and liabilities, and average rates of exchange for revenues, cost of revenue, and operating expense. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity. Foreign exchange transaction gains and losses resulting from the conversion of the transaction currency to functional currency are reflected as a component of foreign currency exchange gains or losses in other income (expense) in the consolidated statements of comprehensive income.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

Recently issued accounting pronouncements not yet adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In August 2015, the FASB decided to delay the effective date of ASU No. 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. As such, the updated standard will be effective for the Company in the first quarter of 2018. In March 2016, the FASB issued ASU No. 2016-08, Revenue with Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which is an amendment to ASU No. 2014-09 that improved the operability and understandability of implementation guidance versus agent considerations by clarifying the determination of principal versus agent. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). To date, the Company has performed an initial assessment of the Company's revenue streams, substantially completed its summary of all outstanding contracts, and begun the process of applying the five-step model to those contracts and revenue streams. The Company anticipates adopting the standard using the modified retrospective method. The Company expects to adopt on January 1, 2018 and is currently developing its plan for adoption and the impact on its revenue recognition policies, procedures and control framework and the resulting impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business. The new guidance revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company is currently evaluating the effect of the new guidance but does not expect it to have a material impact on the Company's consolidated financial statement presentation or results.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. The new guidance eliminates step two of the goodwill impairment test. Under the new guidance, an entity should recognize an impairment charge for the amount by which a reporting unit's carrying value exceeds its fair value. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the effect of the new guidance but does not expect it to have a material impact on the Company's consolidated financial statement presentation or results.

Recently adopted accounting pronouncements

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The ASU requires entities to measure most inventory "at the lower of cost and net realizable value" thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The Company adopted this guidance on January 1, 2017. The adoption of this ASU did not have a material effect on the Company's consolidated financial presentation or results.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. The Company elected to early adopt ASU No. 2016-09 in the fourth quarter of 2016, which requires any adjustments to be recorded as of the beginning of fiscal 2016. As a result, the consolidated statements of comprehensive income and statements of cash flows for the three and six months ended June 30, 2016 had been adjusted to include the impact of ASU No. 2016-09 adoption. See "Note 2 –Summary of significant accounting policies" in the notes to the financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for detailed adoption information.

Business segments

The Company operates and reports in only one operating and reportable segment – development, manufacturing, marketing, sales, and rental of respiratory products. Management reports financial information on an aggregate basis to the Company's chief operating decision maker.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

3. Fair value of financial instruments

The Company’s financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued expenses. The carrying values of cash and cash equivalents, marketable securities, accounts receivable and accounts payable and accrued expenses approximate fair values based on the short-term nature of these financial instruments.

Imputed interest associated with the Company’s non-interest bearing debt was insignificant and was appropriately recognized in the respective periods.

Fair value accounting

Accounting Standards Codification (ASC) 820 —Fair Value Measurements and Disclosures, creates a single definition of fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement is to estimate the price at which an orderly transaction to sell an asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Assets and liabilities adjusted to fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by ASC 820, are as follows:

Level input	Input definition
Level 1	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.
Level 3	Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The Company obtained the fair value of its available-for-sale investments, which are not in active markets, from a third-party professional pricing service using quoted market prices for identical or comparable instruments, rather than direct observations of quoted prices in active markets. The Company's professional pricing service gathers observable inputs for all of its fixed income securities from a variety of industry data providers (e.g., large custodial institutions) and other third-party sources. Once the observable inputs are gathered, all data points are considered and the fair value is determined. The Company validates the quoted market prices provided by its primary pricing service by comparing their assessment of the fair values against the fair values provided by its investment managers. The Company's investment managers use similar techniques to its professional pricing service to derive pricing as described above. As all significant inputs were observable, derived from observable information in the marketplace or supported by observable levels at which transactions are executed in the marketplace, the Company has classified its available-for-sale investments within Level 2 of the fair value hierarchy.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

The following table summarizes fair value measurements by level for the assets measured at fair value on a recurring basis for cash, cash equivalents and marketable securities:

	As of June 30, 2017				
	Adjusted cost	Gross unrealized losses	Fair value	Cash and cash equivalents	Marketable securities
Cash	$58,032	$ —	$58,032	$ 58,032	$ —
Level 1:					
Money market accounts	52,239	—	52,239	52,239	—
Level 2:					
Certificates of deposit	15,912	(15)	15,897	3,438	12,459
Corporate bonds	13,049	(18)	13,031	—	13,031
Agency mortgage-backed securities	5,015	(5)	5,010	1,002	4,008
Total	$144,247	$ (38)	$144,209	$ 114,711	$ 29,498

	As of December 31, 2016				
	Adjusted cost	Gross unrealized losses	Fair value	Cash and cash equivalents	Marketable securities
Cash	$48,533	$ —	$48,533	$ 48,533	$ —
Level 1:					
Money market accounts	39,277	—	39,277	39,277	—
Level 2:					
Certificates of deposit	15,904	(8)	15,896	5,041	10,855
Corporate bonds	10,200	(22)	10,178	—	10,178
Agency mortgage-backed securities	—	—	—	—	—
Total	$113,914	$ (30)	$113,884	$ 92,851	$ 21,033

The following table summarizes the estimated fair value of the Company's investments in marketable securities, accounted for as available-for-sale securities and classified by the contractual maturity date of the securities:

	June 30, 2017
Due within one year	$29,498

Derivative instruments and hedging activities

The Company transacts business in foreign currencies and has international sales and expenses denominated in foreign currencies, subjecting the Company to foreign currency risk. The Company has entered into foreign currency forward contracts, generally with maturities of twelve months or less, to reduce the volatility of cash flows primarily related to forecasted revenue denominated in certain foreign currencies. These contracts allow the Company to sell Euros in exchange for U.S. dollars at specified contract rates. Forward contracts are used to hedge forecasted sales over specific months. Changes in the fair value of these forward contracts designed as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within the consolidated statements of stockholders' equity and are recognized in the consolidated statements of comprehensive income during the period which approximates the time the corresponding sales occur. The Company may also enter into foreign exchange contracts that are not designated as hedging instruments for financial accounting purposes. These contracts are generally entered into to offset the gains and losses on certain asset and liability balances until the expected time of repayment. Accordingly, any gains or losses resulting from changes in the fair value of the non-designated contracts are reported in other income (expense), net in the consolidated statements of comprehensive income. The gains and losses on these contracts generally offset the gains and losses associated with the underlying foreign currency-denominated balances, which are also reported in other income (expense), net.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

The Company records the assets or liabilities associated with each derivative instrument and hedging activity at fair value based on Level 2 inputs in other current assets or other current liabilities, respectively, net in the balance sheet. The Company had a payable of $221 as of June 30, 2017 and a receivable of $15 as of December 31, 2016, respectively. The Company classifies the foreign currency derivative instruments within Level 2 in the fair value hierarchy as the valuation inputs are based on quoted prices and market observable data of similar instruments. The accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting.

The Company documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged transaction, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method used to measure ineffectiveness. The Company assesses hedge effectiveness and ineffectiveness at a minimum quarterly but may assess it monthly. For derivative instruments that are designed and qualify as part of a cash flow hedging relationship, the effective portion of the gain or loss on the derivative is reported in other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period earnings.

The Company will discontinue hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows attributable to the hedge risk. The cash flow hedge is de-designated because a forecasted transaction is not probable of occurring, or management determines to remove the designation of the cash flow hedge. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in the fair value in earnings. When it is probable that a forecasted transaction will not occur, the Company will discontinue hedge accounting and recognize immediately in earnings gains and losses that were accumulated in other comprehensive income (loss) related to the hedging relationship.

Accumulated other comprehensive income (loss)

The components of accumulated other comprehensive income (loss) were as follows:

	Foreign currency translation adjustments	Unrealized gains (losses) on available-for-sale investments	Unrealized gains (losses) on cash flow hedges	Accumulated other comprehensive income (loss)

Balance as of December 31, 2016	$ —	$ (82)	$ 47	$ (35)
Other comprehensive gain (loss)	197	58	(254)	1
Balance as of June 30, 2017	$ 197	$ (24)	$ (207)	$ (34)

4. Balance sheet components

Cash, cash equivalents, and marketable securities

The Company considers all short-term, highly liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents are recorded at cost plus accrued interest, which is considered adjusted cost, and approximates fair value. Certificates of deposit and agency mortgage-backed securities are included in cash equivalents and marketable securities based on the maturity date of the security. Short-term investments are included in marketable securities in the current period presentation.

The Company considers investments with maturities greater than three months to be marketable securities. Investments are classified as available-for-sale and are reported at fair value with unrealized gains or losses, if any, reported, net of tax, in accumulated other comprehensive income (loss). All income generated and realized gains or losses from investments are recorded to other income (expense), net on the consolidated statements of comprehensive income.

The Company reviews its investments to identify and evaluate investments that have an indication of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Credit losses and other-than-temporary impairments are declines in fair value that are not expected to recover and are charged to other income (expense), net in the

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

consolidated statements of comprehensive income. During the three and six months ended June 30, 2017 and 2016, respectively, no losses were recognized for other-than-temporary impairments. Cash, cash equivalents and marketable securities consist of the following:

Cash and cash equivalents	June 30, 2017	December 31, 2016
Cash	$58,032	$ 48,533
Money market accounts	52,239	39,277
Certificates of deposit	3,438	5,041
Agency mortgage-backed securities	1,002	—
Total cash and cash equivalents	$114,711	$ 92,851
Marketable securities		
Certificates of deposit	$12,459	$ 10,855
Corporate bonds	13,031	10,178
Agency mortgage-backed securities	4,008	—
Total marketable securities	$29,498	$ 21,033

Accounts receivable and allowance for bad debts, returns, and adjustments

Accounts receivable are customer obligations due under normal sales and rental terms. The Company performs credit evaluations of the customers' financial condition and generally does not require collateral. The allowance for doubtful accounts is maintained at a level that, in management's opinion, is adequate to absorb potential losses related to accounts receivable and is based upon the Company's continuous evaluation of the collectability of outstanding balances. Management's evaluation takes into consideration such factors as past bad debt experience, economic conditions and information about specific receivables. The Company's evaluation also considers the age and composition of the outstanding amounts in determining their net realizable value.

The allowance for doubtful accounts is based on estimates, and ultimate losses may vary from current estimates. As adjustments to these estimates become necessary, they are reported in earnings in the periods in which they become known. This allowance is increased by bad debt provisions charged to bad debt expense, net of recoveries, in operating expense and is reduced by direct write-offs.

The Company generally does not allow returns from providers for reasons not covered under its standard warranty. Therefore, provision for sales returns applies primarily to direct-to-consumer sales. This reserve is calculated based on actual historical return rates under the Company's 30-day return program and is applied to the related sales revenue for the last month of the quarter reported.

The Company also records an allowance for rental revenue adjustments, which is recorded as a reduction of rental revenue and net rental accounts receivable balances. These adjustments result from contractual adjustments, including untimely claims filings, or billings not paid due to another provider performing same or similar functions for the patient in the same period, all of which prevent billed revenue from becoming realizable. The allowance is based on historical revenue adjustments as a percentage of rental revenue billed and unbilled during the related period.

When recording the allowance for doubtful accounts, the bad debt expense account (general and administrative expense account) is charged; when recording allowance for sales returns, the sales returns account (contra sales revenue account) is charged; and when recording the allowance for rental reserve adjustments, the rental revenue adjustments account (contra rental revenue account) is charged.

As of June 30, 2017 and December 31, 2016, included in accounts receivable on the consolidated balance sheets were earned but unbilled receivables of $5,565 and $7,484, respectively. These balances reflect gross unbilled rental receivables prior to any allowances for adjustments and write-offs. The Company consistently applies its allowance estimation methodology from period-to-period. The Company’s best estimate is made on an accrual basis and adjusted in future periods as required. Any adjustments to the prior period estimates are included in the current period. As additional information becomes known, the Company adjusts its assumptions accordingly to change its estimate of the allowance.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

Gross accounts receivable balance concentrations by major category as of June 30, 2017 and December 31, 2016 were as follows:

Gross accounts receivable	June 30, 2017	December 31, 2016
Medicare	$7,361	$ 12,500
Medicaid/other government	464	617
Private insurance	1,970	3,475
Patient responsibility	3,755	3,227
Business-to-business & other receivables (1)	26,434	19,541
Total gross accounts receivable	$39,984	$ 39,360

Net accounts receivable (gross accounts receivable, net of allowances) balance concentrations by major category as of June 30, 2017 and December 31, 2016 were as follows:

Net accounts receivable	June 30, 2017	December 31, 2016
Medicare	$5,039	$ 7,208
Medicaid/other government	326	410
Private insurance	1,649	1,832
Patient responsibility	2,208	2,538
Business-to-business & other receivables (1)	25,581	18,840
Total net accounts receivable	$34,803	$ 30,828

(1) Business-to-business receivables include one single customer with an accounts receivable balance of $11,055 and $9,791, respectively, which represented more than 10% of the Company's net accounts receivable balance as of June 30, 2017 and December 31, 2016. This customer received extended payment terms through a direct financing plan offered. The Company also has a credit insurance policy in place, which allocates up to $12,000 in coverage as of June 30, 2017 and allocated up to $9,000 in coverage as of December 31, 2016 for this customer with a $1,000 deductible and 10% retention.

The following tables set forth the accounts receivable allowances as of June 30, 2017 and December 31, 2016:

Allowances - accounts receivable	June 30, 2017	December 31, 2016
Doubtful accounts	$1,552	$ 1,869
Rental revenue adjustments	2,912	6,078
Sales returns	717	585
Total allowances - accounts receivable	$5,181	$ 8,532

Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, marketable securities and accounts receivable. At times, cash account balances may be in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). However, management believes the risk of loss to be minimal. The Company performs periodic evaluations of the relative credit standing of these institutions and has not experienced any losses on its cash and cash equivalents to date. The Company has entered into hedging relationships with a single counterparty to offset a portion of the forecasted Euro based revenues. The credit risk has been reduced due to a net settlement arrangement whereby the Company is allowed to net settle transactions with a single net amount payable by one party to the other.

Concentration of customers and vendors

The Company primarily sells its products to traditional home medical equipment providers, distributors, and resellers in the United States and in foreign countries on a credit basis. The Company also sells its products direct to consumers on a primarily prepayment basis. One single customer represented more than 10% of the Company’s total revenue for the six months ended June 30, 2017, and no single customer represented more than 10% of the Company’s total revenue for the six months ended June 30, 2016. One single customer with

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

an accounts receivable balance of $11,055, represented more than 10% of the Company's net accounts receivable balance as of June 30, 2017, and one single customer with an accounts receivable balance of $9,791, represented more than 10% of the Company's net accounts receivable balance as of December 31, 2016.

The Company also rents products directly to consumers for insurance reimbursement, which resulted in a customer concentration relating to Medicare's service reimbursement programs. Medicare's service reimbursement programs accounted for 74.7% and 72.2% of rental revenue for the three months ended June 30, 2017 and June 30, 2016, respectively, and based on total revenue was 7.1% and 11.9% for the three months ended June 30, 2017 and June 30, 2016, respectively. Medicare's service reimbursement programs accounted for 74.0% and 71.8% of rental revenue for the six months ended June 30, 2017 and June 30, 2016, respectively, and based on total revenue was 8.0% and 14.1% for the six months ended June 30, 2017 and June 30, 2016, respectively. Net accounts receivable balances relating to Medicare's service reimbursement programs (including held and unbilled, net of allowances) amounted to $5,039 or 14.5% of total net accounts receivable as of June 30, 2017 as compared to $7,208, or 23.4% of total net accounts receivable as of December 31, 2016.

The Company currently purchases raw materials from a limited number of vendors, which resulted in a concentration of three major vendors. The three major vendors supply the Company with raw materials used to manufacture the Company's products. For the six months ended June 30, 2017, the Company's three major vendors accounted for 18.6%, 14.6%, and 9.8%, respectively, of total raw material purchases. For the six months ended June 30, 2016, the Company's three major vendors accounted for 21.9%, 13.6% and 7.7%, respectively, of total raw material purchases.

A portion of revenue is earned from sales outside the United States. Approximately 75.4% and 69.1% of the non-U.S. revenue for the three months ended June 30, 2017 and June 30, 2016, respectively, were invoiced in Euros. Approximately 73.9% and 69.2% of the non-U.S. revenue for the six months ended June 30, 2017 and June 30, 2016, respectively, were invoiced in Euros. A breakdown of the Company's revenue from U.S. and non-U.S. sources for the three months and six months ended June 30, 2017 and June 30, 2016 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
U.S. revenue	$49,202	$41,469	$90,279	$74,493
Non-U.S. revenue	14,919	13,098	26,342	23,063
Total revenue	$64,121	$54,567	$116,621	$97,556

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using a standard cost method, including material, labor and manufacturing overhead, whereby the standard costs are updated at least quarterly to reflect approximate actual costs using the first-in, first-out (FIFO) method. The Company records adjustments at least quarterly to inventory for potentially excess, obsolete, slow-moving or impaired items. The Company recorded noncurrent inventories related to inventories that are expected to be realized or consumed after one year of $397 and $314 as of June 30, 2017 and December 31, 2016, respectively. Noncurrent inventories are primarily related to raw materials purchased to support long-term expected repairs in bulk-purchases to reduce costs and are classified in other assets. Inventories that are considered current consist of the following:

	June 30, 2017	December 31, 2016
Raw materials and work-in-progress	$ 13,090	$ 12,382
Finished goods	3,061	2,152
Less: reserves	(231)	(191)
Inventories	$ 15,920	$ 14,343

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

Property and equipment

Property and equipment are stated at cost. Depreciation and amortization are calculated using the straight-line method over the assets’ estimated useful lives as follows:

Rental equipment	1.5-5 years
Manufacturing equipment and tooling	2-5 years
Computer equipment and software	2-3 years
Furniture and equipment	3-5 years
Leasehold improvements	Lesser of estimated useful life or remaining lease term

Expenditures for additions, improvements and replacements are capitalized and depreciated or amortized to a salvage value of $0. Repair and maintenance costs on rental equipment are included in cost of rental revenue on the consolidated statements of comprehensive income. Repair and maintenance expense, which includes labor, parts and freight, for rental equipment was $694 and $746 for the three months ended June 30, 2017 and June 30, 2016, respectively, and $1,345 and $1,433 for the six months ended June 30, 2017 and June 30, 2016, respectively.

Included within property and equipment is construction in process, primarily related to the design and engineering of tooling, jigs and other machinery. In addition, this item also includes computer software or development costs that have been purchased, but have not completed the final configuration process for implementation into the Company’s systems. These items have not been placed in service; therefore, no depreciation or amortization was recognized for these items in the respective periods.

Depreciation and amortization expense related to property and equipment and rental equipment are summarized below for the three and six months ended June 30, 2017 and June 30, 2016, respectively.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Rental equipment	$2,522	$2,908	$5,211	$5,855
Other property and equipment	470	496	958	974
Total depreciation and amortization	$2,992	$3,404	$6,169	$6,829

Property and equipment and rental equipment with associated accumulated depreciation are summarized below for June 30, 2017 and December 31, 2016, respectively.

Property and equipment	June 30, 2017	December 31, 2016
Rental equipment, net of allowances of $690 and $725, respectively	$52,183	$ 54,582
Other property and equipment	13,664	12,633
Property and equipment	65,847	67,215
Accumulated depreciation		
Rental equipment	34,890	33,937
Other property and equipment	8,996	8,079
Accumulated depreciation	43,886	42,016
Net property and equipment		
Rental equipment, net of allowances of $690 and $725, respectively	17,293	20,645
Other property and equipment	4,668	4,554
Property and equipment, net	$21,961	$ 25,199

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

Long-lived assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with ASC 360-Property, Plant, and Equipment. In accordance with ASC 360, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying value of long-lived assets to determine whether or not impairment to such value has occurred. No impairments were recorded during the three months or six months ended June 30, 2017 and June 30, 2016.

Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2017 were as follows:

Balance as of December 31, 2016	$—
Acquisition	2,154
Foreign currency translation	99
Balance as of June 30, 2017	$2,253

Intangible assets

There were no impairments recorded related to the Company's intangible assets during the three months or six months ended June 30, 2017 and June 30, 2016. Amortization expense for intangible assets for the three months ended June 30, 2017 and June 30, 2016 was $125 and $22, respectively, and for the six months ended June 30, 2017 and June 30, 2016 was $152 and $45, respectively.

The following tables represent the net carrying values of intangible assets as of the respective dates:

June 30, 2017	Average estimated useful lives (in years)	Gross carrying amount	Accumulated amortization	Net amount
Licenses	10	$ 185	$ 128	$ 57
Patents and websites	5	873	824	49
Customer relationships	4	1,370	88	1,282
Non-compete agreement	3	228	14	214
Commercials	2-3	287	205	82
Total		$ 2,943	$ 1,259	$ 1,684

December 31, 2016	Average estimated useful lives (in years)	Gross carrying amount	Accumulated amortization	Net amount
Licenses	10	$ 185	$ 118	$ 67
Patents and websites	5	873	810	63
Commercials	2-3	287	176	111
Total		$ 1,345	$ 1,104	$ 241

Annual estimated amortization expense for intangibles for each of the succeeding fiscal years is summarized as follows:

	June 30, 2017
Remaining 6 months of 2017	$ 225
2018	505
2019	452
2020	377
2021	121
Thereafter	4
	$ 1,684

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

Accounts payable and accrued expenses

Accounts payable and accrued expenses as of June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017	December 31, 2016
Accounts payable	$11,990	$ 5,738
Accrued inventory (in-transit and unvouchered receipts) and trade payables	6,397	4,290
Accrued purchasing card liability	2,081	1,760
Accrued franchise, sales and use taxes	404	281
Other accrued expenses	1,109	726
Accounts payable and accrued expenses	$21,981	$ 12,795

5. Earnings per share

Earnings per share (EPS) is computed in accordance with ASC 260—Earnings per Share, and is calculated using the weighted-average number of common shares outstanding during each period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents (which can include dilution of outstanding stock options and restricted stock units) unless the effect is to reduce a loss or increase the income per share. For purposes of this calculation, common stock subject to repurchase by the Company, options are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive.

Basic earnings per share is calculated using the Company's weighted-average outstanding common shares. Diluted earnings per share is calculated using the Company's weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method.

The computation of EPS is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016

Numerator—basic and diluted:				
Net income	$8,338	$7,492	$14,270	$10,013
Denominator:				
Weighted-average common shares - basic common stock	20,622,320	19,972,395	20,556,293	19,900,032
Weighted-average common shares - diluted common stock	21,848,359	20,997,429	21,731,592	20,931,802
Net income per share - basic common stock	$0.40	$0.38	$0.69	$0.50
Net income per share - diluted common stock	$0.38	$0.36	$0.66	$0.48
Denominator calculation from basic to diluted:				
Weighted-average common shares - basic common stock	20,622,320	19,972,395	20,556,293	19,900,032
Stock options and other dilutive awards	1,226,039	1,025,034	1,175,299	1,031,770
Weighted-average common shares - diluted common stock	21,848,359	20,997,429	21,731,592	20,931,802
Shares excluded from diluted weighted-average shares:				
Stock options	64,498	1,322,551	69,498	1,381,834
Restricted stock units	—	—	5,700	—
Shares excluded from diluted weighted-average shares	64,498	1,322,551	75,198	1,381,834

The computations of diluted net income attributable to common stockholders excluded common stock options and restricted stock units which were anti-dilutive for the three months and six months ended June 30, 2017 and June 30, 2016, respectively.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

6. Income taxes

The Company accounts for income taxes in accordance with ASC 740—Income Taxes. Under ASC 740, income taxes are recognized for the amount of taxes payable or refundable for the current period and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company's consolidated financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax asset will not be realized.

The Company accounts for uncertainties in income tax in accordance with ASC 740-10—Accounting for Uncertainty in Income Taxes. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This accounting standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company recognizes interest and penalties on taxes, if any, within its income tax provision on its consolidated statements of comprehensive income. No significant interest or penalties were recognized during the periods presented.

The Company operates in multiple states domestically and as a result of the acquisition of MedSupport, the Company now has operations in the Netherlands. The statute of limitations has expired for all tax years prior to 2012 for federal jurisdictions and the Netherlands, and 2011 to 2012 for various state tax jurisdictions. However, the net operating loss generated on the Company's federal and state tax returns in prior years may be subject to adjustments by the federal and state tax authorities.

The Company determined the income tax provision for interim periods using an estimate of the Company's annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the Company updates its estimated annual effective tax rate, and if the estimated annual effective tax rate changes, a cumulative adjustment is recorded in that quarter. The Company's quarterly income tax provision and quarterly estimate of the annual effective tax rate are subject to volatility due to several factors, including our ability to accurately predict the proportion of our income (loss) before provision for income taxes in multiple jurisdictions, the tax effects of our stock-based compensation, and the effects of its acquisition and the integration of that acquisition.

7. Stockholders' equity

The Company has a 2012 Equity Incentive Plan (2012 Plan) under which the Company granted options to purchase shares of its common stock. As of June 30, 2017, options to purchase 352,744 shares of common stock remained outstanding under the 2012 Plan. The 2012 Plan was terminated in connection with the Company’s initial public offering in February 2014, and accordingly, no new options are available for issuance under this plan. The 2012 Plan continues to govern outstanding awards granted thereunder.

The Company has a 2002 Stock Incentive Plan (2002 Plan) as amended, under which the Company granted options to purchase shares of its common stock. As of June 30, 2017, options to purchase 96,472 shares of common stock remained outstanding under the 2002 Plan. The 2002 Plan was terminated in March 2012 in connection with the adoption of the 2012 Plan, and, accordingly, no new options are available for issuance under this plan. The 2002 Plan continues to govern outstanding awards granted thereunder.

The Company’s board of directors adopted and its stockholders approved a 2014 Equity Incentive Plan (2014 Plan) effective immediately prior to the effectiveness of its initial public offering. The 2014 Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to the Company’s employees and any parent and subsidiary corporation’s employees, and for the grant of nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to its employees, directors and consultants and its parent and subsidiary corporations’ employees and consultants.

As of June 30, 2017, awards to purchase 1,605,920 shares of the Company’s common stock were outstanding, and 1,242,013 shares of common stock remained available for issuance under the 2014 Plan. The shares available for issuance under the 2014 Plan will be increased by any shares returned to the 2002 Plan, 2012 Plan and the 2014 Plan as a result of expiration or termination of awards (provided that the maximum number of shares that may be added to the 2014 Plan pursuant to such previously granted awards under the 2002 Plan and 2012 Plan is 2,328,569 shares). The number of shares available for issuance under the 2014 Plan also is increased annually on the first day of each fiscal year by an amount equal to the least of:

- 895,346 shares;

21

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

(amounts in thousands, except share and per share amounts)

- 4% of the outstanding shares of common stock as of the last day of the Company's immediately preceding fiscal year; or
- such other amount as the Company's board of directors may determine.

For 2017, an additional 815,594 shares were added to the 2014 Plan share reserve pursuant to the provision described above.

Stock options

Options typically expire between seven and ten years from the date of grant and vest over one to four-year terms. Options have been granted to employees, directors and consultants of the Company, as determined by the board of directors, at the deemed fair market value of the shares underlying the options at the date of grant.

The activity for stock options under the Company's stock plans is as follows:

	Options	Price per share	Weighted-average exercise price	Remaining weighted-average contractual terms (in years)	Per share average intrinsic value
Outstanding as of December 31, 2016	2,355,527	$0.60-$58.95	$ 28.22	5.42	$ 38.95
Granted	64,498	83.30	83.30		
Exercised	(308,132)	0.60-56.72	21.68		
Forfeited	(62,424)	24.52-58.95	43.75		
Expired	(33)	8.70	8.70		
Outstanding as of June 30, 2017	2,049,436	0.60-83.30	30.47	5.07	64.95
Vested and exercisable as of June 30, 2017	1,106,535	0.60-83.30	21.62	4.83	73.80
Vested and expected to vest as of June 30, 2017	1,984,249	$0.60-$83.30	$ 30.18	5.06	$