

**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 March 31, 2019

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**

(State or other jurisdiction of  
incorporation or organization)

**326 Bollay Drive**

**Goleta, CA**

(Address of principal executive offices)

**33-0989359**

(I.R.S. Employer  
Identification No.)

**93117**

(Zip Code)

Registrant's telephone number, including area code: (805) 562-0500

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	INGN	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

As of April 30, 2019, the registrant had 21,929,157 shares of common stock, par value \$0.001, outstanding.

## TABLE OF CONTENTS

	<u>Page</u>
<b><u>Part I – Financial Information</u></b>	
Item 1. <a href="#">Financial Statements</a>	3
<a href="#">Consolidated Balance Sheets as of March 31, 2019 (unaudited) and December 31, 2018</a>	3
<a href="#">Consolidated Statements of Comprehensive Income (unaudited) for the Three Months Ended March 31, 2019 and March 31, 2018</a>	5
<a href="#">Consolidated Statements of Stockholders' Equity (unaudited) for the Three Months Ended March 31, 2019 and March 31, 2018</a>	6
<a href="#">Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2019 and March 31, 2018</a>	7
<a href="#">Condensed Notes to the Consolidated Financial Statements (unaudited)</a>	9
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	30
Item 3. <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	48
Item 4. <a href="#">Controls and Procedures</a>	49
<b><u>Part II – Other Information</u></b>	
Item 1. <a href="#">Legal Proceedings</a>	50
Item 1A. <a href="#">Risk Factors</a>	50
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	80
Item 3. <a href="#">Defaults Upon Senior Securities</a>	80
Item 4. <a href="#">Mine Safety Disclosures</a>	80
Item 5. <a href="#">Other Information</a>	80
Item 6. <a href="#">Exhibits</a>	81
<a href="#">SIGNATURES</a>	82

INOGEN, INC.  
PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**Inogen, Inc.**  
**Consolidated Balance Sheets**  
*(amounts in thousands)*

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	<i>(unaudited)</i>	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 190,236	\$ 196,634
Marketable securities	49,011	43,715
Accounts receivable, net	41,525	37,041
Inventories, net	28,820	27,071
Deferred cost of revenue	346	359
Income tax receivable	2,555	2,655
Prepaid expenses and other current assets	9,263	7,108
Total current assets	<u>321,756</u>	<u>314,583</u>
<b>Property and equipment</b>		
Rental equipment, net	41,996	43,038
Manufacturing equipment and tooling	7,469	7,338
Computer equipment and software	6,701	6,153
Furniture and equipment	1,463	1,445
Leasehold improvements	3,521	3,407
Land and building	125	125
Construction in process	3,432	3,128
Total property and equipment	64,707	64,634
Less accumulated depreciation	(42,709)	(42,293)
<b>Property and equipment, net</b>	<u>21,998</u>	<u>22,341</u>
<b>Goodwill</b>	2,212	2,257
<b>Intangible assets, net</b>	3,411	3,755
<b>Operating lease right-of-use asset</b>	5,936	—
<b>Deferred tax asset - noncurrent</b>	29,296	30,130
<b>Other assets</b>	3,586	2,832
<b>Total assets</b>	<u>\$ 388,195</u>	<u>\$ 375,898</u>

See accompanying condensed notes to the consolidated financial statements.

**Inogen, Inc.**  
**Consolidated Balance Sheets (continued)**  
*(amounts in thousands, except share and per share amounts)*

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	<i>(unaudited)</i>	
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 24,731	\$ 26,786
Accrued payroll	7,832	11,407
Warranty reserve - current	3,734	3,549
Operating lease liability	2,061	—
Deferred revenue - current	5,283	4,451
Income tax payable	111	392
<b>Total current liabilities</b>	<u>43,752</u>	<u>46,585</u>
<b>Long-term liabilities</b>		
Warranty reserve - noncurrent	6,023	5,981
Operating lease liability - noncurrent	4,920	—
Deferred revenue - noncurrent	11,379	11,844
Deferred tax liability - noncurrent	227	232
Other noncurrent liabilities	—	832
<b>Total liabilities</b>	<u>66,301</u>	<u>65,474</u>
<b>Commitments and contingencies (Note 9)</b>		
<b>Stockholders' equity</b>		
Common stock, \$0.001 par value per share; 200,000,000 authorized; 21,931,342 and 21,778,632 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	22	22
Additional paid-in capital	255,226	249,194
<b>Retained earnings</b>	65,786	60,484
<b>Accumulated other comprehensive income</b>	860	724
	<u>321,894</u>	<u>310,424</u>
<b>Total stockholders' equity</b>		
<b>Total liabilities and stockholders' equity</b>	<u>\$ 388,195</u>	<u>\$ 375,898</u>

See accompanying condensed notes to the consolidated financial statements.

**Inogen, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

	Three months ended	
	March 31,	
	2019	2018
<b>Revenue</b>		
Sales revenue	\$ 84,818	\$ 73,584
Rental revenue	5,384	5,467
<b>Total revenue</b>	90,202	79,051
<b>Cost of revenue</b>		
Cost of sales revenue	42,067	36,948
Cost of rental revenue, including depreciation of \$1,705 and \$2,165, respectively	3,726	4,376
<b>Total cost of revenue</b>	45,793	41,324
<b>Gross profit</b>		
Gross profit-sales revenue	42,751	36,636
Gross profit-rental revenue	1,658	1,091
<b>Total gross profit</b>	44,409	37,727
<b>Operating expense</b>		
Research and development	1,669	1,416
Sales and marketing	28,201	18,038
General and administrative	9,681	9,573
<b>Total operating expense</b>	39,551	29,027
<b>Income from operations</b>	4,858	8,700
<b>Other income (expense)</b>		
Interest income	1,334	543
Other income (expense)	(120)	444
<b>Total other income, net</b>	1,214	987
<b>Income before provision (benefit) for income taxes</b>	6,072	9,687
<b>Provision (benefit) for income taxes</b>	770	(1,071)
<b>Net income</b>	5,302	10,758
<b>Other comprehensive income (loss), net of tax</b>		
Change in foreign currency translation adjustment	(137)	108
Change in net unrealized gains (losses) on foreign currency hedging	84	(249)
Less: reclassification adjustment for net (gains) losses included in net income	176	172
Total net change in unrealized gains (losses) on foreign currency hedging	260	(77)
Change in net unrealized gains (losses) on marketable securities	13	(19)
<b>Total other comprehensive income, net of tax</b>	136	12
<b>Comprehensive income</b>	\$ 5,438	\$ 10,770
<b>Basic net income per share attributable to common stockholders (Note 6)</b>	\$ 0.24	\$ 0.51
<b>Diluted net income per share attributable to common stockholders (Note 6)</b>	\$ 0.24	\$ 0.48
<b>Weighted-average number of shares used in calculating net income per share attributable to common stockholders:</b>		
Basic common shares	21,750,305	21,026,154
Diluted common shares	22,534,885	22,295,213

See accompanying condensed notes to the consolidated financial statements.

**Inogen, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
*(amounts in thousands, except share amounts)*

	Three months ended March 31, 2019 and March 31, 2018					
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total stockholders' equity
	Shares	Amount				
<b>Balance, December 31, 2017</b>	20,976,350	\$ 21	\$ 218,109	\$ 8,639	\$ 272	\$ 227,041
Stock-based compensation	—	—	3,381	—	—	3,381
Employee stock purchases	12,013	—	988	—	—	988
Restricted stock awards issued	53,052	—	—	—	—	—
Vesting of restricted stock units	6,206	—	—	—	—	—
Shares withheld related to net restricted stock settlement	(2,553)	—	(302)	—	—	(302)
Stock options exercised	169,594	—	4,459	—	—	4,459
Net income	—	—	—	10,758	—	10,758
Other comprehensive income	—	—	—	—	12	12
<b>Balance, March 31, 2018 (unaudited)</b>	<u>21,214,662</u>	<u>\$ 21</u>	<u>\$ 226,635</u>	<u>\$ 19,397</u>	<u>\$ 284</u>	<u>\$ 246,337</u>
<b>Balance, December 31, 2018</b>	21,778,632	\$ 22	\$ 249,194	\$ 60,484	\$ 724	\$ 310,424
Stock-based compensation	—	—	3,586	—	—	3,586
Employee stock purchases	16,767	—	1,525	—	—	1,525
Restricted stock awards issued	66,944	—	—	—	—	—
Vesting of restricted stock units	11,265	—	(59)	—	—	(59)
Shares withheld related to net restricted stock settlement	(12,045)	—	(655)	—	—	(655)
Stock options exercised	69,779	—	1,635	—	—	1,635
Net income	—	—	—	5,302	—	5,302
Other comprehensive income	—	—	—	—	136	136
<b>Balance, March 31, 2019 (unaudited)</b>	<u>21,931,342</u>	<u>\$ 22</u>	<u>\$ 255,226</u>	<u>\$ 65,786</u>	<u>\$ 860</u>	<u>\$ 321,894</u>

See accompanying condensed notes to the consolidated financial statements.

**Inogen, Inc.**  
**Consolidated Statements of Cash Flows**  
**(unaudited)**  
*(amounts in thousands)*

	<b>Three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 5,302	\$ 10,758
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,794	2,993
Loss on rental units and other fixed assets	171	284
Gain on sale of former rental assets	(21)	(401)
Provision for sales revenue returns and doubtful accounts	4,428	4,920
Provision for rental revenue adjustments	590	719
Provision for inventory losses	456	73
Stock-based compensation expense	3,586	3,381
Deferred income taxes	834	(1,798)
Changes in operating assets and liabilities:		
Accounts receivable	(9,517)	(9,206)
Inventories	(2,897)	(4,327)
Deferred cost of revenue	13	26
Income tax receivable	100	726
Prepaid expenses and other current assets	(2,156)	(1,192)
Operating lease right-of-use asset	(5,936)	—
Other noncurrent assets	(491)	—
Accounts payable and accrued expenses	(1,974)	3,928
Accrued payroll	(3,572)	(274)
Warranty reserve	227	1,074
Deferred revenue	367	608
Income tax payable	(277)	(36)
Operating lease liability	6,981	—
Other noncurrent liabilities	(832)	(16)
Net cash provided by (used in) operating activities	<u>(1,824)</u>	<u>12,240</u>
<b>Cash flows from investing activities</b>		
Purchases of marketable securities	(19,033)	(11,565)
Maturities of marketable securities	13,750	8,525
Investment in property and equipment	(933)	(2,075)
Production and purchase of rental equipment	(781)	(1,447)
Proceeds from sale of former assets	49	573
Net cash used in investing activities	<u>(6,948)</u>	<u>(5,989)</u>

*(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)*

	<b>Three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from financing activities</b>		
Proceeds from stock options exercised	1,635	4,459
Proceeds from employee stock purchases	1,525	988
Payment of employment taxes related to release of restricted stock	(714)	(302)
Net cash provided by financing activities	2,446	5,145
Effect of exchange rates on cash	(72)	(65)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(6,398)</b>	<b>11,331</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>196,634</b>	<b>142,953</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 190,236</b>	<b>\$ 154,284</b>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid (received) during the period for income taxes, net of refunds received	\$ 214	\$ (14)
<b>Supplemental disclosure of non-cash transactions</b>		
Property and equipment in accounts payable and accrued liabilities	\$ 194	\$ 93

*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 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.

Since adopting the Company's direct-to-consumer rental strategy in 2009, the Company has directly sold or rented more than 619,000 of its Inogen oxygen concentrators as of March 31, 2019.

The Company incorporated Inogen Europe Holding B.V., a Dutch limited liability company, on April 13, 2017. On May 4, 2017, Inogen Europe Holding B.V. acquired all issued and outstanding capital stock of MedSupport Systems B.V. (MedSupport) and began operating under the name Inogen Europe B.V. The Company merged Inogen Europe Holding B.V. and Inogen Europe B.V. on December 28, 2018. Inogen Europe B.V. is the remaining legal entity.

**2. Basis of presentation and summary of significant accounting policies**

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The accompanying consolidated financial statements should be read in conjunction with the consolidated 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 26, 2019. 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 26, 2019.

***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 and determining the stand-alone selling price (SSP) of performance obligations, inventory and rental asset valuations and write-downs, accounts receivable allowances for bad debts, returns and adjustments, warranty expense, 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.

***Leases***

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, operating lease liability, and operating lease liability - noncurrent on the consolidated balance sheets.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments as the rate implicit in each lease is generally not readily determinable. The operating lease ROU asset also includes any lease payments made to the lessor at or before the commencement date and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components. The Company elected the practical expedient to treat the lease and non-lease components as a single lease component. Additionally, the Company elected the practical expedient to not record leases with an initial term of 12 months or less on the consolidated balance sheets.

**Revenue**

The Company generates revenue primarily from sales and rentals of its products. The Company's products consist of its proprietary line of oxygen concentrators and related accessories. Other revenue, which is included in sales revenue on the Statements of Comprehensive Income, primarily comes from service contracts, replacement parts and freight revenue for product shipments.

*Sales revenue*

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Revenue from product sales is generally recognized upon shipment of the product but is deferred for certain transactions when control has not yet transferred to the customer.

The Company's product is generally sold with a right of return and the Company may provide other incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and incentives are estimated at the time sales revenue is recognized. The provisions for estimated returns are made based on known claims and estimates of additional returns based on historical data and future expectations. Sales revenue incentives within the Company's contracts are estimated based on the most likely amounts expected on the related sales transaction and recorded as a reduction to revenue at the time of sale in accordance with the terms of the contract. Accordingly, revenue is recognized net of allowances for estimated returns and incentives.

The Company also offers a lifetime warranty for direct-to-consumer sales of its portable oxygen concentrators. For a fixed price, the Company agrees to provide a fully functional portable oxygen concentrator for the remaining life of the patient. Lifetime warranties are only offered to patients upon the initial sale of portable oxygen concentrators directly from the Company and are non-transferable. Lifetime warranties are considered to be a distinct performance obligation that are accounted for separately from its sale of portable oxygen concentrators with a standard warranty of three years.

The revenue is allocated to the distinct lifetime warranty performance obligation based on a relative SSP method. The Company has vendor-specific objective evidence of the selling price for its equipment. To determine the selling price of the lifetime warranty, the Company uses its best estimate of the SSP for the distinct performance obligation as the lifetime warranty is neither separately priced nor is the selling price available through third-party evidence. To calculate the selling price associated with the lifetime warranties, management considers the profit margins of service revenue, the average estimated cost of lifetime warranties and the price of extended warranties. Revenue from the distinct lifetime warranty is deferred after the delivery of the equipment and recognized based on an estimated mortality rate over five years, which is the estimated performance period of the contract based on the average patient life expectancy.

Revenue from the sale of the Company's repair services is recognized when the performance obligations are satisfied and collection of the receivables is probable. Other revenue from sale of replacement parts is generally recognized when product is shipped to customers.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

Freight revenue consists of fees associated with the deployment of products internationally and domestically when expedited freight options are requested or when minimum order quantities are not met. Freight revenue is generally recognized upon shipment of the product but is deferred if control has not yet transferred to the customer. Shipping and handling costs for sold products and rental assets shipped to the Company's customers are included on the consolidated statements of comprehensive income as part of cost of sales revenue and cost of rental revenue, respectively.

The payment terms and conditions of customer contracts vary by customer type and the products and services offered. For certain products or services and customer types, the Company requires payment before the products or services are delivered to the customer. The timing of sales revenue recognition, billing and cash collection results in billed accounts receivable and deferred revenue in the consolidated balance sheet.

Contract liabilities primarily consist of deferred revenue related to lifetime warranties on direct-to-consumer sales revenue when cash payments are received in advance of services performed under the contract. The contract with the customer states the final terms of the sale, including the description, quantity, and price of each product or service purchase. The increase in deferred revenue related to lifetime warranties for the three months ended March 31, 2019 was primarily driven by \$2,416 of payments received in advance of satisfying performance obligations, partially offset by \$1,995 of revenues recognized that were included in the deferred revenue balances as of December 31, 2018. Deferred revenue related to lifetime warranties was \$15,295 and \$14,874 as of March 31, 2019 and December 31, 2018, respectively, and is classified within deferred revenue – current and noncurrent deferred revenue in the consolidated balance sheet.

The Company elected to apply the practical expedient in accordance with Accounting Standards Codification (ASC) 606—*Revenue Recognition* and did not evaluate contracts of one year or less for the existence of a significant financing component. The Company does not expect any revenue to be recognized over a multi-year period with the exception of revenue related to lifetime warranties.

The Company's sales revenue is primarily derived from the sale of its Inogen One systems, Inogen At Home systems, and related accessories to individual consumers, home medical equipment providers, distributors, the Company's private label partner and resellers worldwide. Sales revenue is classified into two areas: business-to-business sales and direct-to-consumer sales. The following table sets forth the Company's sales revenue disaggregated by sales channel and geographic region:

<b>Revenue by region and category</b>	<b>Three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Business-to-business domestic sales	\$ 26,061	\$ 28,016
Business-to-business international sales	19,803	16,906
Direct-to-consumer domestic sales	38,954	28,662
Total sales revenue	<u>\$ 84,818</u>	<u>\$ 73,584</u>

*Rental revenue*

The Company recognizes equipment rental revenue over the non-cancelable lease term, which is one month, less estimated adjustments, in accordance with ASC 842—*Leases*. The Company has separate contracts with each patient that are not subject to a master lease agreement with any third-party payor. The Company evaluates the individual lease contracts at lease inception and the start of each monthly renewal period to determine if it is reasonably certain that the monthly renewal option and the bargain renewal option associated with the potential capped free rental period would be exercised. Historically, the exercise of the monthly renewal and bargain renewal option is not reasonably certain at lease inception and at most subsequent monthly lease renewal periods. If the Company determines that the reasonably certain threshold for an individual patient is met at lease inception or at a monthly lease renewal period, such determination would impact the bargain renewal period for an individual lease. The Company would first consider the lease classification issue (sales-type lease or operating lease) and then appropriately recognize or defer rental revenue over the lease term, which may include a portion of the capped rental period. The Company deferred \$0 associated with the capped rental period as of March 31, 2019 and December 31, 2018.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

The lease term begins on the date products are shipped to patients and are recorded at amounts estimated to be received under reimbursement arrangements with third-party payors, including Medicare, private payors, and Medicaid. Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application, claim denial or account review. The Company adjusts revenue for historical trends on revenue adjustments due to timely filings, deaths, hospice, bad debt and other types of analyzable adjustments on a monthly basis to record rental revenue at the expected collectible amounts. Accounts receivable are reduced by an allowance for doubtful accounts which provides for those accounts from which payment is not expected to be received although product was delivered, and revenue was earned. The determination that an account is uncollectible, and the ultimate write-off of that account occurs once collection is considered to be highly unlikely, and it is written-off and charged to the allowance at that time. Amounts billed but not earned due to the timing of the billing cycle are deferred and recognized in revenue on a straight-line basis over the monthly billing period. For example, if the first day of the billing period does not fall on the first of the month, then a portion of the monthly billing period will fall in the subsequent month and the related revenue and cost would be deferred based on the service days in the following month.

The lease agreements generally contain lease and non-lease components. Non-lease components primarily include payments for supplies. The Company elected the practical expedient to treat the lease and non-lease components as a single lease component.

Rental revenue is recognized as earned, less estimated adjustments. Revenue not billed at the end of the period is reviewed for the likelihood of collections and accrued. The rental revenue stream is not guaranteed and payment will cease if the patient no longer needs oxygen or returns the equipment. Revenue recognized is at full estimated allowable amounts; transfers to secondary insurances or patient responsibility have no net effect on revenue. Rental revenue is earned for that entire month if the patient is on service on the first day of the 30-day period commencing on the recurring date of service for a particular claim, regardless if there is a change in condition or death after that date.

Included in rental revenue are unbilled amounts for which the revenue recognition criteria had been met as of period-end but were not yet billed to the payor. The estimate of net unbilled rental revenue recognized is based on historical trends and estimates of future collectability. In addition, the Company estimates potential future adjustments and write-offs of these unbilled amounts and includes these estimates in the allowance for adjustments and write-offs of rental revenue which is netted against gross receivables.

***Recently issued accounting pronouncements not yet adopted***

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Accounting for Credit Losses (Topic 326)*. The new standard requires the use of an "expected loss" model on certain types of financial instruments. The standard also amends the impairment model for available-for-sale debt securities and requires estimated credit losses to be recorded as allowances instead of reductions to amortized cost of the securities. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years, with early adoption permitted. The Company is evaluating 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.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The new guidance modifies the disclosure requirements on fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. While the Company continues to evaluate the effect of adopting this guidance, the Company expects the fair value disclosures related to marketable securities, as disclosed in Note 3 – Fair value of financial instruments, will be subject to the new standard.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

***Recently adopted accounting pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance requires organizations that lease assets—referred to as “lessees”—to recognize on the consolidated balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than twelve months. The Company adopted the standard using the modified retrospective transition method at the adoption date of January 1, 2019 that does not require restatement of its comparative periods presented, allows it to apply the standard as of the adoption date and record a cumulative adjustment in retained earnings. As permitted under the transition guidance, the Company carried forward the assessment of whether the Company’s contracts contain or are leases, classification of the Company’s leases and remaining lease terms. The Company elected the practical expedients to not record leases with an initial term of 12 months or less on the consolidated balance sheet and to not separate lease and non-lease components for all of its leases as the non-lease components are not significant to the overall lease costs. The Company recognized approximately \$6,400 of operating lease right-of-use assets and operating lease liabilities on the consolidated balance sheets upon adoption on January 1, 2019. The Company also recognizes equipment rental revenue over the non-cancelable lease term, which is one month, less estimated adjustments, in accordance with Topic 842, effective January 1, 2019. The impact on rental revenue as a result of the adoption did not have a material impact on the Company’s consolidated financial presentation or results. There was no cumulative adjustments recorded to retained earnings as a result of the adoption.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging*, which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results, in order to better align an entity’s risk management activities and financial reporting for hedging relationships. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The Company adopted this standard on January 1, 2019 and adoption of this standard did not have a material impact on the Company’s consolidated financial statement presentation or results.

In January 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The new guidance permits entities the option to reclassify tax effects that are stranded in accumulated other comprehensive income as a result of the implementation of the Tax Cuts and Jobs Act to retained earnings. The Company adopted this standard on January 1, 2019 using the beginning of the period of adoption method and adoption of this standard did not have a material impact on the Company’s consolidated financial statement presentation or results.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The new guidance modifies the accounting for nonemployee share-based payments. The Company adopted this standard on January 1, 2019 and adoption of this standard did not have a material impact on the Company’s consolidated financial statement presentation or results.

In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*, which is an amendment to ASU No. 2016-13 that clarifies the scope of the guidance. The amendment clarifies that receivables arising from operating leases are not within the scope of ASU No. 2016-13 and impairment of receivables arising from operating leases should be accounted for in accordance with ASU No. 2016-02. As a result, the bad debt expense account associated with the rental revenue allowance for doubtful account is charged to rental revenue instead of general and administrative expense upon adoption. This change results in decreased rental revenue and decreased operating expense. The Company adopted the standard using the modified retrospective transition method at the adoption date of January 1, 2019 that does not require restatement of its comparative periods presented. The adoption of this reclassification did not have a material impact on the Company’s consolidated financial statement presentation or results.

***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 a consolidated basis to the Company’s chief operating decision maker.

**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 its financial instruments approximate fair value based on their short-term nature.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

***Fair value accounting***

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 marketable securities 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 March 31, 2019				
	Adjusted cost	Gross unrealized gains	Fair value	Cash and cash equivalents	Marketable securities
Cash	\$ 19,300	\$ —	\$ 19,300	\$ 19,300	\$ —
Level 1:					
Money market accounts	170,181	—	170,181	170,181	—
Level 2:					
Corporate bonds	10,064	1	10,065	—	10,065
U.S. Treasury securities	39,685	16	39,701	755	38,946
Total	<u>\$ 239,230</u>	<u>\$ 17</u>	<u>\$ 239,247</u>	<u>\$ 190,236</u>	<u>\$ 49,011</u>
	As of December 31, 2018				
	Adjusted cost	Gross unrealized gains (losses)	Fair value	Cash and cash equivalents	Marketable securities
Cash	\$ 33,671	\$ —	\$ 33,671	\$ 33,671	\$ —
Level 1:					
Money market accounts	158,438	—	158,438	158,438	—
Level 2:					
Corporate bonds	13,629	(16)	13,613	—	13,613
U.S. Treasury securities	34,620	7	34,627	4,525	30,102
Total	<u>\$ 240,358</u>	<u>\$ (9)</u>	<u>\$ 240,349</u>	<u>\$ 196,634</u>	<u>\$ 43,715</u>

The following table summarizes the estimated fair value of the Company's investments in marketable securities, classified by the contractual maturity date of the securities:

	March 31, 2019
Due within one year	\$ 49,011

***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 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 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 derivative instruments and hedging activities at fair value based on Level 2 inputs in other current assets or other current liabilities, respectively, in the consolidated balance sheet. The Company had a related receivable of \$862 and a receivable of \$472 as of March 31, 2019 and December 31, 2018, 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 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 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:

	<b>Foreign currency translation adjustments</b>	<b>Unrealized gains on marketable securities</b>	<b>Unrealized gains on cash flow hedges</b>	<b>Accumulated other comprehensive income</b>
Balance as of December 31, 2018	\$ 394	\$ —	\$ 330	\$ 724
Other comprehensive gain (loss)	(137)	13	260	136
Balance as of March 31, 2019	<u>\$ 257</u>	<u>\$ 13</u>	<u>\$ 590</u>	<u>\$ 860</u>

Comprehensive income (loss) is the total net earnings and all other non-owner changes in equity. Except for net income and unrealized gains and losses on cash flow hedges, the Company does not have any transactions or other economic events that qualify as comprehensive income (loss).

**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. The Company's marketable debt securities are classified and accounted for as available-for-sale. Cash equivalents are recorded at cost plus accrued interest, which is considered adjusted cost, and approximates fair value. Marketable debt 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, but less than one year, to be marketable securities. Investments are reported at fair value with realized and unrealized gains or losses 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 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. Cash, cash equivalents, and marketable securities consist of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Cash and cash equivalents</b>		
Cash	\$ 19,300	\$ 33,671
Money market accounts	170,181	158,438
U.S. Treasury securities	755	4,525
Total cash and cash equivalents	<u>\$ 190,236</u>	<u>\$ 196,634</u>
<b>Marketable securities</b>		
Corporate bonds	\$ 10,065	\$ 13,613
U.S. Treasury securities	38,946	30,102
Total marketable securities	<u>\$ 49,011</u>	<u>\$ 43,715</u>

***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 general and administrative expense for sales revenue and as a reduction of rental revenue in the periods in which they become known. The allowance is increased by bad debt provisions, net of recoveries, 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 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, audit adjustments, 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 reserve 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 for sales revenue, 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 allowances for rental reserve adjustments and doubtful accounts, the rental revenue adjustments account (contra rental revenue account) is charged. Prior to the adoption of ASC 842, the Company separately recorded an allowance for doubtful accounts by charging bad debt expense, which is now recorded as part of rental revenue adjustments during the three months ended March 31, 2019.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

As of March 31, 2019 and December 31, 2018, included in accounts receivable on the consolidated balance sheets were earned but unbilled receivables of \$560 and \$589, respectively. These balances reflect gross unbilled 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.

Gross accounts receivable balance concentrations by major category as of March 31, 2019 and December 31, 2018 were as follows:

<b>Gross accounts receivable</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Rental (1)	\$ 3,791	\$ 3,406
Business-to-business and other receivables (2)	39,802	35,656
Total gross accounts receivable	\$ 43,593	\$ 39,062

Net accounts receivable (gross accounts receivable, net of allowances) balance concentrations by major category as of March 31, 2019 and December 31, 2018 were as follows:

<b>Net accounts receivable</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Rental (1)	\$ 2,910	\$ 2,413
Business-to-business and other receivables (2)	38,615	34,628
Total net accounts receivable	\$ 41,525	\$ 37,041

- (1) Rental includes Medicare, Medicaid/other government, private insurance and patient pay.
- (2) Business-to-business receivables included one customer with a gross accounts receivable balance of \$18,615 and \$16,198 as of March 31, 2019 and December 31, 2018, respectively. This customer received extended payment terms through a direct financing plan offered. The Company also has a credit insurance policy in place, which allocated up to \$20,000 in coverage as of March 31, 2019 and allocated up to \$18,000 in coverage as of December 31, 2018 for this customer with a \$400 deductible and 10% retention.

The following tables set forth the accounts receivable allowances as of March 31, 2019 and December 31, 2018:

<b>Allowances - accounts receivable</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Doubtful accounts (1)	\$ 424	\$ 693
Rental revenue adjustments (1)	548	438
Sales returns	1,096	890
Total allowances - accounts receivable	\$ 2,068	\$ 2,021

- (1) Prior to the adoption of ASC 842, the Company separately recorded an allowance for doubtful accounts by charging bad debt expense. Upon adoption of ASC 842, such balances are recorded as part of rental revenue adjustments to report rental revenue at an expected collectible amount.

**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 also entered into hedging relationships with a single counterparty to offset 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.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

**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. No single customer represented more than 10% of the Company's total revenue for the three months ended March 31, 2019, and one single customer represented more than 10% of the Company's total revenue for the three months ended March 31, 2018. One single customer represented more than 10% of the Company's net accounts receivable balance with an accounts receivable balance of \$18,615 as of March 31, 2019, and two customers with accounts receivable balances of \$16,198 and \$4,155, respectively, each represented more than 10% of the Company's net accounts receivable balance as of December 31, 2018.

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 three months ended March 31, 2019, the Company's three major vendors accounted for 20.6%, 11.6%, and 11.4%, respectively, of total raw material purchases. For the three months ended March 31, 2018, the Company's three major vendors accounted for 18.5%, 15.1% and 12.0%, respectively, of total raw material purchases.

A portion of revenue is earned from sales outside the United States. Approximately 72.5% of the non-U.S. revenue for the three months ended March 31, 2019 was invoiced in Euros. A breakdown of the Company's revenue from U.S. and non-U.S. sources for the three months ended March 31, 2019 and March 31, 2018 is as follows:

	Three months ended	
	March 31,	
	2019	2018
U.S. revenue	\$ 70,399	\$ 62,145
Non-U.S. revenue	19,803	16,906
Total revenue	<u>\$ 90,202</u>	<u>\$ 79,051</u>

**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 inventory related to inventories that are expected to be realized or consumed after one year of \$1,348 and \$1,085 as of March 31, 2019 and December 31, 2018, respectively. Noncurrent inventories are primarily related to raw materials purchased in bulk to support long-term expected repairs to reduce costs and are classified in other assets. Inventories that are considered current consist of the following:

	March 31, 2019	December 31, 2018
Raw materials and work-in-progress	\$ 26,162	\$ 24,980
Finished goods	3,398	2,756
Less: reserves	(740)	(665)
Inventories	<u>\$ 28,820</u>	<u>\$ 27,071</u>

**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	3-5 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

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

Expenditures for additions, improvements and replacements are capitalized and depreciated 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 \$662 and \$560 for the three months ended March 31, 2019 and March 31, 2018, 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 rental equipment and other property and equipment are summarized below for the three months ended March 31, 2019 and March 31, 2018, respectively.

	Three months ended	
	March 31,	
	2019	2018
Rental equipment	\$ 1,705	\$ 2,165
Other property and equipment	761	530
Total depreciation and amortization	<u>\$ 2,466</u>	<u>\$ 2,695</u>

Property and equipment and rental equipment with associated accumulated depreciation is summarized below as of March 31, 2019 and December 31, 2018, respectively.

	March 31,	December 31,
	2019	2018
<b>Property and equipment</b>		
Rental equipment, net of allowances of \$524 and \$594, respectively	\$ 41,996	\$ 43,038
Other property and equipment	22,711	21,596
Property and equipment	<u>64,707</u>	<u>64,634</u>
<b>Accumulated depreciation</b>		
Rental equipment	31,475	31,813
Other property and equipment	11,234	10,480
Accumulated depreciation	<u>42,709</u>	<u>42,293</u>
<b>Property and equipment, net</b>		
Rental equipment, net of allowances of \$524 and \$594, respectively	10,521	11,225
Other property and equipment	11,477	11,116
Property and equipment, net	<u>\$ 21,998</u>	<u>\$ 22,341</u>

**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 as of March 31, 2019 and March 31, 2018.

**Goodwill**

The changes in the carrying amount of goodwill for the three months ended March 31, 2019 were as follows:

Balance as of December 31, 2018	\$ 2,257
Translation adjustment	(45)
Balance as of March 31, 2019	<u>\$ 2,212</u>

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

**Intangible assets**

There were no impairments recorded related to the Company's intangible assets as of March 31, 2019 and March 31, 2018. Amortization expense for intangible assets for the three months ended March 31, 2019 and March 31, 2018 was \$328 and \$298, respectively.

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

<b>March 31, 2019</b>	<b>Average estimated useful lives (in years)</b>	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net amount</b>
Licenses	10	\$ 185	\$ 158	\$ 27
Patents and websites	5	4,164	1,808	2,356
Customer relationships	4	1,346	645	701
Non-compete agreement	2.3	224	182	42
Commercials	2-3	633	348	285
Total		<u>\$ 6,552</u>	<u>\$ 3,141</u>	<u>\$ 3,411</u>

<b>December 31, 2018</b>	<b>Average estimated useful lives (in years)</b>	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net amount</b>
Licenses	10	\$ 185	\$ 155	\$ 30
Patents and websites	5	4,164	1,640	2,524
Customer relationships	4	1,373	572	801
Non-compete agreement	2.3	229	154	75
Commercials	2-3	633	308	325
Total		<u>\$ 6,584</u>	<u>\$ 2,829</u>	<u>\$ 3,755</u>

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

	<b>March 31, 2019</b>
Remaining 9 months of 2019	\$ 899
2020	1,125
2021	842
2022	545
2023	—
Thereafter	—
	<u>\$ 3,411</u>

**Current liabilities**

Accounts payable and accrued expenses as of March 31, 2019 and December 31, 2018 consisted of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Accounts payable	\$ 14,499	\$ 13,720
Accrued inventory (in-transit and unvouchered receipts) and trade payables	7,060	9,597
Accrued purchasing card liability	1,738	2,089
Accrued franchise, sales and use taxes	584	518
Other accrued expenses	850	862
Accounts payable and accrued expenses	<u>\$ 24,731</u>	<u>\$ 26,786</u>

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

Accrued payroll as of March 31, 2019 and December 31, 2018 consisted of the following:

	March 31, 2019	December 31, 2018
Accrued bonuses	\$ 754	\$ 4,780
Accrued wages and other payroll related items	4,515	3,494
Accrued vacation	2,124	1,959
Accrued employee stock purchase plan deductions	439	1,174
Accrued payroll	<u>\$ 7,832</u>	<u>\$ 11,407</u>

**5. Leases**

The Company has entered into operating leases primarily for commercial buildings. These leases have terms which range from 2 years to 8 years, some of which include options to extend the leases for up to 5 years. There are no economic penalties for the Company to extend the lease, and it is not reasonably assured that the Company will exercise the extension options. Based on the present value of the lease payments for the remaining lease term of the Company's existing leases, the Company recognized operating lease right-of-use assets and operating lease liabilities of \$6,418 on January 1, 2019. Operating lease right-of-use assets and liabilities commencing after January 1, 2019 are recognized at commencement date based on the present value of lease payments over the lease term. The operating leases do not contain material residual value guarantees or material restrictive covenants.

As a result of the MedSupport acquisition, the Company leases a property owned by a related party. Operating lease cost for the property was \$8 for the three months ended March 31, 2019, which is included in the total operating lease cost.

Information related to the Company's right-of-use assets and related operating lease liabilities were as follows:

	Three months ended March 31, 2019
Cash paid for operating lease liabilities	\$ 576
Operating lease cost	544
Non-cash right-of-use assets obtained in exchange for new operating lease obligations	6,418
Weighted-average remaining lease term	3.1 years
Weighted-average discount rate	3.8 %

**Maturities of lease liabilities due in the 12 month period ending March 31,**

2020	\$ 2,289
2021	1,750
2022	1,246
2023	937
2024	902
Thereafter	453
	<u>7,577</u>
Less imputed interest	(596)
	<u>Total lease liabilities \$ 6,981</u>
Current operating lease liabilities	\$ 2,061
Operating lease liabilities - noncurrent	4,920
	<u>Total lease liabilities \$ 6,981</u>

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

**6. 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, restricted stock units and restricted stock awards) 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, and other dilutive awards 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 March 31,	
	2019	2018
<b>Numerator—basic and diluted:</b>		
Net income	\$ 5,302	\$ 10,758
<b>Denominator:</b>		
Weighted-average common shares - basic common stock(1)	21,750,305	21,026,154
Weighted-average common shares - diluted common stock	22,534,885	22,295,213
Net income per share - basic common stock	\$ 0.24	\$ 0.51
Net income per share - diluted common stock	\$ 0.24	\$ 0.48
<b>Denominator calculation from basic to diluted:</b>		
Weighted-average common shares - basic common stock(1)	21,750,305	21,026,154
Stock options and other dilutive awards	784,580	1,269,059
Weighted-average common shares - diluted common stock	22,534,885	22,295,213
<b>Shares excluded from diluted weighted-average shares:</b>		
Stock options	—	—
Restricted stock units and restricted stock awards	119,378	75,926
Shares excluded from diluted weighted-average shares	119,378	75,926

- (1) Unvested restricted stock units and restricted stock awards are not included as shares outstanding in the calculation of basic earnings per share. Vested restricted stock units and restricted stock awards are included in basic earnings per share if all vesting and performance criteria have been met. Performance-based restricted stock units and restricted stock awards are included in the number of shares used to calculate diluted earnings per share as long as all applicable performance criteria are met, and their effect is dilutive. Restricted stock awards are eligible to receive all dividends declared on the Company's common shares during the vesting period; however, such dividends are not paid until the restrictions lapse.

The computations of diluted net income attributable to common stockholders exclude common stock options, restricted stock units, and restricted stock awards, which were anti-dilutive for the three months ended March 31, 2019 and March 31, 2018.

**7. 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.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

The Company operates in several taxing jurisdictions, including U.S. federal, multiple U.S. states and the Netherlands. The statute of limitations has expired for all tax years prior to 2015 for federal and 2014 to 2015 for various state tax purposes. 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 foreign entity.

#### **8. Stockholders' equity**

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 March 31, 2019, options to purchase 2,018 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 has a 2012 Equity Incentive Plan (2012 Plan) under which the Company granted options to purchase shares of its common stock. As of March 31, 2019, options to purchase 142,786 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 2014 Equity Incentive Plan (2014 Plan) that 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, restricted stock awards, 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 March 31, 2019, awards with respect to 1,085,122 shares of the Company's common stock were outstanding, and 1,842,662 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;
- 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 2019, no additional 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.



**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

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, 2018	1,127,336	\$0.75-\$83.30	\$ 34.89	3.84	\$ 89.28
Granted	—	—	—		
Exercised	(69,779)	0.75-58.95	23.44		
Forfeited	(20,959)	38.54-44.19	43.07		
Expired	—	—	—		
Outstanding as of March 31, 2019	<u>1,036,598</u>	<u>0.75-83.30</u>	<u>35.50</u>	<u>3.60</u>	<u>59.87</u>
Vested and exercisable as of March 31, 2019	851,973	0.75-83.30	33.65	3.51	61.72
Vested and expected to vest as of March 31, 2019	1,024,590	\$0.75-\$83.30	\$ 35.40	3.59	\$ 59.97

The total intrinsic value of options exercised during the three months ended March 31, 2019 and March 31, 2018 was \$6,733 and \$16,113, respectively. The unrecognized compensation expense related to non-vested stock-based compensation granted under the Plans as of March 31, 2019 was \$2,657.

**Stock incentive awards**

The Company grants restricted stock units (RSUs) and restricted stock awards (RSAs) under the 2014 Plan (Stock Awards). The Stock Awards vest either based solely on the satisfaction of time-based service conditions or on the satisfaction of time-based service conditions combined with performance criteria. Stock Awards are subject to forfeiture if the holder's services to the Company terminate before vesting.

Stock Awards granted with only time-based service vesting conditions generally vest over a four-year service period, as defined in the terms of each award. Stock Awards that vest based on the satisfaction of time-based service conditions combined with performance criteria generally vest over a three-year service and performance period, based on performance criteria established at the time of the award. The portion of the Stock Award that is earned may equal or be less than the targeted number of shares subject to the Stock Award depending on whether the performance criteria are met.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

Stock Awards activity for the three months ended March 31, 2019 are summarized below:

Restricted stock units	Time-based	Performance	Total	Weighted- average grant date fair value per share
		and time-based		
Unvested restricted stock units outstanding as of December 31, 2018	58,589	8,739	67,328	\$ 115.16
Granted	34,870	—	34,870	106.97
Vested	(7,453)	(4,366)	(11,819)	103.71
Forfeited/canceled	(54)	—	(54)	91.52
Unvested restricted stock units outstanding as of March 31, 2019 <sup>(1)</sup>	<u>85,952</u>	<u>4,373</u>	<u>90,325</u>	\$ 113.51
Unvested and expected to vest restricted stock units outstanding as of March 31, 2019			<u>85,159</u>	\$ 113.82

Restricted stock awards	Time-based	Performance	Total	Weighted- average grant date fair value per share
		and time-based		
Unvested restricted stock awards outstanding as of December 31, 2018	36,937	47,821	84,758	\$ 115.80
Granted	26,778	40,166	66,944	106.97
Vested	(6,319)	(15,732)	(22,051)	115.73
Forfeited/canceled	(2,079)	(3,839)	(5,918)	100.62
Unvested restricted stock awards outstanding as of March 31, 2019 <sup>(1)</sup>	<u>55,317</u>	<u>68,416</u>	<u>123,733</u>	\$ 112.15
Unvested and expected to vest restricted stock awards outstanding as of March 31, 2019			<u>92,218</u>	\$ 112.18

(1) Outstanding restricted stock units and restricted stock awards are based on the maximum payout of the targeted number of shares.

As of March 31, 2019, the unrecognized compensation cost related to unvested employee restricted stock units and restricted stock awards was \$17,069, excluding estimated forfeitures. This amount is expected to be recognized over a weighted-average period of 2.9 years.

***Employee stock purchase plan***

The Company's 2014 Employee Stock Purchase Plan (ESPP) provides for the grant to all eligible employees an option to purchase stock under the ESPP, within the meaning Section 423 of the Internal Revenue Code. The ESPP permits participants to purchase common stock through payroll deductions of up to 15% of their eligible compensation, which includes a participant's base straight time gross earnings, incentive compensation, bonuses, overtime and shift premium, but exclusive of payments for equity compensation and other similar compensation. A participant may purchase a maximum of 1,500 shares during a purchase period. Amounts deducted and accumulated by the participant are used to purchase shares of the Company's common stock at the end of each six-month period. The purchase price of the shares will be 85% of the lower of the fair market value of the Company's common stock on the first trading day of each offering period or on the exercise date. The offering periods are currently approximately six months in length beginning on the first business day on or after March 1 and September 1 of each year and ending on the first business day on or after September 1 and March 1 approximately six months later.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

As of March 31, 2019, a total of 729,681 shares of common stock were available for sale pursuant to the ESPP.

The number of shares available for sale under the ESPP is increased annually on the first day of each fiscal year by an amount equal to the least of:

- 179,069 shares;
- 1.5% of the outstanding shares of the Company's common stock on the last day of the Company's immediately preceding fiscal year; or
- such other amount as may be determined by the administrator.

For 2019, no additional shares were added to the ESPP share reserve pursuant to the provision described above.

***Stock-based compensation***

Stock-based compensation expense recognized for the three months ended March 31, 2019 and March 31, 2018 was as follows:

	Three months ended March 31,	
	2019	2018
Stock-based compensation expense by type of award:		
Stock option plan awards	\$ 1,147	\$ 1,951
Restricted stock units and restricted stock awards	2,257	1,239
Employee stock purchase plan	182	191
<b>Total stock-based compensation expense</b>	<b>\$ 3,586</b>	<b>\$ 3,381</b>

Employee stock-based compensation expense was calculated based on awards of stock options, restricted stock units and restricted stock awards ultimately expected to vest based on the Company's historical award cancellations. The employee stock-based compensation expense recognized for the three months ended March 31, 2019 and March 31, 2018 has been reduced for estimated forfeitures of stock option plan awards at a rate of 7.3% in both periods. ASC 718 – *Compensation-Stock Compensation* requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

For the three months ended March 31, 2019 and March 31, 2018, stock-based compensation expense recognized under ASC 718, included in cost of revenues, sales and marketing expense, general and administrative expense, and research and development expense was as follows:

	Three months ended March 31,	
	2019	2018
Cost of revenue	\$ 285	\$ 273
Research and development	377	331
Sales and marketing	690	548
General and administrative	2,234	2,229
<b>Total stock-based compensation expense</b>	<b>\$ 3,586</b>	<b>\$ 3,381</b>

***401(k) retirement savings plan***

The Company maintains a 401(k) retirement savings plan for the benefit of eligible employees. Under the terms of this plan, eligible employees are able to make contributions to the plan on a tax-deferred basis. The Company began matching employees' contributions, effective January 1, 2017. The Company contributed \$318, net of forfeitures, to the 401(k) plan for the three months ended March 31, 2019 and \$230, net of forfeitures, for the three months ended March 31, 2018.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

**9. Commitments and contingencies**

***Non-cancelable contractual obligations***

The Company enters into non-cancelable contractual obligations for software licenses and maintenance agreements. As of March 31, 2019, the minimum aggregate payments due under specified non-cancelable contractual obligations are summarized as follows:

	<b>Non-cancelable contractual obligations</b>
Remaining 9 months of 2019	\$ 433
2020	578
2021	457
2022	—
2023	—
Thereafter	—
	<u>\$ 1,468</u>

***Purchase obligations***

The Company had approximately \$61,000 of outstanding purchase orders with its outside vendors and suppliers as of March 31, 2019.

***Warranty obligations***

The following table identifies the changes in the Company's aggregate product warranty liabilities for the three and twelve-month periods ended March 31, 2019 and December 31, 2018, respectively:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Product warranty liability at beginning of period	\$ 9,530	\$ 6,171
Accruals for warranties issued	1,821	7,693
Adjustments related to preexisting warranties (including changes in estimates)	(275)	90
Settlements made (in cash or in kind)	(1,319)	(4,424)
Product warranty liability at end of period	<u>\$ 9,757</u>	<u>\$ 9,530</u>

***Legislation and HIPAA***

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in exclusion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance in all material respects with applicable fraud and abuse regulations and other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) ensures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act (HITECH Act) imposes notification requirements of certain security breaches relating to protected health information. The Company believes it complies in all material respects with the provisions of those regulations that are applicable to the Company's business.

**Inogen, Inc.**  
**Condensed Notes to the Consolidated Financial Statements (continued)**  
**(unaudited)**  
*(amounts in thousands, except share and per share amounts)*

***Legal proceedings***

The Company is party to various legal proceedings arising in the normal course of business. The Company carries insurance, subject to specified deductibles under the policies, to protect against losses from certain types of legal claims. At this time, the Company does not anticipate that any of these other proceedings will have a material adverse effect on the Company's business. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, and other factors.

***Securities class action lawsuits***

On March 6, 2019, plaintiff William Fabbri filed a lawsuit against Inogen, Scott Wilkinson, and Alison Bauerlein, in the United States District Court for the Central District of California on behalf of a purported class of purchasers of the Company's securities between November 8, 2017 and February 26, 2019. On March 21, 2019, plaintiff Steven Friedland filed a substantially similar lawsuit against the same defendants in the same court. The complaints generally allege that the defendants failed to disclose that: (i) Inogen had overstated the true size of the total addressable market for its portable oxygen concentrators and had misstated the basis for its calculation of the total addressable market; (ii) Inogen had falsely attributed its sales growth to the strong sales acumen of its salesforce, rather than to deceptive sales practices; (iii) the growth in Inogen's domestic business-to-business sales to home medical equipment providers was inflated, unsustainable and was eroding direct-to-consumer sales; and (iv) very little of Inogen's business was coming from the Medicare market. The complaints seek compensatory damages in an unspecified amount, costs and expenses, including attorneys' fees and expert fees, prejudgment and post-judgment interest and such other relief as the court deems proper. The Company intends to vigorously defend itself against these allegations.

**10. Foreign currency exchange contracts and hedging**

As of March 31, 2019 and March 31, 2018, the Company's total non-designated and designated derivative contracts had notional amounts totaling approximately \$2,369 and \$16,072, respectively, and \$2,397 and \$17,885, respectively. These contracts were comprised of offsetting contracts with the same counterparty, each expires within one to six months. During the three months ended March 31, 2019 and March 31, 2018, these contracts had, net of tax, an unrealized gain of \$260 and an unrealized loss of \$77, respectively.

The nonperformance risk of the Company and the counterparty did not have a material impact on the fair value of the derivatives. During the three months ended March 31, 2019 and March 31, 2018, there were no ineffective portions relating to these hedges and the hedges remained effective through their respective settlement dates. As of March 31, 2019, the Company had twenty-two designated hedges and three non-designated hedges. As of March 31, 2018, the Company had twenty-six designated hedges and three non-designated hedges.

## Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

The following discussion and analysis should be read together with our consolidated financial statements and the condensed notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are based on our management’s beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in the section entitled “Risk Factors” and this Management’s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements include, but are not limited to, statements concerning the following:

- information concerning our possible or assumed future cash flow, revenue, sources of revenue and results of operations, operating and other expenses;
- our assessment and expectations regarding reimbursement rates, future rounds of competitive bidding, and future changes in rental revenue;
- our expectations regarding regulatory approvals and government and third-party payor coverage and reimbursement;
- our ability to develop new products, improve our existing products and increase the value of our products;
- our expectations regarding Inogen Capital;
- our expectations regarding the timing of new products and product improvement launches, as well as product features and specifications;
- market share expectations, unit sales, business strategies, financing plans, expansion of our business, competitive position, industry environment, and potential growth opportunities;
- our expectations regarding the market size, market growth and the growth potential for our business;
- our ability to sustain and manage growth, including our ability to develop new products and enter new markets;
- our expectations regarding the average selling price and manufacturing costs of our products, including our expectations to continue to reduce average unit costs for our systems;
- our expectation to expand our sales and marketing channels, including through efforts to focus on improving the productivity of our sales team, changing our rental intake criteria, creating a separate rental sales team, and expanding our advertising campaigns;
- our expectations with respect to our European and U.S. facilities and our expectations with respect to our contract manufacturer in Europe;
- our expectations regarding tariffs being imposed by the United States on certain imported Chinese materials and products;
- our ability to successfully acquire and integrate companies and assets;
- our expectations regarding the impact and implementation of trade regulations on our supply chain;
- our expectations regarding excess tax benefits from stock-based compensation;
- our expectations of future accounting pronouncements or changes in our accounting policies;
- our assessments and estimates of our effective tax rate;
- our internal control environment;
- the effects of seasonal trends on our results of operations and estimated hiring plans;
- our expectations regarding the manufacturing ramp-up, domestic and international launch expectations, and market acceptance of our Inogen One G5 portable oxygen concentrator;
- our expectation that our existing capital resources and the cash to be generated from expected product sales and rentals will be sufficient to meet our projected operating and investing requirements for at least the next twelve months; and
- the effects of competition.

Forward-looking statements include statements that are not historical facts and can be identified by terms such as “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would,” or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in Part II, Item 1A, "Risk Factors," elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

This Quarterly Report on Form 10-Q also contains estimates, projections and other information concerning our industry, our business, and the markets for certain diseases, including data regarding the estimated size of those markets, and the incidence and prevalence of certain medical conditions. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained this industry, business, market and other data from reports, research surveys, studies and similar data prepared by market research firms and other third parties, industry, medical and general publications, government data and similar sources.

"Inogen," "Inogen One," "Inogen One G2," "Inogen One G3," "G4," "G5," "Oxygenation," "Live Life in Moments, not Minutes," "Never Run Out of Oxygen," "Oxygen Therapy on Your Terms," "Oxygen.Anytime.Anywhere," "Reclaim Your Independence," "Intelligent Delivery Technology," "Inogen At Home," and the Inogen design are registered and/or pending trademarks with the United States Patent and Trademark Office of Inogen, Inc. We own trademark registrations for the mark "Inogen" in Australia, Canada, South Korea, Mexico, Europe (European Union Registration), Japan, New Zealand, and Turkey. We own pending applications for the mark "Inogen" in Argentina, Brazil, China, Columbia, Ecuador, Iceland, India, Israel, Norway, Singapore, and Switzerland. We own a trademark registration for the mark "□□□□" in Japan. We own trademark applications for the marks "□□□" and "□□□" in China. We own trademark registrations for the mark "Inogen One" in Australia, Canada, China, South Korea, Mexico, and Europe (European Union Registration). We own a trademark registration for the mark "Satellite Conserver" in Canada. We own a trademark registration for the mark "Inogen At Home" in Europe (European Union Registration). We own trademark registrations for the mark "G4" in Europe (European Union Registration) and the United Kingdom. We own trademark applications for the Inogen design in Bolivia and China. Other service marks, trademarks, and trade names referred to in this Quarterly Report on Form 10-Q are the property of their respective owners.

In this Quarterly Report on Form 10-Q, "we," "us" and "our" refer to Inogen, Inc. and its subsidiaries.

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and the accompanying condensed notes to those statements included elsewhere in this document. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q.

#### **Critical accounting policies and significant estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with U.S. GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates and such differences could be material to the financial position and results of operations.

There have been no material changes in our critical accounting policies and estimates in the preparation of our consolidated financial statements during the three months ended March 31, 2019 compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on February 26, 2019.

## Overview

We are 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. Long-term oxygen therapy is defined as the provision of oxygen therapy for use at home in patients who have chronic low blood oxygen levels (hypoxemia). Traditionally, these patients have relied on stationary oxygen concentrator systems for use in the home and oxygen tanks or cylinders for mobile use, which we call 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. Our 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 as little as approximately 2.8 pounds with a single battery. We believe our 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.

In May 2004, we received 510(k) clearance from the U.S. Food and Drug Administration, or the FDA, for our Inogen One portable oxygen concentrator. From our launch of the Inogen One in 2004, through 2008, we derived our revenue almost exclusively from sales to healthcare providers and distributors. In December 2008, we acquired Comfort Life Medical Supply, LLC in order to secure access to the Medicare rental market and began accepting Medicare reimbursement for our oxygen solutions in certain states. At the time of the acquisition, Comfort Life Medical Supply, LLC had an active Medicare billing number but few other assets and limited business activities. In January 2009, following the acquisition of Comfort Life Medical Supply, LLC, we initiated our direct-to-consumer rental strategy and began renting Inogen One systems directly to patients and building our Medicare rental business in the United States. In April 2009, we became a Durable, Medical Equipment, Prosthetics, Orthotics, and Supplies accredited Medicare supplier by the Accreditation Commission for Health Care. We believe we were the first oxygen therapy manufacturer to employ a direct-to-consumer marketing strategy, meaning we advertise directly to patients, process their physician paperwork, and provide clinical support as needed, which we believe has contributed to our market leadership position in the portable oxygen concentrator market. While other manufacturers have also begun direct-to-consumer marketing campaigns to drive patient sales, we believe we are the only portable oxygen concentrator manufacturer that employs a direct-to-consumer rental strategy in the United States, meaning we bill Medicare or insurance on their behalf.

We derive the majority of our revenue from the sale and rental of our Inogen One systems and related accessories to patients, insurance carriers, home healthcare providers and distributors, including our private label partner. We sell multiple configurations of our Inogen One and Inogen At Home systems with various batteries, accessories, warranties, power cords and language settings. We also rent our products to Medicare beneficiaries and patients with other insurance coverage to support their long-term oxygen needs as prescribed by a physician as part of a care plan. Our goal is to design, build and market oxygen solutions that redefine how long-term oxygen therapy is delivered. To accomplish this goal and to grow our revenue, we intend to:

- *Expand our domestic sales and marketing channels.* During the year ended December 31, 2018, we increased our inside sales representatives to 446 from 263 as of December 31, 2017 in support of our direct-to-consumer domestic sales. We also opened a new facility in Cleveland, Ohio in the third quarter of 2017. In that facility, we had 333 employees as of December 31, 2018. We plan to slow down the addition of new sales representative hires and focus on improving the productivity of our sales team, while also creating a separate rental team who will focus exclusively on new rental additions to drive overall sales productivity. We believe we will see increased productivity of our sales representatives throughout 2019, which is expected to increase our direct-to-consumer sales while also reducing our overall cost per sale despite increased marketing spend. While we plan to slightly change our rental intake criteria to increase net rental patient additions, since rental reimbursement revenue is recognized monthly, compared to the mostly immediate revenue recognition of direct-to-consumer sales, we don't expect a meaningful rental revenue benefit from increasing new rental setups until next year and beyond. While we expect rental revenue to take time to ramp, we believe we can improve our close rate and lead usage by slightly altering our intake criteria for rental patients. Historically our billable months threshold was high, which limited the number of patients we accepted through insurance. Going forward, we plan to lower this monthly threshold to improve sales representative productivity and lead usage. In focusing more on rentals, this could have an adverse impact on near term sales revenue in the US, but we believe it will lead to increased marketing conversion rates and increased portable oxygen concentrator adoption. We are also focused on building our domestic business-to-business partnerships, including relationships with distributors, key accounts, resellers, our private label partner, and traditional home medical equipment (HME) providers. We also launched Inogen Capital, an HME-focused financing program, in the fourth quarter of 2018, which we believe will support HME providers in securing financing to help convert their businesses to a non-delivery portable oxygen concentrator business model. Inogen Capital is financed through a third party to provide direct lease financing between the third party and our HME customer with no recourse obligation to us for events of default. We believe Inogen Capital will be a valuable tool for smaller homecare providers that have historically been capital constrained.



- Invest in our product offerings to develop innovative products* We expended \$1.7 million and \$1.4 million for the three months ended March 31, 2019 and March 31, 2018, respectively, in research and development expenses, and we intend to continue to make such investments in the foreseeable future. We launched our fifth-generation portable oxygen concentrator, the Inogen One G5, in April 2019 in our direct-to-consumer channel, and we expect to launch the product in our business-to-business channels by year-end 2019. The Inogen One G5 weighs 4.7 pounds, and produces 1,260 ml per minute of oxygen output, with very quiet operation at 38 dBA and our longest battery life at 6.5 hours for a single battery and up to 13 hours for a double battery. We estimate that the Inogen One G5 is suitable for 95% of ambulatory long-term oxygen therapy patients based on our analysis of the patients who have contacted us and their clinical needs. We expect the Inogen One G5 to obsolete the Inogen One G3 over the intermediate term. At volume, we expect the Inogen One G5 to be our lowest cost product to manufacture. We launched our fourth-generation portable oxygen concentrator, the Inogen One G4, in May 2016. The Inogen One G4 weighs 2.8 pounds, versus 4.8 pounds for our Inogen One G3, and is approximately half the size of the Inogen One G3. The sound level is 40 dBA at setting 2 and it produces up to 630 ml per minute of oxygen output. The Inogen One G4 system is also less expensive to manufacture than our Inogen One G3 system. We launched Inogen Connect, our new connectivity platform on our Inogen One G4 system in the fourth quarter of 2018 in the direct-to-consumer channel and in the domestic business-to-business channel in the first quarter of 2019, and we launched Inogen Connect in our Inogen One G5 at launch of the product in the United States. Inogen Connect is compatible with Apple and Android platforms and includes patient features such as purity status, battery life, product support functions, notification alerts, and remote software updates. We believe home oxygen providers will also find features such as remote troubleshooting, equipment health checks, and location tracking to help drive operational efficiencies when transitioning away from the oxygen tank delivery model.
- Increase international business-to-business adoption.* Although our main growth opportunity remains portable oxygen concentrator adoption in the United States given the relatively low penetration rate, we are keenly aware of the large international market opportunity. In order to take advantage of these international opportunities, we have built out an infrastructure over the past few years, which includes sales in 46 international countries and a contract manufacturing partner, Foxconn, located in the Czech Republic to support European sales volumes. Further, we are also in the process of developing regulatory and sales pathways to capture opportunities in new and emerging markets. We expect to enter the Chinese market by year-end 2020. Over time, as the U.S. and European markets mature, our growth will depend on our ability to drive portable oxygen concentrator adoption in emerging markets, where limited oxygen therapy treatment exists today.

We have been developing and refining the manufacturing of our Inogen One systems since 2004. While nearly all of our manufacturing and assembly processes were originally outsourced, assembly of the compressors, sieve beds, concentrators and certain manifolds were brought in-house in order to improve quality control and reduce cost. In support of our European sales, we established a physical presence in Europe by acquiring our former distributor, MedSupport Systems B.V. (MedSupport), on May 4, 2017 and began production of our Inogen One G3 concentrators in the fourth quarter of 2017 using a contract manufacturer, Foxconn, located in the Czech Republic to improve our ability to service our European customers. We expect to maintain our assembly operations for our Inogen One concentrators and Inogen At Home concentrators at our facilities in Richardson, Texas and Goleta, California.

We also use lean manufacturing practices to maximize manufacturing efficiency. We rely on third-party manufacturers to supply several components of our Inogen One and Inogen At Home systems. We typically enter into supply agreements for these components that specify quantity and quality requirements and delivery terms. In certain cases, these agreements can be terminated by either party upon relatively short notice. We have elected to source certain key components from single sources of supply, including our batteries, motors, valves, and some molded plastic components. We believe that maintaining a single source of supply allows us to control production costs and inventory levels and to manage component quality. However, any reduction or halt in supply from one of these single-source suppliers could limit our ability to manufacture our products or devices until a replacement supplier is found and qualified.

Historically, we have generated a majority of our revenue from sales and rentals to customers in the United States. In the three months ended March 31, 2019 and March 31, 2018, approximately 21.9% and 21.4%, respectively, of our total revenue was from sales to customers outside the United States, primarily in Europe. Approximately 72.5% and 76.9% of the non-U.S. revenue for the three months ended March 31, 2019 and March 31, 2018, respectively, was invoiced in Euros with the remainder invoiced in United States dollars. We sell our products in 46 countries outside the United States through our wholly owned subsidiary, distributors or directly to large “house” accounts, which include gas companies, HME oxygen providers, and resellers. In those instances, we sell to and bill the distributor or “house” accounts directly, leaving responsibility for the patient billing, support and clinical setup to the local provider.

Our total revenue was \$90.2 million and \$79.1 million for the three months ended March 31, 2019 and March 31, 2018, respectively. The increase was primarily due to growth in sales revenue associated with the increases in direct-to-consumer and international business-to-business sales, partially offset by a decline in domestic business-to-business sales. We generated net income of \$5.3 million and \$10.8 million for the three months ended March 31, 2019 and March 31, 2018, respectively. We generated Adjusted EBITDA of \$11.1 million and \$15.5 million in the three months ended March 31, 2019 and March 31, 2018, respectively (see “Non-GAAP financial measures” for reconciliations between U.S. GAAP and non-GAAP results). As of March 31, 2019, our retained earnings were \$65.8 million.

### ***Sales revenue***

Our future financial performance will be driven in part by the growth in sales of our Inogen One systems, and, to a lesser extent, sales of batteries, other accessories, and sales of our Inogen At Home stationary oxygen concentrators. We plan to grow our system sales in the coming years through multiple strategies including: expanding our direct-to-consumer sales efforts through productivity improvements in our direct-to-consumer sales team while also creating a separate rental team who will focus exclusively on new rental additions to drive overall sales productivity, investing in consumer awareness through increased marketing efforts, expanding our sales infrastructure and efforts outside of the United States, expanding our business-to-business sales through key partnerships, and enhancing our product offerings through additional product launches. As our product offerings grow, we solicit feedback from our customers and focus our research and development efforts on continuing to improve patient preference and reduce the total cost of the product in order to further drive sales of our products. For example, in the second quarter of 2018, we completed a direct-to-consumer pricing elasticity trial which indicated that by lowering our price we can expand access to our products and increase sales volumes while also improving our total gross margin profile. Accordingly, as of June 1, 2018, we reduced the starting retail minimum advertised price for our Inogen One G3 and Inogen One G4 systems.

Our direct-to-consumer sales process involves numerous interactions with the individual patient, the physician and the physician’s staff, and includes an in-depth analysis and review of our product, the patient’s diagnosis and prescribed oxygen therapy, including procuring an oxygen prescription. The patient may consider whether to finance the product through an Inogen-approved third-party or purchase the equipment. Product is not deployed until both the prescription and payment are received. Once a full system is deployed, the patient has 30 calendar days to return the product, subject to the payment of a minimal processing and handling fee. Approximately 7-14% of consumers who purchase a system return the system during this 30-day return period.

Our business-to-business efforts are focused on selling to distributors, HME oxygen providers, our private label partner and resellers, who are based inside and outside of the United States. This process involves interactions with various key customer stakeholders including sales, purchasing, product testing, and clinical personnel. Businesses that have patient demand that can be met with our oxygen concentrator systems place purchase orders to secure product deployment. This may be influenced based on outside factors, including the result of tender offerings, changes in insurance plan coverage, business restructuring activities toward a non-delivery oxygen model, capital constraints, and overall changes in the net long-term oxygen therapy patient population. Products are shipped freight on board (FOB) Inogen dock domestically, and based on financial history and profile, businesses may either prepay or receive extended payment terms. Products are shipped both FOB Inogen dock and Delivery Duty Paid (DDP) for certain international shipments depending on the shipper used. DDP shipments are Inogen’s property until title has transferred which is upon duty being paid and delivered to the customer. As a result of these factors, product purchases can be subject to changes in demand by customers.

We sold approximately 50,400 systems in the three months ended March 31, 2019 compared to 45,400 systems for the same period in 2018. Management focuses on system sales as an indicator of current business success.

### ***Rental revenue***

Our direct-to-consumer rental process involves numerous interactions with the individual patient, the physician and the physician’s staff. The process includes an in-depth analysis and review of our product, the patient’s diagnosis and prescribed oxygen therapy, and their medical history to confirm the appropriateness of our product for the patient’s oxygen therapy and compliance with Medicare and private payor billing requirements, which often necessitates additional physician evaluation and/or testing as well as a Certificate of Medical Necessity. Once the product is deployed, the patient receives direction on product use and may receive a clinical titration from our licensed staff to confirm the product meets the patient’s medical oxygen needs prior to billing. As a result, the time from initial contact with a patient to billing can vary significantly and be up to one month or longer.

We expect rental revenue to modestly increase in 2019 as compared to 2018. We plan to add new rental patients on service in future periods through multiple strategies, including creating a rental intake team focused on adding rental patients, expanding our direct-to-consumer marketing efforts, investing in patient and physician awareness, slightly changing our intake criteria on rental patients and securing additional insurance contracts. However, insurance reimbursement rates are expected to decline. In addition, patients may come off our services due to death, a change in their condition, a change in location, a change in healthcare provider or

other factors. In each case, we maintain asset ownership and can redeploy assets as appropriate following such events. Given the length and uncertainty of our patient acquisition cycle and potential returns we have experienced in the past, and likely will experience in the future, fluctuations in our net new patient setups will occur on a period-to-period basis and we may experience negative net patient additions in future periods. At this time, we do not plan to offer our Inogen One G5 and Inogen One G4 systems to rental patients but will continue to use the Inogen One G3 system as the primary ambulatory solution deployed in our rental fleet. We plan to use the Inogen One G5 system in our rental fleet once production of the Inogen One G3 system is discontinued.

A portion of rentals include a capped rental period during which no additional reimbursement is allowed unless additional criteria are met. In this scenario, the ratio of billable patients to total patients on service is critical to maintaining rental revenue growth as patients on service increases. Medicare has noted a certain percentage of beneficiaries, approximately 25%, based on their review of Medicare claims, reach the 36<sup>th</sup> month of eligible reimbursement and enter the capped rental period. Our capped patients as a percentage of total patients on service was approximately 19.5% as of March 31, 2019 compared to approximately 16.9% as of March 31, 2018. The percentage of capped patients may fluctuate over time as new patients come on service, patients come off of service before and during the capped rental period, and existing patients enter the capped rental period.

We had approximately 26,200 and 29,600 oxygen rental patients as of March 31, 2019 and March 31, 2018, respectively. Management focuses on patients on service as a leading indicator of likely future rental revenue; however, actual rental revenue recognized is subject to a variety of other factors, including reimbursement levels by payor, patient location, the number of capped patients, write-offs for uncollectable balances, and rental revenue adjustments.

### ***Reimbursement***

We rely heavily on reimbursement from Medicare, and secondarily, from private payors, including Medicare Advantage plans, Medicaid and patients for our rental revenue. For the three months ended March 31, 2019, approximately 81.7% of our rental revenue was derived from Medicare's traditional fee-for-service reimbursement programs. The U.S. list price for our stationary oxygen rentals (HCPCS E1390) is \$260 per month and the U.S. list price for our oxygen generating portable equipment (OGPE) rentals (HCPCS E1392) is \$70 per month. The average Medicare reimbursement rates in competitive bidding areas in 2018 were \$77.03 a month for E1390 and \$36.06 a month for E1392. These are the two primary codes that we bill to Medicare and other payors for our oxygen product rentals.

Effective January 1, 2019, Medicare beneficiaries may receive durable medical equipment from any Medicare-enrolled supplier until new contracts are in effect under the next round of competitive bidding, which is not expected until January 1, 2021. Reimbursement rates between January 1, 2019 and December 31, 2020 are set at the current pricing level throughout the United States for all Medicare patients, subject to Consumer Price Index (CPI) and budget neutrality adjustments. Pricing in competitive bidding areas is subject to annual CPI adjustments beginning in 2019 until the next bidding round takes place. However, Centers for Medicare and Medicaid Services (CMS) also changed the calculation on budget neutrality to apply the offset to all oxygen and oxygen equipment classes beginning January 1, 2019 instead of previously only applying these adjustments to stationary oxygen equipment and oxygen contents. Based on these CPI and budget neutrality adjustments, effective January 1, 2019, the average Medicare reimbursement rates were reduced to \$72.92 a month for E1390 and \$35.72 a month for E1392 in these regions that were previously subject to competitive bidding. Medicare also established new payment classes for liquid oxygen equipment and high flow portable liquid oxygen contents effective January 1, 2019.

In the next round of durable medical equipment, prosthetics, orthotics and supplies (DMEPOS) competitive bidding program, there have been some revisions to the bidding methodology including the plan to implement bid surety bond requirements, lead item pricing, and setting reimbursement rates at the maximum winning bid rate instead of the median winning bid rate. In the prior round of competitive bidding, the product category where our products fell was respiratory equipment and related supplies and accessories, which included oxygen equipment, continuous positive airway pressure (CPAP) devices and respiratory assist devices (RADs) and related supplies and accessories. In the next round of bidding, oxygen and oxygen equipment is its own product category and the lead item has been established as E1390. However, due to the lead item pricing methodology based on the 2015 standard Medicare fee schedule, E1392 reimbursement rates could be reduced significantly (we estimate approximately 42%) even if E1390 reimbursement rates do not change. This would lead to combined E1390 plus E1392 reimbursement rates to decrease by approximately 15%. The bidding window is scheduled to open in July 2019 and we plan on bidding in 129 of the 130 total Competitive Bidding Areas (CBA). It is unclear how pricing will be impacted due to these new bids. We expect additional clarity on the next round of competitive bidding in July 2019 when the bidding window opens, however we don't expect contracts and pricing to be announced until 2020.

In addition to regional pricing, CMS imposed different pricing on “frontier states” and rural areas. CMS defines frontier states as states where more than 50% of the counties in the state have a population density of 6 people or less per square mile and rural states are defined as states where more than 50% of the population lives in rural areas per census data. Current frontier states include MT, ND, SD and WY; rural states include ME, MS, VT and WV; and non-contiguous United States areas include AK, HI, Guam and Puerto Rico. Effective June 1, 2018 through December 31, 2020, for frontier and rural states, frontier and rural zip codes in non-frontier/rural states and non-contiguous United States areas, the single payment amount will be 50/50 blended reimbursement rates based on an average of the pre-competitive bidding reimbursement rates and the current average reimbursement rates to account for higher servicing costs in these areas. We estimate that less than 10% of our patients are eligible to receive the higher reimbursement rates based on the geographic locations of our current patient population.

Cumulatively in previous rounds of competitive bidding, we were offered contracts for a substantial majority of CBA and product categories for which we submitted bids. Effective January 1, 2017, we believe we had access to over 85% of the Medicare oxygen therapy market based on our analysis of the 103 CBAs that we won out of the 130 total CBAs. These 130 CBAs represent approximately 59% of the market with the remaining approximately 41% of the market not subject to competitive bidding. As of January 1, 2019, we can now choose to accept Medicare oxygen patients throughout the United States. As of July 2018, we are operating in all 50 states in the U.S. We did not sell or rent to patients in Hawaii due to the licensure requirements from inception to June 2018.

We cannot guarantee that we will be offered contracts in subsequent rounds of competitive bidding. In all five rounds of competitive bidding in which we have participated, we have gained access to certain CBAs and been excluded from other CBAs.

Medicare revenue, including patient co-insurance and deductible obligations, represented 4.9% of our total revenue in the three months ended March 31, 2019.

Medicare reimbursement for oxygen rental equipment is limited to a maximum of 36 months within a 60-month service period, and the equipment remains the property of the home oxygen supplier. The supplier that billed Medicare for the 36th month of service continues to be responsible for the patient’s oxygen therapy needs for months 37 through 60, and there is generally no additional reimbursement for oxygen generating portable equipment for these later months. Medicare does not separately reimburse suppliers for oxygen tubing, cannulas and supplies that may be required for the patient. The supplier is required to keep the equipment provided in working order and in some cases, Medicare will reimburse for repair costs. At the end of the five-year useful life of the equipment, the patient may request replacement equipment and, if he or she can be re-qualified for the Medicare benefit, a new maximum 36-month payment cycle out of the next 60 months of service would begin. The supplier may not arbitrarily issue new equipment. We have analyzed the potential impact to revenue associated with patients in the capped rental period and have deferred \$0 associated with the capped rental period for the three months ended March 31, 2019 and March 31, 2018, respectively. Our capped patients as a percentage of total patients on service was approximately 19.5% as of March 31, 2019, which was higher than the capped patients as a percentage of total patients on service of approximately 16.9% as of March 31, 2018. The percentage of capped patients may fluctuate over time as new patients come on service, patients come off of service before and during the capped rental period, and existing patients enter the capped rental period.

Our obligations to service Medicare patients over the rental period include supplying working equipment that meets each patient’s oxygen needs pursuant to his/her doctor’s prescription and certificate of medical necessity form and supplying all disposables required for the patient to operate the equipment, including cannulas, filters, replacement batteries, carts and carry bags, as needed. If the equipment malfunctions, we must repair or replace the equipment. We determine what equipment the patient receives, as long as that equipment meets the physician’s prescription, and we can deploy used assets in working order as long as the prescription requirements are met. We must also procure a recertification of the certificate of medical necessity from the patient’s doctor to confirm the patient’s need for continued oxygen therapy one year after the patient first receives oxygen therapy and one year after each new 36-month reimbursement period begins. The patient can choose to receive oxygen supplies and services from another supplier at any time, but the supplier may only transition the patient to another supplier in certain circumstances.

CMS has issued a final rule to require Medicare prior authorization (PA) for certain durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) that the agency characterizes as “frequent subject to unnecessary utilization”. The final rule was published on December 30, 2015 and specified an initial master list of 135 items that could potentially be subject to PA. Initially stationary oxygen rentals (code E1390) was included on the master list, but it was later removed from the master list. On April 19, 2019, stationary oxygen rentals (E1390) was again added to the list of potential codes that could be subject to PA. The master list will be updated annually and published in the Federal Register. The presence of an item on the master list does not automatically mean that a PA is required. CMS will select a subset of these master list items for its “Required Prior Authorization List”. There will be a notice period of at least 60 days prior to implementation. The ruling does not create any new clinical documentation requirements; instead the same information necessary to support Medicare payment will be required *prior* to the item being furnished to the beneficiary. CMS has proposed that reasonable efforts are made to provide a PA decision within 10 days of receipt of all applicable information, unless this timeline could seriously jeopardize the life or health of the beneficiary or the beneficiary’s ability to regain maximum function, in which case the proposed PA decision would be 2 business days. CMS will issue additional subregulatory guidance on these timelines in the future.

On November 2, 2017, a bi-partisan bill was introduced in the House of Representatives that would provide relief from competitive bidding in non-bid areas. This bill has 158 co-sponsors as of March 31, 2019. If passed, the bill would extend a retroactive delay of a second round of reimbursement cuts for Medicare beneficiaries from January 1, 2017 to January 1, 2019 based on the reimbursement rates effective on January 1, 2016. The legislation also proposes to remedy a double-dip cut to oxygen payments caused by the misapplication of a 2006 budget neutrality offset balancing increased utilization for oxygen generating portable equipment with lower reimbursement for stationary equipment. There is no known timing on voting on this bill.

On March 11, 2019, the current presidential administration sent Congress a 2020 budget proposal that included language on competitive bidding. Specifically, the proposal would eliminate the requirement under the competitive bidding program that CMS pay a single payment amount based on the median bid price, proposing instead that CMS pay winning suppliers at their own bid amounts. Additionally, this proposal would expand competitive bidding to all areas of the country, including rural areas, which will be based on competition in those areas rather than on competition in urban areas. This specific proposal is estimated to save the government \$7.1 billion in Medicare savings and \$0.4 billion in Medicaid savings over 10 years. In addition to changes to competitive bidding, the 2020 budget proposal would enable CMS not to impose the face-to-face requirement on all providers for durable medical equipment. Furthermore, the proposal seeks to address excessive billing of durable medical equipment that requires refills or serial claims. Specifically, Medicare would gain authority to test whether using a benefits manager for serial durable medical equipment claims would result in lower improper payments and reductions in inappropriate utilization. The benefits manager would be responsible for ensuring beneficiaries were receiving the correct quantity of supplies or service for the appropriate time period. In addition, the proposal allows an administrative penalty of \$50 for Part B items/services and \$100 for Part A services on providers for ordering high-risk, high-cost items or services without proper documentation, such as diagnosis or encounter data. Lastly, the proposal would expand prior authorization to additional items and services that are both high-cost and at high-risk for improper payments. These provisions were not included in the latest omnibus budget, so it is unclear if any of these proposals will be implemented. We believe additional cuts to reimbursement would continue to drive conversion to non-delivery technologies, including portable oxygen concentrators (POC), however this could also exacerbate patient access issues for treatment.

As of March 31, 2019, we had 91 contracts with Medicaid, Medicare Advantage, and private payors. These contracts qualify us as an in-network provider for these payors. As a result, patients can rent or purchase our systems at the same patient obligation as other in-network oxygen suppliers. Based on our patient population, we believe approximately 40% of all oxygen therapy patients are covered by Medicare Advantage and other private payors. Private payors typically provide reimbursement at a rate similar to Medicare allowable for in-network plans. We anticipate that private payor reimbursement levels will generally be reset in accordance with Medicare payment amounts.

We cannot predict the full extent to which reimbursement for our products will be affected by competitive bidding, the 2019 federal budget or future federal budgets prior authorization requirements, or by initiatives to reduce costs for private payors. We believe that we are well positioned to respond to the changing reimbursement environment because our product offerings are innovative, patient-focused and cost-effective. We have historically been able to reduce our costs through scalable manufacturing, better sourcing, continuous innovation, and reliability improvements, as well as innovations that reduce our product service costs by minimizing exchanges, such as user replaceable batteries. As a result of design changes, supplier negotiations, bringing manufacturing and assembly largely in-house and our commitment to driving efficient manufacturing processes, we have reduced our overall system cost 58% from 2009 to 2018. We intend to continue to seek ways to reduce our cost of revenue through manufacturing and design improvements.

For additional discussion of the impact of the recent Medicare reimbursement proposals, see “Risk Factors” herein.

#### **Basis of presentation**

The following describes the line items set forth in our consolidated statements of comprehensive income.

#### ***Revenue***

We classify our revenue in two main categories: sales revenue and rental revenue. There will be fluctuations in mix between business-to-business sales, direct-to-consumer sales and rental revenue from period-to-period. Inogen One and Inogen At Home system selling prices and gross margins may fluctuate as we introduce new products, reduce our product costs, have changes in purchase volumes, and as currency variations occur. For example, the gross margin for our Inogen One G4 system is higher than our Inogen One G3 system due to lower manufacturing costs and similar average selling prices. Thus, to the extent our sales of our Inogen One G4 systems are higher than sales of our Inogen One G3 systems, our overall gross margins should improve and, conversely, to the extent our sales of our Inogen One G3 systems are higher than sales of our Inogen One G4 systems, our overall gross margins should decline. Quarter-over-quarter results may vary due to seasonality in both the international and domestic markets. For example, we typically experience higher total sales in the second and third quarter, as a result of consumers traveling and vacationing during warmer weather in the spring and summer months, but this may vary year-over-year. As more HME providers adopt portable oxygen concentrators in their businesses, we expect our historical seasonality in the domestic business-to-business channel could change as well, which was previously influenced mainly by consumer buying patterns. Direct-to-consumer sales seasonality may also be impacted by the number of sales representatives, sales representative productivity, and the amount of marketing spend in each quarter.

### *Sales revenue*

Our sales revenue is primarily derived from the sale of our Inogen One systems, Inogen At Home systems, and related accessories to individual consumers, our private label partner, HME providers, distributors and resellers worldwide. Sales revenue is classified into two areas: business-to-business sales and direct-to-consumer sales. For the three months ended March 31, 2019 and March 31, 2018, business-to-business sales as a percentage of total sales revenue were 54.1% and 61.0%, respectively. Generally, our direct-to-consumer sales have higher gross margins than our business-to-business sales.

We also offer a lifetime warranty for direct-to-consumer sales of our portable oxygen concentrators. For a fixed price, we agree to provide a fully functional portable oxygen concentrator for the remaining life of the patient. Lifetime warranties are only offered to patients upon the initial sale of portable oxygen concentrators by the Company and are non-transferable. Lifetime warranties are considered to be a distinct performance obligation that are accounted for separately from the sale of portable oxygen concentrators with a standard warranty of three years.

The revenue is allocated to the distinct lifetime warranty performance obligation based on a relative stand-alone selling price (SSP) method. We have vendor-specific objective evidence of the selling price for our equipment. To determine the selling price of the lifetime warranty, we use our best estimate of the SSP for the distinct performance obligation as the lifetime warranty is neither separately priced nor is the selling price available through third-party evidence. To calculate the selling price associated with the lifetime warranties, management considers the profit margins of service revenue, the average estimated cost of lifetime warranties and the price of extended warranties. Revenue from the distinct lifetime warranty is deferred after the delivery of the equipment and recognized based on an estimated mortality rate over five years, which is the estimated performance period of the contract based on the average patient life expectancy.

Revenue from the sale of our repair services is recognized when the performance obligations are satisfied, and collection of the receivables is probable. Other revenue from sale of replacement parts is generally recognized when product is shipped to customers.

### *Rental revenue*

Our rental revenue is primarily derived from the rental of our Inogen One and Inogen At Home systems to patients through reimbursement from Medicare, private payors and Medicaid, which typically also includes a patient responsibility component for patient co-insurance and deductibles. We expect our rental revenue to modestly increase in 2019, in spite of an additional 3.9% reduction in Medicare reimbursement rates for our products effective January 1, 2019 and the adoption of Accounting Standards Update (ASU) No. 2018-19 that requires reclassification of rental bad debt expense to be charged to rental revenue. We also expect that our rental revenue will be impacted by the number of sales representatives, the number of rental intake representatives, the level of and response from potential customers to direct-to-consumer marketing spend, product launches, and other uncontrollable factors such as changes in the market and competition.

We recognize equipment rental revenue over the non-cancelable lease term, which is one month, less estimated adjustments, in accordance with Accounting Standards Codification (ASC) 842 — *Leases*. We have a separate contract with each patient that is not subject to a master lease agreement with any payor. The lease term begins on the date products are shipped to patients and is recorded at amounts estimated to be received under reimbursement arrangements with third-party payors, including Medicare, private payors, and Medicaid. Due to the nature of the industry and the reimbursement environment in which we operate, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application, claim denial or account review. Amounts billed but not earned due to the timing of the billing cycle are deferred and recognized in revenue on a straight-line basis over the monthly billing period. For example, if the first day of the billing period does not fall on the first of the month, then a portion of the monthly billing period will fall in the subsequent month and the related revenue and cost would be deferred based on the service days in the following month. Included in rental revenue are unbilled amounts for which the revenue recognition criteria had been met as of period-end but were not billed. The estimate of unbilled rental revenue accrual is reported net of adjustments that are based on historical trends and estimates of future collectability.

## ***Cost of revenue***

### ***Cost of sales revenue***

Cost of sales revenue consists primarily of costs incurred in the production process, including costs of component materials, assembly labor and overhead, warranty, provisions for slow-moving and obsolete inventory, rework and delivery costs for items sold. Labor and overhead expenses consist primarily of personnel-related expenses, including wages, bonuses, benefits, and stock-based compensation for manufacturing, logistics, repair and manufacturing engineering quality assurance employees, and temporary labor. They also include manufacturing freight in, depreciation expense, facilities costs and materials. We provide a 3-year, 5-year or lifetime warranty on Inogen One systems sold and a 3-year warranty on Inogen At Home systems sold. We established a reserve for the cost of future warranty repairs based on historical warranty repair costs incurred as well as historical failure rates. Provisions for warranty obligations, which are included in cost of sales revenue, are provided for at the time of revenue recognition.

We continue to make progress towards reducing the average unit costs of our Inogen One and Inogen At Home systems as a result of our ongoing efforts to develop lower-cost systems, negotiations with our suppliers, improvements in our manufacturing processes, and increased production volume and yields. In the second quarter of 2018, we also signed an additional lease in Richardson, Texas to expand our current manufacturing facilities by approximately 23,000 square feet to enable increased production volumes. At the same time, recent United States policies related to global trade and tariffs may also increase the Company's average unit cost.

The current economic environment has introduced greater uncertainty with respect to potential trade regulations, including changes to United States policies related to global trade and tariffs. The Company continues to monitor the recently announced Section 301 tariffs being imposed by the United States on certain imported Chinese materials and products in addition to potential retaliatory responses from other nations. Assuming the Chinese tariffs stay at the current 10% level, the Company currently expects the overall financial impact to our business to be a small increase to the average unit cost for 2019. For these reasons, we expect sales gross margin percentage to fluctuate over time based on the sales channel mix, product mix, and changes in average selling prices and cost per unit.

### ***Cost of rental revenue***

Cost of rental revenue consists primarily of depreciation expense; service costs for rental patients, including rework costs, material, labor, freight, and consumable disposables; and logistics costs.

We expect rental gross margin percentage to increase in 2019 compared to 2018, primarily associated with higher rental revenue per patient. In addition, we expect the average cost of rental revenue per patient to decline in future periods as a result of our ongoing efforts to reduce average unit costs of our systems, including reductions in depreciation, service costs, and logistics costs.

## ***Operating expense***

### ***Research and development***

Our research and development expense consists primarily of personnel-related expenses, including wages, bonuses, benefits and stock-based compensation for research and development and engineering employees, allocated facility costs, laboratory supplies, product development materials, consulting fees and related costs, and testing costs for new product launches and enhancements to existing products. We have made substantial investments in research and development since our inception. Our research and development efforts have focused primarily on the tasks required to enhance our technologies and to support development and commercialization of new and existing products. We plan to continue to invest in research and development activities to stay at the forefront of patient preference in oxygen therapy devices. We expect research and development expense to increase in absolute dollars in future periods as we continue to invest in our engineering and technology teams to support our new and enhanced product research and development efforts and manufacturing improvements.

### ***Sales and marketing***

Our sales and marketing expense primarily supports our direct-to-consumer marketing and rental strategy and consists mainly of personnel-related expenses, including wages, bonuses, commissions, benefits, and stock-based compensation for sales, marketing, customer service and clinical service employees. It also includes expenses for media and advertising, printing, informational kits, dues and fees, including credit card fees, sales promotional and marketing activities, travel and entertainment expenses as well as allocated facilities costs. Sales and marketing expense increased throughout 2018 and in the three months ended March 31, 2019, primarily due to an increase in the sales force and marketing expenses. For example, as we have continued to grow our sales staff, the associated number of required leads has grown, and we have seen the cost per generated lead trend higher than historical averages. In addition,

the sales representatives we hired in the second-half of 2018 on average are taking longer to come up the productivity curve than our historical target. We expect a further increase in future periods as we continue to invest in our business, including expanding our sales and sales support team, increasing media spend to drive consumer awareness, and increasing patient support costs as our patient and customer base increases. We also opened a new facility in Cleveland, Ohio in the third quarter of 2017 primarily for sales and customer service personnel. We also established a physical presence in Europe by acquiring MedSupport Systems B.V. on May 4, 2017. This acquisition has increased sales and marketing costs but has also improved customer service and repair services in the European markets.

#### General and administrative

Our general and administrative expense consists primarily of personnel-related expenses, including wages, bonuses, benefits, and stock-based compensation for employees in our compliance, finance, medical billing, rental intake, human resources, and information technology departments as well as facilities costs, sales bad debt expense, and board of directors' expenses, including stock-based compensation. In addition, general and administrative expense includes professional services, such as legal, patent registration and defense costs, insurance, consulting and accounting services, including audit and tax services, and travel and entertainment expenses.

We expect general and administrative expense to increase in future periods as the number of administrative personnel grows and we continue to introduce new products, broaden our customer base and grow our business. We expect general and administrative expense to increase in absolute dollars as we continue to invest in corporate infrastructure to support our growth including personnel-related expenses, professional services fees and compliance costs associated with operating as a public company. Those costs include increases in our accounting, human resources, and IT personnel, as well as increases in additional consulting, legal and accounting fees, insurance costs, and board members' compensation.

#### Other income (expense), net

Our other income (expense), net consists primarily of interest income earned on cash equivalents and marketable securities as well as foreign currency gains and (losses).

#### Income taxes

We account 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 our 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.

We account 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 accounting for stock-based compensation will increase or decrease our effective tax rate based upon the difference between our stock-based compensation expense and the deductions taken on our U.S. tax return, which depends upon the stock price at the time of employee option exercise or award vesting. We recognize excess tax benefits on a discrete basis and we anticipate our effective tax rate will vary from quarter-to-quarter depending on our stock price in each period.

### Results of operations

#### Comparison of three months ended March 31, 2019 and March 31, 2018

##### Revenue

(amounts in thousands)	Three months ended		Change 2019 vs. 2018		% of Revenue	
	March 31,				2019	2018
	2019	2018	\$	%		
Sales revenue	\$ 84,818	\$ 73,584	\$ 11,234	15.3 %	94.0 %	93.1 %
Rental revenue	5,384	5,467	(83)	-1.5 %	6.0 %	6.9 %
Total revenue	\$ 90,202	\$ 79,051	\$ 11,151	14.1 %	100.0 %	100.0 %



Sales revenue increased \$11.2 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or an increase of 15.3% over the comparable period. The increase was primarily attributable to a 5,000-unit increase in the number of oxygen systems sold. We sold approximately 50,400 oxygen systems during the three months ended March 31, 2019 compared to approximately 45,400 oxygen systems sold during the three months ended March 31, 2018, or an increase of 11.0%. The increase in the number of systems sold resulted mainly from an increase in indirect-to-consumer sales in the United States, primarily due to an increase in sales representatives as well as increased sales and marketing expenditures, and an increase in international business-to-business sales, primarily due to traditional HME purchases, partially offset by a decline in domestic business-to-business sales, primarily due to reduced orders from a national provider who is a customer of our private label partner. Specifically, this provider accounted for revenue of \$0.7 million in the first quarter of 2019, down from \$9.3 million in the first quarter of 2018.

Rental revenue decreased \$0.1 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or a decrease of 1.5% from the comparable period. The decrease in rental revenue was primarily related to a decline in rental patients on service which decreased 11.5% from the comparative period, partially offset by lower rental revenue adjustments.

<i>(amounts in thousands)</i>	Three months ended		Change 2019 vs. 2018		% of Revenue	
	March 31,		\$	%	2019	2018
	2019	2018				
<b>Revenue by region and category</b>						
Business-to-business domestic sales	\$ 26,061	\$ 28,016	\$ (1,955)	-7.0%	28.9%	35.4%
Business-to-business international sales	19,803	16,906	2,897	17.1%	21.9%	21.4%
Direct-to-consumer domestic sales	38,954	28,662	10,292	35.9%	43.2%	36.3%
Direct-to-consumer domestic rentals	5,384	5,467	(83)	-1.5%	6.0%	6.9%
Total revenue	<u>\$ 90,202</u>	<u>\$ 79,051</u>	<u>\$ 11,151</u>	<u>14.1%</u>	<u>100.0%</u>	<u>100.0%</u>

Domestic direct-to-consumer sales increased 35.9% and domestic business-to-business sales decreased 7.0% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase in direct-to-consumer sales was primarily due to the hiring of additional inside sales representatives, increased marketing expenditures, our expansion of marketing strategies, and our continued focus on direct-to-consumer sales. The decrease in domestic business-to-business sales was primarily the result of decreased demand from our private label partner, partially offset by increased demand from traditional HME providers and resellers as well as increased consumer demand for our products due to our marketing efforts as well as the marketing efforts of our business partners.

Business-to-business international sales increased 17.1% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to increases in sales from our partners in Europe, and partially offset by unfavorable currency exchange rates. We also saw strong growth in Canada, Australia, and South America, although these markets are much smaller than the European market. We sell our products in 46 countries outside of the United States, and we plan to continue to expand our presence in other countries as the opportunities present themselves. Of our international sales revenue in the three months ended March 31, 2019, 86.5% was sold in Europe versus 89.5% in the comparative period in 2018, primarily because of the increase in sales in Canada, Australia, and South America.

#### *Cost of revenue and gross profit*

<i>(amounts in thousands)</i>	Three months ended		Change 2019 vs. 2018		% of Revenue	
	March 31,		\$	%	2019	2018
	2019	2018				
Cost of sales revenue	\$ 42,067	\$ 36,948	\$ 5,119	13.9%	46.6%	46.8%
Cost of rental revenue	3,726	4,376	(650)	-14.9%	4.2%	5.5%
Total cost of revenue	<u>\$ 45,793</u>	<u>\$ 41,324</u>	<u>\$ 4,469</u>	<u>10.8%</u>	<u>50.8%</u>	<u>52.3%</u>
Gross profit - sales revenue	\$ 42,751	\$ 36,636	\$ 6,115	16.7%	47.4%	46.3%
Gross profit - rental revenue	1,658	1,091	567	52.0%	1.8%	1.4%
Total gross profit	<u>\$ 44,409</u>	<u>\$ 37,727</u>	<u>\$ 6,682</u>	<u>17.7%</u>	<u>49.2%</u>	<u>47.7%</u>
Gross margin percentage - sales revenue	50.4%	49.8%				
Gross margin percentage- rental revenue	30.8%	20.0%				
Total gross margin percentage	49.2%	47.7%				

We manufacture our subassemblies and/or products in our Richardson, Texas and Goleta, California facilities. We also began production of our Inogen One G3 concentrators in the fourth quarter of 2017 using a contract manufacturer, Foxconn, located in the

Czech Republic to improve our ability to service our European customers. Our manufacturing process includes final assembly, testing, and packaging to quality and customer specifications. Cost of sales revenue increased \$5.1 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or an increase of 13.9% over the comparable period. The increase in cost of sales revenue was primarily attributable to an increase in the number of systems sold, partially offset by reduced bill of material costs for our products associated with design changes, better sourcing and price discounts resulting from increased volumes. We expect cost of sales revenue as a percentage of sales revenue in future periods to fluctuate based on customer mix, product mix, and changes in sales prices and cost per unit.

Cost of rental revenue decreased \$0.7 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or a decrease of 14.9% from the comparable period. The decrease in cost of rental revenue was primarily attributable to a decrease in rental asset depreciation expense. Cost of rental revenue included \$1.7 million of rental asset depreciation for the three months ended March 31, 2019 and \$2.2 million for the three months ended March 31, 2018.

Gross margin percentage is defined as revenue less cost of revenue divided by revenue. Sales revenue gross margin percentage increased to 50.4% for the three months ended March 31, 2019 from 49.8% for the three months ended March 31, 2018. The increase in sales gross margin percentage was primarily related to an increase in sales mix toward higher margin domestic direct-to-consumer sales and lower cost per unit, partially offset by lower average selling prices in both the international business-to-business and direct-to-consumer channels. Domestic business-to-business average selling prices were flat in the comparative periods. Total worldwide business-to-business sales revenue accounted for 54.1% of total sales revenue in the first quarter of 2019 versus 61.0% in the first quarter of 2018. We expect sales gross margin to fluctuate over time based on changes in the sales channel mix, product mix, average selling prices and cost per unit.

Rental revenue gross margin percentage increased to 30.8% for the three months ended March 31, 2019 from 20.0% for the three months ended March 31, 2018, primarily due to higher rental revenue per patient on service and lower depreciation costs.

#### *Research and development expense*

<i>(amounts in thousands)</i>	<b>Three months ended</b>		<b>Change 2019 vs. 2018</b>		<b>% of Revenue</b>	
	<b>March 31,</b>		<b>\$</b>	<b>%</b>	<b>2019</b>	<b>2018</b>
	<b>2019</b>	<b>2018</b>				
Research and development expense	\$ 1,669	\$ 1,416	\$ 253	17.9%	1.9%	1.8%

Research and development expense increased \$0.3 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or an increase of 17.9% over the comparable period, primarily due to a \$0.2 million increase in product development expenses for engineering projects.

#### *Sales and marketing expense*

<i>(amounts in thousands)</i>	<b>Three months ended</b>		<b>Change 2019 vs. 2018</b>		<b>% of Revenue</b>	
	<b>March 31,</b>		<b>\$</b>	<b>%</b>	<b>2019</b>	<b>2018</b>
	<b>2019</b>	<b>2018</b>				
Sales and marketing expense	\$ 28,201	\$ 18,038	\$ 10,163	56.3%	31.3%	22.8%

Sales and marketing expense increased \$10.2 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or an increase of 56.3% over the comparable period. The increase was primarily attributable to increases of \$5.4 million in media spending, \$3.9 million of sales and marketing personnel-related expenses as a result of the increased headcount (which included increases of \$2.1 million in wages, benefits and payroll tax expense and \$1.8 million in commissions expense), \$0.3 million in credit card processing and financing fees, \$0.2 million in dues, fees and license costs and \$0.2 million in facilities costs. In the three months ended March 31, 2019, we spent \$10.2 million in media and advertising costs versus \$4.8 million in the comparative period in 2018.

#### *General and administrative expense*

<i>(amounts in thousands)</i>	<b>Three months ended</b>		<b>Change 2019 vs. 2018</b>		<b>% of Revenue</b>	
	<b>March 31,</b>		<b>\$</b>	<b>%</b>	<b>2019</b>	<b>2018</b>
	<b>2019</b>	<b>2018</b>				
General and administrative expense	\$ 9,681	\$ 9,573	\$ 108	1.1%	10.6%	12.1%

General and administrative expense increased \$0.1 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or an increase of 1.1% from the comparable period. The increase was primarily attributable to \$0.4 million in higher wages, benefits and payroll tax expense and \$0.4 million in lower net proceeds from the sale of former assets. These were partially offset by a decrease of \$0.7 million of bad debt expense, primarily related to the adoption of ASU 2018-19 that requires reclassification of rental bad debt expense to be charged to rental revenue instead of general and administrative expense.

Bad debt expense, expressed as a percentage of total revenue, was 0.0% and 0.9% in the three months ended March 31, 2019 and March 31, 2018, respectively, primarily due to the adoption of ASU 2018-19.

#### Other income

(amounts in thousands)	Three months ended		Change 2019 vs. 2018		% of Revenue	
	March 31,		\$	%	2019	2018
	2019	2018				
Interest income	\$ 1,334	\$ 543	\$ 791	145.7%	1.5%	0.7%
Other income (expense)	(120)	444	(564)	-127.0%	-0.2%	0.5%
Total other income	\$ 1,214	\$ 987	\$ 227	23.0%	1.3%	1.2%

Total other income increased \$0.2 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or an increase of 23.0% over the comparable period. An increase of \$0.8 million in interest income on cash equivalents and marketable securities was partially offset by a decrease of \$0.6 million in other income (expense) related to net foreign currency losses arising from increased transactions in Euros at a lower Euro exchange rate to the U.S. dollar compared to net foreign currency gains recorded in the comparable period.

#### Income tax expense (benefit)

(amounts in thousands)	Three months ended		Change 2019 vs. 2018		% of Revenue	
	March 31,		\$	%	2019	2018
	2019	2018				
Income tax expense (benefit)	\$ 770	\$ (1,071)	\$ 1,841	171.9%	0.8%	-1.4%
Effective income tax rate	12.7%	-11.1%				

Income tax expense increased \$1.8 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, primarily attributable to lower excess tax benefits of \$2.6 million recognized from stock-based compensation, offset by a \$0.8 million decrease in the income tax provision expense, primarily resulting from a 37.3% decrease in income before income tax expense (benefit).

Our effective tax rate in the first quarter of 2019 increased compared to the first quarter of 2018, primarily due to the decrease in excess tax benefits recognized from stock-based compensation, the changes in income before income tax expense (benefit) and lower foreign tax credits. In the first quarter of 2019, excess tax benefits recognized from stock-based compensation decreased our income tax expense by \$0.6 million and our effective tax rate by 10.4%, as compared to the tax rate without such benefits. For comparison, in the first quarter of 2018, excess tax benefits recognized from stock-based compensation decreased our income tax expense by \$3.3 million and our effective tax rate by 33.6%, as compared to the tax rate without such benefits.

#### Net income

(amounts in thousands)	Three months ended		Change 2019 vs. 2018		% of Revenue	
	March 31,		\$	%	2019	2018
	2019	2018				
Net income	\$ 5,302	\$ 10,758	\$ (5,456)	-50.7%	5.9%	13.6%

Net income decreased \$5.5 million for the three months ended March 31, 2019 from the three months ended March 31, 2018, or a decrease of 50.7% from the comparable period. The decrease in net income was primarily related to an increase in operating expenses and a higher effective tax rate.

### **Contractual obligations**

We obtain individual components for our products from a wide variety of individual suppliers. Consistent with industry practice, we acquire components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. Where appropriate, the purchases are applied to inventory component prepayments that are outstanding with the respective supplier. As of March 31, 2019, we had purchase obligations with outside vendors and suppliers of approximately \$61.0 million of which the timing varies depending on demand, current supply on hand and other factors. The obligations normally do not extend beyond twelve-month time frames.

Except as indicated above, there have been no other material changes, outside of the ordinary course of business, in our outstanding contractual obligations from those disclosed within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section contained in our Annual Report on Form 10-K filed with the SEC on February 26, 2019.

### **Off-balance sheet arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for any other contractually narrow or limited purpose. However, from time-to-time, we enter into certain types of contracts that contingently require us to indemnify parties against third-party claims including certain real estate leases, supply purchase agreements, and directors and officers. The terms of such obligations vary by contract and in most instances a maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted thus no liabilities have been recorded for these obligations on our balance sheets for any of the periods presented.

### **Liquidity and capital resources**

As of March 31, 2019, we had cash and cash equivalents of \$190.2 million, which consisted of highly-liquid investments with a maturity of three months or less. In addition, we held marketable securities of \$49.0 million in available-for-sale corporate bonds and U.S. Treasury securities, which had maturities greater than three months. Since inception, we have received net proceeds of \$91.7 million from the issuance of redeemable convertible preferred stock and convertible preferred stock and \$52.5 million (\$49.7 million net proceeds) in connection with the sale of common stock in our initial public offering. Since 2013, we have received \$48.4 million from proceeds related to stock option exercises and our employee stock purchase plan. For the three months ended March 31, 2019 and March 31, 2018, we received \$3.2 million and \$5.4 million, respectively, in proceeds related to these stock programs.

Our principal uses of cash for liquidity and capital resources in the three months ended March 31, 2019 consisted of net purchases of available-for-sale investments of \$5.3 million and our capital expenditures of \$1.7 million including additional rental equipment, intangible assets, and other property, plant and equipment.

We believe that our current cash, cash equivalents, marketable securities, and the cash to be generated from expected product sales and rentals will be sufficient to meet our projected operating and investing requirements for at least the next twelve months. However, our liquidity assumptions may prove to be incorrect, and we could utilize our available financial resources sooner than we currently expect. Our future funding requirements will depend on many factors, including market acceptance of our products; the cost of our research and development activities; payments from customers; the cost, timing, and outcome of litigation or disputes, our products, employee relations, cyber security incidents, or otherwise; the cost and timing of acquisitions; the cost and timing of regulatory clearances or approvals; the cost and timing of establishing additional sales, marketing, and distribution capabilities; and the effect of competing technological and market developments. In the future, we may acquire businesses or technologies from third parties, and we may decide to raise additional capital through debt or equity financing to the extent we believe this is necessary to successfully complete these acquisitions. Our future capital requirements will also depend on many additional factors, including those set forth in the section of this Quarterly Report on Form 10-Q entitled “Risk Factors.”

If we require additional funds in the future, we may not be able to obtain such funds on acceptable terms, or at all. In the future, we may also attempt to raise additional capital through the sale of equity securities or through equity-linked or debt financing arrangements. If we raise additional funds by issuing equity or equity-linked securities, the ownership of our existing stockholders will be diluted. If we raise additional financing by the incurrence of indebtedness, we will be subject to increased fixed payment obligations and could also be subject to restrictive covenants, such as limitations on our ability to incur additional debt, and other operating restrictions that could adversely impact our ability to conduct our business. Any future indebtedness we incur may result in terms that could be unfavorable to equity investors. There can be no assurances that we will be able to raise additional capital, which would adversely affect our ability to achieve our business objectives. In addition, if our operating performance during the next twelve months is below our expectations, our liquidity and ability to operate our business could be adversely affected.

The following tables show a summary of our cash flows and working capital for the periods and as of the dates indicated:

<i>(amounts in thousands)</i>	<b>Three months ended</b>		<b>Change 2019 vs. 2018</b>	
	<b>March 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>\$</b>	<b>%</b>
<b>Summary of consolidated cash flows</b>				
Cash provided by (used in) operating activities	\$ (1,824)	\$ 12,240	\$ (14,064)	-114.9%
Cash used in investing activities	(6,948)	(5,989)	(959)	16.0%
Cash provided by financing activities	2,446	5,145	(2,699)	-52.5%
Effect of exchange rates on cash	(72)	(65)	(7)	10.8%
Net increase (decrease) in cash and cash equivalents	<u>\$ (6,398)</u>	<u>\$ 11,331</u>	<u>\$ (17,729)</u>	<u>-156.5%</u>

<i>(amounts in thousands)</i>	<b>March 31,</b>		<b>December 31,</b>	
	<b>2019</b>		<b>2018</b>	
<b>Working capital</b>				
Cash and cash equivalents	\$	190,236	\$	196,634
Marketable securities		49,011		43,715
Accounts receivable, net		41,525		37,041
Inventories, net		28,820		27,071
Deferred cost of revenue		346		359
Income tax receivable		2,555		2,655
Prepaid expenses and other current assets		9,263		7,108
Total current assets		<u>321,756</u>		<u>314,583</u>
Accounts payable and accrued expenses		24,731		26,786
Accrued payroll		7,832		11,407
Warranty reserve-current		3,734		3,549
Operating lease liability		2,061		—
Deferred revenue-current		5,283		4,451
Income tax payable		111		392
Total current liabilities		<u>43,752</u>		<u>46,585</u>
Net working capital	\$	<u>278,004</u>	\$	<u>267,998</u>

### **Operating activities**

We derive operating cash flows from cash collected from the sales and rental of our products and services. These cash flows received are partially offset by our use of cash for operating expenses to support the growth of our business. Net income in most periods has increased associated with increased sales, improving product mix and lower costs of revenues.

Net cash used in operating activities for the three months ended March 31, 2019 consisted primarily of the net changes in operating assets of \$20.0 million. This was partially offset by net cash provided by operating activities including net income of \$5.3 million and a decrease in deferred tax assets of \$0.8 million as well as non-cash expense items such as provision for sales returns and doubtful accounts of \$4.4 million, stock-based compensation expense of \$3.6 million, depreciation of equipment and leasehold improvements and amortization of our intangibles of \$2.8 million, provision for rental revenue adjustments of \$0.6 million, and provision for inventory obsolescence and other inventory losses of \$0.5 million.

Net cash provided by operating activities for the three months ended March 31, 2018 consisted primarily of our net income of \$10.8 million and non-cash expense items such as provision for sales returns and doubtful accounts of \$4.9 million, stock-based compensation expense of \$3.4 million, depreciation of equipment and leasehold improvements and amortization of our intangibles of \$3.0 million, provision for rental revenue adjustments of \$0.7 million, and loss on disposal of rental equipment and other fixed assets of \$0.3 million. These were partially offset by an increase in deferred tax assets of \$1.8 million and gain on former rental assets of \$0.4 million. The net changes in operating assets and liabilities resulted in a net use of cash of \$8.7 million.

#### ***Investing activities***

Net cash used in investing activities for each of the periods presented included cash used in the production and purchase of rental assets, manufacturing tooling, and computer equipment and software to support our expanding business as well as net (purchases) maturities of marketable securities.

For the three months ended March 31, 2019, we invested \$19.0 million in corporate bonds and U.S. Treasury securities with maturities greater than three months that were classified as marketable securities, partially offset by \$13.8 million in maturities of available-for-sale investments. In addition, we invested \$1.7 million in the production and purchase of rental assets and other property, equipment, and leasehold improvements.

For the three months ended March 31, 2018, we had \$11.6 million of purchases that we invested in certificates of deposits, corporate bonds, agency mortgage-backed securities, and U.S. Treasury securities with maturities greater than three months that were classified as marketable securities, partially offset by \$8.5 million in maturities of available-for-sale investments. In addition, we invested \$3.5 million in the production and purchase of rental assets and other property, equipment, and leasehold improvements, partially offset from gross proceeds received from the sale of former rental assets of \$0.6 million.

We expect to continue investing in property, equipment and leasehold improvements as we expand our operations. Our business is inherently capital intensive. For example, we expend significant manufacturing and production expense in connection with the development and production of our oxygen concentrator products and, in connection with our rental business, we incur expense in the deployment of rental equipment to our patients. Investments will continue to be required in order to grow our sales and rental revenue and continue to supply and replace rental equipment to our rental patients on service.

#### ***Financing activities***

Historically, we have funded our operations through our sales and rental revenue, the issuance of preferred and common stock, and the incurrence of indebtedness.

For the three months ended March 31, 2019, net cash provided by financing activities consisted of \$3.2 million from the proceeds received from stock options that were exercised and purchases under our employee stock purchase program, partially offset by the payment of employment taxes related to the vesting of restricted stock awards and restricted stock units of \$0.7 million.

For the three months ended March 31, 2018, net cash provided by financing activities consisted of \$5.4 million from the proceeds received from stock options that were exercised and purchases under our employee stock purchase program, partially offset by the payment of employment taxes related to the vesting of restricted stock awards and restricted stock units of \$0.3 million.

#### ***Working capital***

Working capital at any specific point in time is subject to many variables including seasonality, inventory management, and the timing of cash receipts and payments.

Current assets increased \$7.2 million during the three months ended March 31, 2019 from December 31, 2018, primarily due to increases of \$4.5 million in net accounts receivable, \$2.2 million in prepaid expenses and other current assets, and \$1.7 million in net inventories. Cash, cash equivalents and marketable securities decreased \$1.1 million.

Gross accounts receivable increased \$4.5 million during the three months ended March 31, 2019 from December 31, 2018, primarily due to an increase in gross business-to-business accounts receivable and other receivables balance of \$4.1 million and an increase in gross rental accounts receivable balance of \$0.4 million. Allowances on accounts receivable slightly increased during the three months ended March 31, 2019 from December 31, 2018, primarily due to an increase of \$0.2 million in the allowance for sales returns, partially offset by a decrease of \$0.2 million in the allowance for doubtful accounts from the comparative consolidated balance sheet date.

Allowances on accounts receivable vary based on credit quality, age, and accounts receivable source. Rental revenue has higher allowances for adjustments and doubtful accounts on accounts receivable versus sales revenue due to the nature of the collectability of these balances.

Current liabilities decreased by \$2.8 million during the three months ended March 31, 2019 from December 31, 2018, primarily due to decreases in accrued payroll of \$3.6 million, mainly caused by timing of payments for bonuses, and accounts payable and accrued expenses of \$2.1 million and \$0.3 million in income tax payable. The decreases were partially offset by increases of \$2.1 million in the operating lease liability, \$0.8 million in deferred revenue and \$0.2 million in the warranty reserve.

#### **Sources of funds**

Our cash provided by (used in) operating activities in the three months ended March 31, 2019 was \$(1.8) million compared to \$12.2 million in the three months ended March 31, 2018. As of March 31, 2019, we had cash and cash equivalents of \$190.2 million.

#### **Use of funds**

Our principal uses of cash are funding our new rental asset deployments and other capital purchases, operations, and other working capital requirements. Over the past several years, our revenue has increased significantly from year-to-year and, as a result, our cash flows from customer collections have increased as have our profits. As a result, our annual cash provided by operating activities has increased over time and now is a significant source of capital to the business, which we expect to continue in the future.

We may need to raise additional funds to support our investing operations, and such funding may not be available to us on acceptable terms, or at all. If we are unable to raise additional funds when needed, our operations and ability to execute our business strategy could be adversely affected. We may seek to raise additional funds through equity, equity-linked or debt financings. If we raise additional funds through the incurrence of indebtedness, such indebtedness would have rights that are senior to holders of our equity securities and could contain covenants that restrict our operations. Any additional equity financing may be dilutive to our stockholders.

#### **Non-GAAP financial measures**

EBITDA and Adjusted EBITDA are financial measures that are not calculated in accordance with U.S. GAAP. We define EBITDA as net income excluding interest income, interest expense, taxes and depreciation and amortization. Adjusted EBITDA also excludes stock-based compensation. Below, we have provided a reconciliation of EBITDA and Adjusted EBITDA to our net income, the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA should not be considered alternatives to net income or any other measure of financial performance calculated and presented in accordance with U.S. GAAP. Our EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other organizations because other organizations may not calculate EBITDA and Adjusted EBITDA in the same manner as we calculate these measures.

We include EBITDA and Adjusted EBITDA in this Quarterly Report on Form 10-Q because they are important measures upon which our management assesses our operating performance. We use EBITDA and Adjusted EBITDA as key performance measures because we believe they facilitate operating performance comparisons from period-to-period by excluding potential differences primarily caused by variations in capital structures, tax positions, the impact of depreciation and amortization expense on our fixed assets and the impact of stock-based compensation expense. Because EBITDA and Adjusted EBITDA facilitate internal comparisons of our historical operating performance on a more consistent basis, we also use EBITDA and Adjusted EBITDA for business planning purposes, to incentivize and compensate our management personnel, and in evaluating acquisition opportunities. In addition, we believe EBITDA, Adjusted EBITDA, and similar measures are widely used by investors, securities analysts, ratings agencies, and other parties in evaluating companies in our industry as a measure of financial performance and debt-service capabilities.

Our uses of EBITDA and Adjusted EBITDA have limitations as analytical tools and you should not consider them in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- EBITDA and Adjusted EBITDA do not reflect our cash expenditures for capital equipment or other contractual commitments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect capital expenditure requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs; and

- other companies, including companies in our industry, may calculate EBITDA and Adjusted EBITDA measures differently, which reduces their usefulness as a comparative measure.

In evaluating EBITDA and Adjusted EBITDA, we anticipate that in the future we will incur expenses within these categories similar to this presentation. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by certain expenses. When evaluating our performance, you should consider EBITDA and Adjusted EBITDA alongside other financial performance measures, including U.S. GAAP results.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net income, the most comparable U.S. GAAP measure, for each of the periods indicated:

<i>(amounts in thousands)</i>	Three months ended	
	March 31,	
<b>Non-GAAP EBITDA and Adjusted EBITDA</b>	<b>2019</b>	<b>2018</b>
Net income	\$ 5,302	\$ 10,758
Non-GAAP adjustments:		
Interest income	(1,334)	(543)
Provision (benefit) for income taxes	770	(1,071)
Depreciation and amortization	2,794	2,993
EBITDA (non-GAAP)	7,532	12,137
Stock-based compensation	3,586	3,381
Adjusted EBITDA (non-GAAP)	<u>\$ 11,118</u>	<u>\$ 15,518</u>

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including fluctuation in interest rates, foreign currency, and exchange rates. Market risk is the potential loss arising from adverse changes in market rates and prices. We do not hold or issue financial instruments for trading purposes.

#### Interest rate fluctuation risk

The principal market risk we face is interest rate risk. We had cash and cash equivalents of \$190.2 million as of March 31, 2019, which consisted of highly-liquid investments with a maturity of three months or less, and \$49.0 million of marketable securities with maturity dates of greater than three months. The primary goals of our investment policy are liquidity and capital preservation. We do not enter into investments for trading or speculative purposes. We believe that we do not have any material exposure to changes in the fair value of these assets as a result of changes in interest rates due to the short-term nature of our cash and cash equivalents. Declines in interest rates, however, would reduce future investment income. We considered the historical volatility of short-term interest rates and determined that it was reasonably possible that an adverse change of 100 basis points could be experienced in the near term. A hypothetical 1.00% (100 basis points) increase in interest rates would not have materially impacted the fair value of our marketable securities as of March 31, 2019 and December 31, 2018. If overall interest rates had decreased by 1.00% (100 basis points), our interest income would not have been materially affected for the three months ended March 31, 2019 or March 31, 2018.

#### Foreign currency exchange risk

The majority of our revenue is denominated in U.S. dollars while the majority of our European sales are denominated in Euros. In addition, we acquired MedSupport in the second quarter of 2017 with net assets denominated in Euros. Our results of operations, certain balance sheet balances and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in our net income or loss as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency in which they are recorded. The effect of a 10% adverse change in exchange rates on foreign denominated cash, receivables and payables as of March 31, 2019 would not have had a material effect on our financial position, results of operations or cash flows. As our operations in countries outside of the United States grow, our results of operations and cash flows will be subject to fluctuations due to changes in foreign currency exchange rates, which could harm our business in the future.



We began entering into foreign exchange forward contracts to protect our forecasted U.S. dollar-equivalent earnings from adverse changes in foreign currency exchange rates in December 2015. These hedging contracts reduce, but will not entirely eliminate, the impact of adverse currency exchange rate movements on revenue. We performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign exchange rates to the hedging contracts and the underlying exposures described above. As of March 31, 2019, the analysis indicated that these hypothetical market movements would not have a material effect on our financial position, results of operations or cash flows. We estimate prior to any hedging activity that a 10% adverse change in exchange rates on our foreign denominated sales would have resulted in a \$1.4 million decline in revenue for the first three months of 2019. We designate these forward contracts as cash flow hedges for accounting purposes. The fair value of the forward contract is separated into intrinsic and time values. The fair value of forward currency-exchange contracts is sensitive to changes in currency exchange rates. Changes in the time value are coded in other income (expense), net. Changes in the intrinsic value are recorded as a component of accumulated other comprehensive income and subsequently reclassified into revenue to offset the hedged exposures as they occur.

#### **Inflation risk**

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we might not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

### **Item 4. Controls and Procedures**

#### **Evaluation of disclosure controls and procedures**

The Company maintains a system of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported accurately and completely within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include, among other processes, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions over time, or that the degree of compliance with the policies and procedures may deteriorate. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019. Based upon the evaluation described above, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2019, our disclosure controls and procedures were effective at the reasonable assurance level.

#### **Changes in internal control over financial reporting**

There has been no change in our internal control over financial reporting during the three months ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **Limitations on effectiveness of controls**

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

#### *Securities class action lawsuit*

On March 6, 2019, plaintiff William Fabbri filed a lawsuit against Inogen, Scott Wilkinson, and Alison Bauerlein, in the United States District Court for the Central District of California on behalf of a purported class of purchasers of the Company's securities between November 8, 2017 and February 26, 2019. On March 21, 2019, plaintiff Steven Friedland filed a substantially similar lawsuit against the same defendants in the same court. The complaints generally allege that the defendants failed to disclose that: (i) Inogen had overstated the true size of the total addressable market for its portable oxygen concentrators and had misstated the basis for its calculation of the total addressable market; (ii) Inogen had falsely attributed its sales growth to the strong sales acumen of its salesforce, rather than to deceptive sales practices; (iii) the growth in Inogen's domestic business-to-business sales to home medical equipment providers was inflated, unsustainable and was eroding direct-to-consumer sales; and (iv) very little of Inogen's business was coming from the Medicare market. The complaints seek compensatory damages in an unspecified amount, costs and expenses, including attorneys' fees and expert fees, prejudgment and post-judgment interest and such other relief as the court deems proper. We intend to vigorously defend ourselves against these allegations.

#### *Other litigation*

In the normal course of business, we are from time to time involved in various legal proceedings or potential legal proceedings, including matters involving employment, product liability and intellectual property. We carry insurance, subject to specified deductibles under our policies, to protect against losses from certain liabilities and costs. At this time, we do not anticipate that any of these proceedings will have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

### Item 1A. Risk Factors

*We operate in a rapidly changing environment that involves numerous uncertainties and risks. In addition to the other information included in this Quarterly Report on Form 10-Q, the following risks and uncertainties may have a material and adverse effect on our business, financial condition, results of operations, or stock price. You should consider these risks and uncertainties carefully, together with all of the other information included or incorporated by reference in this Quarterly Report on Form 10-Q. The risks and uncertainties described below may not be the only ones we face. If any of the risks or uncertainties we face were to occur, the trading price of our securities could decline, and you may lose all or part of your investment. This Quarterly Report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this report.*

#### **Risks related to our business and strategy**

***We face intense international, national, regional and local competition and if we are unable to compete successfully, it could have an adverse effect on our revenue, revenue growth rate, if any, and market share.***

The long-term oxygen therapy market is a highly competitive industry. We compete with a number of manufacturers and distributors of portable oxygen concentrators, as well as providers of other long-term oxygen therapy solutions such as home delivery of oxygen tanks or cylinders, stationary concentrators, transfilling concentrators, and liquid oxygen.

Our significant manufacturing competitors are Respironics (a subsidiary of Koninklijke Philips N.V.), Invacare Corporation, Caire Medical (subsidiary of NGK Spark Plug), DeVilbiss Healthcare (a subsidiary of Drive Medical), O2 Concepts, Precision Medical, Resmed, and Gas Control Equipment (subsidiary of Colfax). Additional competitors have also pre-announced upcoming product launches of portable oxygen concentrators expected in 2019 including 3B Medical, SysMed, and Bellascura. Given the relatively straightforward regulatory path in the oxygen therapy device manufacturing market, we expect that the industry will become increasingly competitive in the future. For example, some major competitors have implemented direct-to-consumer sales models which may increase their competitiveness and sales to patients and we have recently seen the cost per generated lead trend higher than historical averages that may in part be due to increased competition; however, these strategies are limited to direct-to-consumer sales and do not include direct-to-consumer rentals where they would be responsible to meet national accreditation and state-by-state licensing requirements and secure Medicare billing privileges. Manufacturing companies compete for sales to providers primarily on the basis of price, quality/reliability, financing, bundling, product features, and service.

For many years, Lincare, Inc. (a subsidiary of the Linde Group), Apria Healthcare, Inc., AdaptHealth (formerly QMES LLC), Aerocare Holdings, Inc. and Rotech Healthcare, Inc. have been among the market leaders in providing long-term oxygen therapy, while the remaining long-term oxygen therapy market is serviced by local providers. Because many long-term oxygen therapy providers may have difficulty providing service at the prevailing Medicare reimbursement rates, we expect more industry consolidation and volatility in ordering patterns based on how providers are restructuring their businesses and their access to capital. Oxygen therapy providers compete primarily on the basis of product features and service, rather than price, since reimbursement levels are established by Medicare and Medicaid, or by the individual determinations of private payors.

Some of our competitors are large, well-capitalized companies with greater resources than we have. As a consequence, they are able to spend more aggressively on product development, marketing, sales and other product initiatives than we can. Some of these competitors have:

- significantly greater name recognition;
- established relationships with healthcare professionals, customers and third-party payors;
- established distribution networks;
- additional lines of products, and the ability to offer rebates or bundle products to offer higher discounts, lower pricing, longer warranties, financing or extended terms, other incentives to gain a competitive advantage;
- greater history in conducting research and development, manufacturing, marketing and obtaining regulatory approval for oxygen device products; and
- greater financial and human resources for product development, sales and marketing, and patent litigation.

As a result, our competitors may be able to respond more quickly and effectively than we can due to new or changing opportunities, technologies, standard regulatory and reimbursement development and customer requirements. In light of these advantages that our competitors maintain, even if our technology and direct-to-consumer distribution strategy is more effective than the technology and distribution strategy of our competitors, including those who have adopted or may in the future adopt direct-to-consumer sales models, current or potential customers might accept competitor products and services in lieu of purchasing our products. We anticipate that we will face increased competition in the future as existing companies and competitors develop new or improved products and distribution strategies and as new companies enter the market with new technologies and distribution strategies. We may not be able to compete effectively against these organizations. Our ability to compete successfully and to increase our market share is dependent upon our reputation for providing responsive, professional and high-quality products and services and achieving strong customer satisfaction. Increased competition in the future could adversely affect our revenue, revenue growth rate, margins and market share.

***If we are unable to continue to enhance our existing products and develop and market new products that respond to customer needs and preferences and achieve market acceptance, we may experience a decrease in demand for our products and our business could suffer.***

We may not be able to compete as effectively with our competitors and ultimately satisfy the needs and preferences of our customers unless we can continue to enhance existing products and develop new innovative products. Product development requires significant financial, technological and other resources. While we expended \$1.7 million and \$1.4 million for the three months ended March 31, 2019 and March 31, 2018, respectively, for research and development efforts, we cannot assure that this level of investment will be sufficient to maintain a competitive advantage in product innovation, which could cause our business to suffer. Product improvements and new product introductions also require significant planning, design, development, patent protection, and testing at the technological, product, and manufacturing process levels and we may not be able to timely develop product improvements or new products or obtain necessary patent protection and regulatory clearances or approvals for such product improvements or new products in a timely manner, or at all. Our competitors' new products may enter the market before our new products reach market, be more effective with more features, obtain better market acceptance, or render our products obsolete. Any new products that we develop may not receive market acceptance or otherwise generate any meaningful sales or profits for us relative to our expectations based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs and research and development.

***We depend on a limited number of customers for a significant portion of our sales revenue and the loss of, or a significant shortfall in demand from, these customers could have a material adverse effect on our financial condition and operating results.***

We receive a significant amount of our sales revenue from a limited number of customers, including distributors, HME oxygen providers, our private label partner and resellers. For the three months ended March 31, 2019 and March 31, 2018, sales revenue to our top 10 customers accounted for approximately 34.8% and 40.4%, respectively, of our total revenue. No single customer represented more than 10% of our total revenue for the three months ended March 31, 2019 and one single customer represented more than 10% of our total revenue for the three months ended March 31, 2018. We expect that sales to relatively few customers will continue to account for a significant percentage of our total revenue in future periods. Our future success will significantly depend upon the timing and volume of business from our largest customers and the financial and operational success of these customers. However, we can provide no assurance that any of these customers or any of our other customers will continue to purchase our products at current levels, pricing, or at all, and our revenue could fluctuate significantly due to changes in customer order levels, economic conditions, the adoption of competitive products, or the loss of, reduction of business with, or less favorable terms with any of our largest customers. For example, we have previously experienced a decline in sales to one large national homecare provider who purchased through our private label partner. If we were to lose one of our key customers or have a key customer significantly reduce its volume of business with us, such as we previously experienced with the large national homecare provider, our revenue may be materially reduced and there would be an adverse effect on our business, financial condition and results of operations.

***We obtain some of the components, subassemblies and completed products included in our Inogen One systems and our Inogen At Home systems from a single source or a limited group of manufacturers or suppliers, and the partial or complete loss of one or more of these manufacturers or suppliers could cause significant production delays, an inability to meet customer demand, substantial loss in revenue, and an adverse effect on our financial condition and results of operations.***

We utilize single-source suppliers for some of the components and subassemblies we use in our Inogen One systems and our Inogen At Home systems. For example, we have elected to source certain key components from single sources of supply, including our batteries, motors, valves, and some molded plastic components. Our dependence on single-source suppliers of components may expose us to several risks, including, among other things:

- our suppliers may encounter financial hardships as a result of unfavorable economic and market conditions unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements;
- suppliers may fail to comply with regulatory requirements, be subject to lengthy compliance, validation or qualification periods, or make errors in manufacturing components that could negatively affect the performance or safety of our products or cause delays in supplying of our products to our customers;
- newly identified suppliers may not qualify under the stringent quality regulatory standards to which our business is subject, which could inhibit their ability to fulfill our orders and meet our requirements;
- we or our suppliers may not be able to respond to unanticipated changes in customer orders, and if orders do not match forecasts, we or our suppliers may have excess or inadequate inventory of materials and components;
- we may be subject to price fluctuations due to a lack of long-term supply arrangements for key components or changes in import tariffs;
- we may experience delays in delivery by our suppliers due to customs clearing delays, shipping delays, scarcity of raw materials or changes in demand from us or their other customers;
- we or our suppliers may lose access to critical services and components, resulting in an interruption in the manufacture, assembly and shipment of our systems;
- our suppliers may be subject to allegations by other parties of misappropriation of proprietary information in connection with their supply of products to us, which could inhibit their ability to fulfill our orders and meet our requirements;
- fluctuations in demand for products that our suppliers manufacture for others may affect their ability or willingness to deliver components to us in a timely manner;
- our suppliers may wish to discontinue supplying components or services to us; and
- we may not be able to find new or alternative components or reconfigure our system and manufacturing processes in a timely manner if the necessary components become unavailable.

We have in the past experienced supply problems with some of our suppliers and may again experience problems in the future. For example, we have previously had issues with our suppliers sourcing certain components of our Inogen One products. If we had not been able to obtain sufficient quantities of the required component, we would have been required to delay manufacturing until additional supplies become available, or we would have been required to validate an alternative component. We may not be able to quickly establish additional or replacement suppliers, particularly for our single source components or subassemblies. Any interruption or delay in the supply of components or subassemblies, or our inability to obtain components or subassemblies from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers and cause them to cancel orders or switch to competitive products.

In addition, we may be deemed to manufacture or contract to manufacture products that contain certain minerals that have been designated as “conflict minerals” under the Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result, we may be required to perform due diligence to determine the origin of such minerals and disclose and report whether or not such minerals originated in the Democratic Republic of the Congo or adjoining countries. The implementation of these requirements could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of our products. In addition, we have incurred additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. If any of these risks materialize, costs could significantly increase and our ability to meet demand for our products could be impacted. If we fail to comply with the applicable regulations, we could be required to pay civil penalties, face criminal prosecution and, in some cases, be prohibited from distributing our products in commerce until the products or component substances are brought into compliance. If we are unable to satisfy commercial demand for our Inogen One systems and Inogen At Home systems in a timely manner, our ability to generate revenue would be impaired, market acceptance of our products could be adversely affected, and customers may instead purchase or use alternative products. In addition, we could be forced to secure new or alternative components and subassemblies through a replacement supplier. Finding alternative sources for these components and subassemblies could be difficult in certain cases and may entail a significant amount of time and disruption. In some cases, we would need to change the components or subassemblies if we sourced them from an alternative supplier. This, in turn, could require a redesign of our Inogen One systems and Inogen At Home systems and, potentially, require additional Food and Drug Administration (FDA) clearance or approval before we could use any redesigned product with new components or subassemblies, thereby causing further costs and delays that could adversely affect our business, financial condition and results of operations.

***A significant majority of our rental patients who use our product have health coverage under the Medicare program, and recently enacted and future changes in the reimbursement rates or payment methodologies under Medicare, Medicaid and other government programs have affected and could continue to materially and adversely affect our business and operating results.***

As a provider of oxygen rentals, we depend heavily on Medicare reimbursement as a result of the higher proportion of elderly persons suffering from chronic long-term respiratory conditions. Medicare Part B, or Supplementary Medical Insurance Benefits, provides coverage to eligible beneficiaries that include items of durable medical equipment for use in the home, such as oxygen equipment and other respiratory devices. We believe that approximately 60% of long-term oxygen therapy patients in the United States have primary coverage under traditional fee-for-service Medicare Part B. There are increasing pressures on Medicare to control healthcare costs and to reduce or limit reimbursement rates for home medical products.

Legislation, including the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, the Deficit Reduction Act of 2005, the Medicare Improvements for Patients and Providers Act of 2008, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, and the 21<sup>st</sup> Century Cures Act (Cures Act) contain provisions that directly impact reimbursement for the durable medical equipment products provided by us:

- The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 significantly reduced reimbursement for inhalation drug therapies beginning in 2005, reduced payment amounts for certain durable medical equipment, including oxygen, beginning in 2005, froze payment amounts for other covered home medical equipment items through 2008, established a competitive bidding program for home medical equipment and implemented quality standards and accreditation requirements for durable medical equipment suppliers.
- The Deficit Reduction Act of 2005 limited the total number of continuous rental months for which Medicare will pay for oxygen equipment to 36 months, after which time there is generally no additional reimbursement to the supplier (other than for periodic, in-home maintenance and servicing). The Deficit Reduction Act of 2005 also provided that title of the equipment would transfer to the beneficiary, which was later repealed by the Medicare Improvements for Patients and Providers Act of 2008. For purposes of the rental cap, the Deficit Reduction Act of 2005 provided for a new 36-month rental period that began January 1, 2006 for all oxygen equipment. After the 36th continuous month during which payment is made for the oxygen equipment, the supplier is generally required to continue to furnish the equipment during the period of medical need for the remainder of the useful lifetime of the equipment, provided there are no breaks in service due to medical necessity that exceed 60 days. The reasonable useful lifetime for our portable oxygen equipment is 60 months. After 60 months, if the patient requests, and the patient meets Medicare coverage criteria, the rental cycle

starts over and a new 36-month rental period begins. There are no limits on the number of 60-month cycles over which a Medicare patient may receive benefits and an oxygen therapy provider may receive reimbursement, so long as such equipment continues to be medically necessary for the patient. We anticipate that the Deficit Reduction Act of 2005 oxygen payment rules will continue to negatively affect our net revenue on an ongoing basis, as each month additional customers reach the capped rental period in month thirty-seven, resulting in potentially two or more years without rental income from these customers while we continue to incur customer service and maintenance costs. Our capped patients as a percentage of total patients on service was approximately 19.5% as of March 31, 2019, which is higher than the capped patients as a percentage of total patients on service of approximately 16.9% as of March 31, 2018. The percentage of capped patients may fluctuate over time as new patients come on service, patients come off of service before and during the capped rental period, and existing patients enter the capped rental period. We cannot predict the potential impact to rental revenues in future periods associated with patients in the capped rental period.

- The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, includes, among other things, new face-to-face physician encounter requirements for certain durable medical equipment and home health services, and a requirement that by 2016, the competitive bidding process must be nationalized or prices in non-competitive bidding areas must be adjusted to match competitive bidding prices. As of January 1, 2017, CMS has decreased prices for durable medical equipment in non-competitive bidding areas to match competitive bidding prices.
- The Cures Act was passed in December 2016 and included a provision to roll-back the second cut to the non-CBA areas that was effective July 1, 2016 through December 31, 2016. Reimbursement in these areas was increased to the rates experienced in the period from January 1, 2016 through June 30, 2016. This led to a benefit in rental revenue of \$2.0 million in the fourth quarter of 2016 and \$0.2 million in the first quarter of 2017. Effective January 1, 2017, rates are set at 100% of the adjusted fee schedule amount, based on the regional competitive bidding rates. The Cures Act also called for a study of the impact of the competitive bidding pricing on rural areas.

These legislative provisions as currently in effect have had and may continue to have a material and/or adverse effect on our business, financial condition and results of operations.

The Health and Human Services (HHS) Office of Inspector General (OIG) has recommended states to review Medicaid reimbursement for durable medical equipment (DME) and supplies. The OIG cites an earlier report estimating that four states (California, Minnesota, New York, and Ohio) could have saved more than \$18.1 million on selected DME items if their Medicaid prices were comparable to those under round one of the Medicare competitive bidding program. Since issuing those reports, the OIG identified \$12 million in additional savings that the four states could have obtained on the selected items by using pricing similar to the Medicare round two competitive bidding and national mail-order programs. In light of varying Medicaid provider rates for DME and the potential for lower spending, the OIG recommends that CMS (1) seek legislative authority to limit state Medicaid DME reimbursement rates to Medicare program rates, and (2) encourage further reduction of Medicaid reimbursement rates through competitive bidding or manufacturer rebates (the OIG did not determine the cost of implementing a rebate or competitive bidding program in each state). This was effective beginning January 1, 2018.

On January 28, 2016, the Department of Health and Human Services (DHHS) published a final rule to implement Medicare's face-to-face provisions for home health and DME under the Medicaid program, effective July 1, 2016. Medicaid programs are run by state agencies that must coordinate with state legislative bodies, therefore the state agencies have until July 1, 2017 or July 1, 2018 (depending on the timing of their legislative sessions) to allow state agencies to publish compliant initiatives on this rule. All states except Montana, Nevada, North Dakota, and Texas were expected to initiate this requirement effective July 1, 2017. Montana, Nevada, North Dakota, and Texas were expected to implement the requirements by July 1, 2018. The Medicaid definition of medical supplies, equipment and appliances were aligned with the Medicare definitions. In addition, the DHHS has implemented the requirement for a face-to-face visit related to the beneficiary's primary need for medical equipment within 6 months prior to the start of certain durable medical equipment services, including oxygen. These legislative provisions could have an adverse effect on our business, financial condition and results of operations.

Due to budgetary shortfalls, many states are considering, or have enacted, cuts to their Medicaid programs. In addition, many private payors bill at a percentage of the Medicare rates. Medicare, Medicaid and private payor reimbursement rate cuts have included, or may include, elimination or reduction of coverage for our products, amounts eligible for payment under co-insurance arrangements, or payment rates for covered items. Continued state budgetary pressures could lead to further reductions in funding for the reimbursement for our products which, in turn, would adversely affect our business, financial condition and results of operations.

On January 17, 2017, the U.S. Department of Health and Human Services published a final rule effective March 20, 2017 to address the appeals backlog that includes allowing certain decisions to be made by the Medicare Appeals Council to set precedent for lower levels of appeal, expansion of the pool of available adjudicators, and increasing decision-making consistency among the levels of appeal. In addition, it included provisions to improve the efficiency by streamlining the appeals process, allowing attorneys to handle some procedural matters at the administrative law judge level, and proposed funding increases and legislative actions outlined in the federal budget for 2017. DHHS estimates this could eliminate the backlog in appeals by 2021. However, if this plan is not effective, the appeals backlog could increase, which could increase our collection times and decrease our cash flow, increase billing administrative costs, and/or increase the provision for rental revenue adjustments, which would adversely affect our business, financial condition and results of operations.

***The competitive bidding process under Medicare could negatively affect our business and financial condition.***

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 requires the Secretary of Health and Human Services to establish and implement programs under which competitive acquisition areas are established throughout the United States for purposes of awarding contracts for the furnishing of competitively priced items of durable medical equipment, including oxygen equipment.

Effective January 1, 2019, Medicare beneficiaries may receive durable medical equipment from any Medicare-enrolled supplier until new contracts are in effect under the next round of competitive bidding, which is not expected until January 1, 2021. Reimbursement rates between January 1, 2019 and December 31, 2020 will be set at the current pricing level throughout the United States for all Medicare patients, subject to Consumer Price Index (CPI) and budget neutrality adjustments. Pricing in competitive bidding areas will be subject to annual CPI adjustments beginning in 2019 until the next bidding round takes place. However, CMS also changed the calculation on budget neutrality to apply the offset to all oxygen and oxygen equipment classes beginning January 1, 2019 instead of previously only applying these adjustments to stationary oxygen equipment and oxygen contents. Based on these CPI and budget neutrality adjustments, effective January 1, 2019, the average Medicare rates were reduced to \$72.92 a month for E1390 and \$35.72 a month for E1392 in these regions that were previously subject to competitive bidding. Medicare also established new payment classes for liquid oxygen equipment and high flow portable liquid oxygen contents effective January 1, 2019.

In the next round of DMEPOS competitive bidding program, there have been some revisions to the bidding methodology including the plan to implement surety bond requirements, lead item pricing, and setting reimbursement rates at the maximum winning bid rate instead of the median winning bid rate. In the prior round of competitive bidding, the product category where our products fell was respiratory equipment and related supplies and accessories, which included oxygen equipment, continuous positive airway pressure (CPAP) devices and respiratory assist devices (RADs) and related supplies and accessories. In the next round of bidding, oxygen and oxygen equipment is its own product category and the lead item has been established as E1390. However, due to the lead item pricing methodology based on the 2015 standard Medicare fee schedule, E1392 reimbursement rates could be reduced significantly (we estimate approximately 42%) even if E1390 reimbursement rates do not change. This would lead to combined E1390 plus E1392 reimbursement rates to decrease by approximately 15%. The bidding window is scheduled to open in June 2019. It is unclear how pricing will be impacted due to these new bids. We expect additional clarity on the next round of competitive bidding in June 2019 when the bidding window opens, however we don't expect contracts and pricing to be announced until 2020.

In addition to regional pricing, CMS imposed different pricing on "frontier states" and rural areas. CMS defines frontier states as states where more than 50% of the counties in the state have a population density of 6 people or less per square mile and rural states are defined as states where more than 50% of the population lives in rural areas per census data. Current frontier states include MT, ND, SD and WY; rural states include ME, MS, VT and WV; and non-contiguous United States areas include AK, HI, Guam and Puerto Rico. Effective June 1, 2018 through December 31, 2020, for frontier and rural states, frontier and rural zip codes in non-frontier/rural states and non-contiguous United States areas, the single payment amount will be the 50/50 blended reimbursement rates based on an average of the pre-competitive reimbursement bidding rates and the current average reimbursement rates to account for higher servicing costs in these areas. We estimate that less than 15% of our patients are eligible to receive the higher reimbursement rates based on the geographic locations of our current patient population.

Cumulatively in previous rounds of competitive bidding, we were offered contracts for a substantial majority of the CBAs and product categories for which we submitted bids. Effective January 1, 2017, we believe we had access to over 85% of the Medicare oxygen therapy market based on our analysis of the 103 CBAs that we won out of the 130 total CBAs. These 130 CBAs represent approximately 59% of the market with the remaining approximately 41% of the market not subject to competitive bidding. As of January 1, 2019, we can now choose to accept Medicare oxygen patients throughout the United States. As of July 2018, we currently operate in all 50 states in the U.S. We did not sell or rent to patients in Hawaii due to the licensure requirements from inception to June 2018.

We cannot guarantee that we will be offered contracts in subsequent rounds of competitive bidding. In all five rounds of competitive bidding in which we have participated, we have gained access to certain CBAs and been excluded from other CBAs.

Medicare revenue, including patient co-insurance and deductible obligations, represented 4.9% of our total revenue in the three months ended March 31, 2019.

Medicare reimbursement for oxygen rental equipment is limited to a maximum of 36 months within a 60-month service period, and the equipment remains the property of the home oxygen supplier. The supplier that billed Medicare for the 36th month of service continues to be responsible for the patient's oxygen therapy needs for months 37 through 60, and there is generally no additional reimbursement for oxygen generating portable equipment for these later months. CMS does not separately reimburse suppliers for oxygen tubing, cannulas and supplies that may be required for the patient. The supplier is required to keep the equipment provided in working order and in some cases, CMS will reimburse for repair costs. At the end of the five-year useful life of the equipment, the patient may request replacement equipment and, if he or she can be re-qualified for the Medicare benefit, a new maximum 36-month payment cycle out of the next 60 months of service would begin. The supplier may not arbitrarily issue new equipment. We have analyzed the potential impact to revenue associated with patients in the capped rental period and have deferred \$0 associated with the capped rental period as of March 31, 2019 and March 31, 2018. Our capped patients as a percentage of total patients on service was approximately 19.5% as of March 31, 2019, which is higher than the capped patients as a percentage of total patients on service of approximately 16.9% as of March 31, 2018. The percentage of capped patients may fluctuate over time as new patients come on service, patients come off of service before and during the capped rental period, and existing patients enter the capped rental period.

Our obligations to service Medicare patients over the rental period include supplying working equipment that meets each patient's oxygen needs pursuant to his/her doctor's prescription and certificate of medical necessity form and supplying all disposables required for the patient to operate the equipment, including cannulas, filters, replacement batteries, carts and carry bags, as needed. If the equipment malfunctions, we must repair or replace the equipment. We determine what equipment the patient receives, as long as that equipment meets the physician's prescription, and we can deploy used assets in working order as long as the prescription requirements are met. We must also procure a recertification of the certificate of medical necessity from the patient's doctor to confirm the patient's need for oxygen therapy one year after the patient first receives oxygen therapy and one year after each new 36-month reimbursement period begins. The patient can choose to receive oxygen supplies and services from another supplier at any time, but the supplier may only transition the patient to another supplier in certain circumstances.

On November 2, 2017, a bi-partisan bill was introduced in the House of Representatives that would provide relief from competitive bidding in non-bid areas. As of March 31, 2019, there were 158 co-sponsors on this bill. If passed, the bill would extend a retroactive delay of a second round of reimbursement cuts for Medicare beneficiaries from January 1, 2017 to January 1, 2019 based on the reimbursement rates effective on January 1, 2016. The legislation also proposes to remedy a double-dip cut to oxygen payments caused by the misapplication of a 2006 budget neutrality offset balancing increased utilization for oxygen generating portable equipment with lower reimbursement for stationary equipment.

On March 11, 2019, the current presidential administration sent Congress a 2020 budget proposal that included language on competitive bidding. Specifically, the proposal would eliminate the requirement under the competitive bidding program that CMS pay a single payment amount based on the median bid price, proposing instead that CMS pay winning suppliers at their own bid amounts. Additionally, this proposal would expand competitive bidding to all areas of the country, including rural areas, which will be based on competition in those areas rather than on competition in urban areas. This specific proposal is estimated to save the government \$7.1 billion in Medicare savings and \$0.4 billion in Medicaid savings over 10 years. In addition to changes to competitive bidding, the 2020 budget proposal would enable CMS not to impose the face-to-face requirement on all providers for durable medical equipment. Furthermore, the proposal seeks to address excessive billing of durable medical equipment that requires refills or serial claims. Specifically, Medicare would gain authority to test whether using a benefits manager for serial durable medical equipment claims would result in lower improper payments and reductions in inappropriate utilization. The benefits manager would be responsible for ensuring beneficiaries were receiving the correct quantity of supplies or service for the appropriate time period. In addition, the proposal allows an administrative penalty of \$50 for Part B items/services and \$100 for Part A services on providers for ordering high-risk, high-cost items or services without proper documentation, such as diagnosis or encounter data. Lastly, the proposal would expand prior authorization to additional items and services that are both high-cost and at high-risk for improper payments. These provisions were not included in the latest omnibus budget, so it is unclear if any of these proposals will be implemented. We believe additional cuts to reimbursement would continue to drive conversion to non-delivery technologies, including portable oxygen concentrators, however this could also exacerbate patient access issues for treatment.



Although we continue to monitor developments regarding the implementation of the competitive bidding program, we cannot predict the outcome of the competitive bidding program on our business when fully implemented, nor the Medicare reimbursement rates that will be in effect in future years for the items subject to competitive bidding, including our products. We expect that the stationary oxygen and non-delivery ambulatory oxygen reimbursement rates will continue to fluctuate, and a large negative payment adjustment would adversely affect our business, financial condition and results of operations.

***The Medicare Fee-For-Service (FFS) sequestration reduction has and may continue to negatively affect our revenue and profits.***

Medicare FFS claims with dates of service on or after April 1, 2013 are subject to a 2% reduction in Medicare payment, including claims for DMEPOS, including in competitive bidding areas. The claims payment adjustment is applied to all claims after determining co-insurance, any applicable deductible, and any applicable Medicare secondary payment adjustments. These reductions are included in rental revenue adjustments. This sequestration reduction will continue until further notice. As a result, this could adversely affect our financial condition and results of operations.

***The implementation of prior authorization rules for DMEPOS under Medicare could negatively affect our business and financial condition.***

CMS has issued a final rule to require Medicare prior authorization (PA) for certain durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) that the agency characterizes as “frequent subject to unnecessary utilization”. The final rule was published on December 30, 2015 and specified an initial master list of 135 items that could potentially be subject to PA. Initially stationary oxygen rentals (code E1390) was included on the master list, but it was later removed from the master list. On April 19, 2019, stationary oxygen rentals (E1390) was again added to the list of potential codes that could be subject to PA. The master list will be updated annually and published in the Federal Register. The presence of an item on the master list does not automatically mean that a PA is required. CMS will select a subset of these master list items for its “Required Prior Authorization List”. There will be a notice period of at least 60 days prior to implementation. The ruling does not create any new clinical documentation requirements; instead the same information necessary to support Medicare payment will be required *prior* to the item being furnished to the beneficiary. CMS has proposed that reasonable efforts are made to provide a PA decision within 10 days of receipt of all applicable information, unless this timeline could seriously jeopardize the life or health of the beneficiary or the beneficiary’s ability to regain maximum function, in which case the proposed PA decision would be 2 business days. CMS will issue additional subregulatory guidance on these timelines in the future. If our products are subject to prior authorization, it could reduce the number of patients qualified to come on service using their Medicare benefits, it could delay the start of those patients while we wait for the prior authorization to be received, and/or it could decrease sales productivity. As a result, this could adversely affect our business, financial conditions and results of operations.

***Healthcare reform measures may have a material adverse effect on our business and results of operations.***

In the United States, the legislative landscape, particularly as it relates to healthcare regulation and reimbursement coverage, continues to evolve. In March 2010, the Patient Protection and Affordable Care Act was passed, which has the potential to substantially change healthcare financing by both governmental and private insurers, and significantly impact the U.S. medical device industry.

In addition, other legislative changes have been proposed and adopted in the United States since the Patient Protection and Affordable Care Act was enacted. On August 2, 2011, the Budget Control Act of 2011 created, among other things, measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation’s automatic reduction to several government programs. This includes aggregate reductions of Medicare reimbursements to providers up to 2% per fiscal year, which went into effect on April 1, 2013, and will remain in effect through 2024 unless additional Congressional action is taken. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our products or additional pricing pressures.

In addition to the legislative changes discussed above, the Patient Protection and Affordable Care Act also requires healthcare providers to voluntarily report and return an identified overpayment within 60 days after identifying the overpayment. Failure to repay the overpayment within 60 days will result in the claim being considered a “false claim” and the healthcare provider will be subject to False Claims Act liability.

State legislative bodies also have the right to enact legislation that would impact requirements of home medical equipment providers, including oxygen therapy providers. Some states have already enacted legislation that would require in-state facilities. We are monitoring all state requirements to maintain compliance with state-specific legislation and access to service patients in these states. To the extent such legislation is enacted, it could result in increased administrative costs or otherwise exclude us from doing business in a particular state, which would adversely impact our business, financial condition and results of operations.

We face uncertainties that might result from modification or repeal of any of the provisions of the Patient Protection and Affordable Care Act, including as a result of current and future executive orders and legislative actions. The impact of those changes on us and potential effect on the durable medical equipment industry as a whole is currently unknown. But, any changes to the Patient Protection and Affordable Care Act are likely to have an impact on our results of operations and may have a material adverse effect on our results of operations. We cannot predict what other healthcare programs and regulations will ultimately be implemented at the federal or state level or the effect of any future legislation or regulation in the United States may have on our business.

***We depend upon reimbursement from Medicare, private payors, Medicaid and payments from patients for a significant portion of our revenue, and if we fail to manage the complex and lengthy reimbursement process, our business and operating results could be adversely affected.***

A significant portion of our rental revenue is derived from reimbursement by third-party payors. We accept assignment of insurance benefits from customers and, in a majority of cases, invoice and collect payments directly from Medicare, private payors and Medicaid, as well as direct from patients under co-insurance provisions. For the three months ended March 31, 2019 and March 31, 2018, approximately 6.0% and 6.9%, respectively, of our total revenue was derived from Medicare, private payors, Medicaid, and individual patients who directly receive reimbursement from third-party payors and this percentage could increase as a percent of total revenue if we increase net patient additions faster than our sales revenue growth.

Our financial condition and results of operations may be affected by the healthcare industry's reimbursement process, which is complex and can involve lengthy delays between the time that a product is delivered to the consumer and the time that the reimbursement amounts are settled. Depending on the payor, we may be required to obtain certain payor-specific documentation from physicians and other healthcare providers before submitting claims for reimbursement. Certain payors have filing deadlines and they will not pay claims submitted after such time. We are also subject to extensive pre-payment and post-payment audits by governmental and private payors that could result in material delays, refunds of monies received or denials of claims submitted for payment under such third-party payor programs and contracts. We cannot ensure that we will be able to continue to effectively manage the process, it would adversely affect our business, financial condition and results of operations.

***We do not have long-term supply contracts with many of our third-party suppliers.***

We purchase components and subassemblies from third-party suppliers, including some of our single-source suppliers, through purchase orders and do not have long-term supply contracts with many of these third-party suppliers. Many of our third-party suppliers, therefore, are not obligated to perform services or supply products to us for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order. We do not maintain large volumes of inventory from most of these suppliers. If we inaccurately forecast demand or fail to place orders timely enough relative to fluctuating lead time requirements for components or subassemblies, our ability to manufacture and commercialize our Inogen One systems and Inogen At Home systems could be delayed and our competitive position and reputation could be harmed. In addition, if we fail to effectively manage our relationships with these suppliers, we may be required to change suppliers which would be time consuming and disruptive and could adversely affect our business, financial condition and results of operations.

***If our manufacturing facilities become unavailable or inoperable, we could be unable to continue manufacturing our Inogen One systems and Inogen At Home systems and, as a result, our business, financial condition and results of operations could be adversely affected until we are able to secure a new facility.***

We assemble our Inogen One concentrators and Inogen At Home concentrators at our facilities in Richardson, Texas and Goleta, California and through our contract manufacturer in the Czech Republic. In the fourth quarter of 2017, we began using a contract manufacturer in the Czech Republic to assemble our Inogen One G3 concentrators for our international customers. No other manufacturing facilities are currently available to us, particularly facilities of the size and scope of our Texas facility. Our facilities and the equipment we use to manufacture our Inogen One systems and Inogen At Home systems would be costly to replace and could require substantial lead time to procure, repair or replace. Our facilities may be harmed or rendered inoperable by natural or man-made disasters, including, but not limited to, fire, flood, earthquakes and power outages, which may render it difficult or impossible for us to manufacture our products for some period of time. If any of our facilities become unavailable to us, we cannot provide assurances that we will be able to secure and equip a new manufacturing facility on acceptable terms, in a timely manner. The inability to manufacture our products, combined with delays in replacing parts inventory and manufacturing supplies and equipment, may result in the loss of

customers and/or harm our reputation, and we may be unable to reestablish relationships with those customers in the future. Although we have insurance coverage for certain types of disasters and business interruptions which may help us recover some of the costs of damage to our property, costs of recovery and lost income from the disruption of our business, insurance coverage of certain perils may be limited or unavailable at cost effective rates and may therefore not be sufficient to cover any or all of our potential losses and may not continue to be available to us on acceptable terms, or at all. If our manufacturing capabilities are impaired, we could not be able to manufacture, store, and ship our products in sufficient quantity or a cost effective or timely manner, which would adversely affect our business, financial condition and results of operations.

***We rely upon a third-party contract manufacturer for certain manufacturing operations and our business and results of operations may be adversely affected by risks associated with their business, financial condition and the geography in which they operate.***

Beginning in the fourth quarter of 2017, we began utilizing a third-party contract manufacturer located in the Czech Republic for production of a portion of our Inogen One G3 concentrators. In 2018, our contract manufacturer produced the vast majority of the Inogen One G3 concentrators required to support our European demand and we expect this to continue in 2019. There are a number of risks associated with our dependence on a contract manufacturer, including:

- reduced control over delivery schedules and planning;
- reliance on the quality assurance procedures of a third party;
- risks associated with our contract manufacturer failing to manufacture our products according to our specifications, quality regulations, including the FDA's Quality System regulations, or otherwise manufacturing products that we or regulatory authorities deem to be unsuitable for commercial use;
- risks associated with our contract manufacturer's ability to successfully undergo FDA and other regulatory authority quality inspections;
- potential uncertainty regarding manufacturing yields and costs;
- availability of manufacturing capability and capacity, particularly during periods of high demand;
- risks and uncertainties associated with the location or country where our products are manufactured, including potential manufacturing disruptions caused by social, geopolitical or environmental factors;
- changes in U.S. law or policy governing foreign trade, manufacturing, development and investment in the countries where we manufacture our products, including the World Trade Organization Information Technology Agreement or other free trade agreements;
- delays in delivery by suppliers due to customs clearing delays, shipping delays, scarcity of raw materials and changes in demand from us or their other customers;
- limited warranties provided to us; and
- potential misappropriation of our intellectual property.

These and other risks could impair our ability to fulfill orders, harm our sales and impact our reputation with customers. If our contract manufacturer is unable or unwilling to manufacture our products or components of our products, or if our contract manufacturer discontinues operations, we may be required to identify and qualify alternative manufacturers, which could cause us to be unable to meet our supply requirements to our customers and result in the breach of our customer agreements. The process of qualifying a new contract manufacturer and commencing volume production is expensive and time-consuming, and if we are required to change or qualify a new contract manufacturer, we would likely lose sales revenue and damage our existing customer relationships.

***Failure to maintain or obtain new private payor contracts and future reductions in reimbursement rates from private payors could have a material adverse effect on our financial condition and results of operations.***

A portion of our rental revenue is derived from private payors. Based on our patient population, we estimate approximately 40% of potential customers have non-Medicare insurance coverage (including Medicare Advantage plans). Failing to maintain and obtain private payor contracts from private insurance companies and employers and secure in-network provider status could have a material adverse effect on our financial condition and results of operations. In addition, private payors are under pressure to increase profitability and reduce costs. In response, certain private payors are limiting coverage or reducing reimbursement rates for the products we provide. We believe that private payor reimbursement levels will generally be reset in accordance with the Medicare reimbursement amounts determined by competitive bidding. We cannot predict the extent to which reimbursement for our products will be affected by competitive bidding or by initiatives to reduce costs for private payors. Failure to maintain or obtain new private payor contracts or the unavailability of third-party coverage or inadequacy of reimbursement for our products would adversely affect our business, financial condition and results of operations.

***If we are unable to manage our anticipated growth effectively, our business could be harmed.***

The rapid growth of our business has placed a significant strain on our managerial and operational resources and systems. For example, as we have continued to grow our sales staff, the associated number of required leads has grown, and we have seen the cost per generated lead trend higher than historical averages. In addition, the sales reps we hired in 2018 on average are taking longer to come up the productivity curve than our historical target. To execute our anticipated growth successfully, we must continue to attract and retain capable personnel and manage and train them effectively, particularly related to sales representatives and supporting sales personnel. We must also upgrade our internal business processes and capabilities to create the scalability that a growing business demands.

We plan to continue the expansion of our facilities located in Richardson, Texas, Cleveland, Ohio, and Goleta, California. Domestic expansion, combined with our use of a contract manufacturer in Europe to produce a portion of our Inogen One G3 concentrators, is expected to be sufficient to meet our manufacturing needs. However, our anticipated growth will place additional strain on our supply chain and manufacturing facilities, resulting in an increased need for us to carefully monitor parts inventory, capable staffing and quality assurance. Any failure by us to manage the scalability of our process or other aspects of our growth effectively could have an adverse effect on our ability to achieve our development and commercialization goals and negatively affect our financial condition and results of operations.

***We may expand through acquisitions of, or investments in, other companies, each of which may divert our management's attention, result in additional dilution to our stockholders, increase expenses, disrupt our operations, and harm our results of operations.***

Our business strategy may, from time to time, include acquiring or investing in complementary services, technologies or businesses, such as our acquisition of MedSupport Systems B.V. in 2017. We cannot assure you that we will successfully identify suitable acquisition candidates, integrate or manage disparate technologies, lines of business, personnel and corporate cultures, realize our business strategy or the expected return on our investment, or manage a geographically dispersed company. Any such acquisition or investment could materially and adversely affect our financial condition and results of operations. The acquisition and integration process is complex, expensive and time-consuming, and may cause an interruption of, or loss of momentum in, product development and sales activities and operations of both companies, and we may incur substantial cost and expense, as well as divert the attention of management. We may issue equity securities which could dilute current stockholders' ownership, incur debt, assume contingent or other liabilities and expend cash in acquisitions, which could negatively impact our financial condition, stockholder equity, and stock price.

Acquisitions and other strategic investments involve significant risks and uncertainties, including:

- the potential failure to achieve the expected benefits of the combination or acquisition;
- unanticipated costs and liabilities;
- difficulties in integrating new products, businesses, operations, and technology infrastructure in an efficient and effective manner;
- difficulties in maintaining customer relations;
- the potential loss of key employees of the acquired businesses;
- the diversion of the attention of our senior management from the operation of our daily business;

- the potential adverse effect on our cash position to the extent that we use cash for the purchase price;
- the potential incurrence of interest expense and debt service requirements if we incur debt to pay for an acquisition;
- the potential issuance of securities that would dilute our stockholders' percentage ownership;
- the potential to incur large and immediate write-offs and restructuring and other related expenses; and
- the inability to maintain uniform standards, controls, policies, and procedures.

Any acquisition or investment could expose us to unknown liabilities. Moreover, we cannot assure you that we will realize the anticipated benefits of any acquisition or investment. In addition, our inability to successfully operate and integrate newly acquired businesses appropriately, effectively, and in a timely manner could impair our ability to take advantage of future growth opportunities and other advances in technology, as well as on our revenues, gross margins, and expenses.

***We may experience manufacturing problems or delays that could limit our growth or adversely affect our operating results***

Our Inogen One systems and Inogen At Home systems are manufactured using complex parts and processes, sophisticated equipment and strict adherence to design specifications and quality standards. Any unforeseen manufacturing problems, such as contamination of our facility, equipment malfunction or miscalibration, supply chain shortages, regulatory findings, or failure to strictly follow procedures or meet design specifications, could result in delays or shortfalls in production of our products. Identifying and resolving the cause of any such manufacturing issues could require substantial time and resources. If we are unable to keep up with demand for our products by successfully manufacturing and shipping our products in a timely and quality manner, our operating results could be impaired, market acceptance for our products could be adversely affected and our customers might instead purchase our competitors' products.

In addition, the introduction of new products may require the development of new manufacturing processes and procedures. While all of our products are assembled using essentially the same basic processes, significant changes in technology, programming, and other variations may be required to meet product specifications. Developing new processes can be very time consuming and affect quality, as such any unexpected difficulty in doing so could delay the introduction of a new product and our ability to produce sufficient quantities of existing products.

***We are exposed to the credit and non-payment risk of our HME providers, distributors, private label partners and resellers, especially during times of economic uncertainty and tight credit markets, which could result in material losses.***

We sell our products to certain HME providers, distributors, private label partner and resellers on unsecured credit, with terms that vary depending upon the customer's credit history, solvency, cash flow, credit limits and sales history, as well as prevailing terms with similarly situated customers and whether sufficient credit insurance can be obtained. Challenging economic conditions may impair the ability of our customers to pay for products they have purchased, and as a result, our reserve for doubtful accounts could increase and, even if increased, may turn out to be insufficient. Moreover, even in cases where we have insolvency risk insurance to protect against a customer's bankruptcy, insolvency or liquidation, this insurance typically contains a significant deductible and co-payment obligation and does not cover all instances of non-payment. Our exposure to credit risks of our business partners may increase if our business partners and their end customers are adversely affected by global or regional economic conditions. One or more of these business partners could delay payments or default on credit extended to them, either of which could adversely affect our business, financial condition and results of operations.

***We generate a substantial portion of our revenue internationally and are subject to various risks relating to such international activities, which could adversely affect our operating results. In addition, any disruption or delay in the shipping of our products, whether domestically or internationally, may have an adverse effect on our financial condition and results of operations.***

During the three months ended March 31, 2019 and March 31, 2018, approximately 21.9% and 21.4%, respectively, of our total revenue was generated from customers located outside of the United States. We believe that a significant percentage of our future revenue will continue to come from international sources as we expand our international operations and develop opportunities in other countries. Engaging in international business inherently involves a number of difficulties and risks, including:

- required compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act and U.K. Bribery Act, data privacy regulations, such as the European Union General Data Protection Regulation (GDPR), labor laws, and anti-competition regulations;
- export or import delays and restrictions;

- obtaining and maintaining regulatory clearances, approvals and certifications;
- laws and business practices favoring local companies;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- unstable economic, political, and regulatory conditions;
- supply chain complexities;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, tariffs, customs charges, bureaucratic requirements, and other trade barriers; and
- difficulties protecting or procuring intellectual property rights.

If one or more of these risks occurs, it could require us to dedicate significant resources to remedy, and if we are unsuccessful in finding a solution, our financial condition and results of operations will suffer.

[In addition, on June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union, commonly referred to as “Brexit.” In February 2017, the British Parliament voted in favor of allowing the British government to begin the formal process of Brexit and discussions with the European Union began in March 2017. Adverse consequences concerning Brexit or the future of the European Union could include deterioration in global economic conditions, instability in global financial markets, political uncertainty, volatility in currency exchange rates or adverse changes in the cross-border agreements currently in place, any of which could have an adverse impact on our financial results in the future.]

A significant amount of our international product sales are currently denominated in U.S. dollars and fluctuations in the value of the U.S. dollar relative to foreign currencies could decrease demand for our products and adversely impact our financial performance. For example, if the value of the U.S. dollar increases relative to foreign currencies, our products could become more costly to the international consumer and therefore less competitive in international markets. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in our net income or loss as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. For example, for the three months ended March 31, 2019, we experienced a net foreign currency loss of \$0.1 million, and for the three months ended March 31, 2018, we experienced a net foreign currency gain of \$0.4 million. Fluctuations in currency exchange rates could have an adverse impact on our financial results in the future. While we have a hedging program for Euros that attempts to manage currency exchange rate risks to an acceptable level based on management’s judgment of the appropriate trade-off between risk, opportunity, and cost, this hedging program does not completely eliminate the effects of currency exchange rate fluctuations. In addition, currency hedging may result in a reduction or increase in revenue should the currency strengthen or decline during the contract period. A discussion of the hedging program is contained in Item 7A, Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2018. Additional information on our hedging arrangements is also contained in Note 3 to the consolidated financial statements in this Quarterly Report on Form 10-Q.

We rely on shipping providers to deliver products to our customers globally. Labor, tariff, or World Trade Organization-related disputes, piracy, physical damage to shipping facilities or equipment caused by severe weather or terrorist incidents, congestion at shipping facilities, inadequate equipment to load, dock, and offload our products, energy-related tie-ups, or other factors could disrupt or delay shipping or offloading of our products domestically and internationally. Such disruptions or delays may have an adverse effect on our financial condition and results of operations.

***Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, and similar laws associated with our activities outside of the United States could subject us to penalties and other adverse consequences.***

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the United Kingdom Bribery Act of 2010 and possibly other anti-corruption, anti-bribery and anti-money laundering laws in the more than forty countries around the world where we conduct activities and sell our products. We face significant risks and liability if we fail to comply with the FCPA and other anti-corruption and anti-bribery laws that prohibit companies and their employees and third-party business partners, such as distributors or resellers, from authorizing, offering or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties or candidates, employees of public international organizations including healthcare professionals, or private-sector recipients for the corrupt purpose of obtaining or retaining business, directing business to any person, or securing any advantage.

We leverage various third parties to sell our products and conduct our business abroad. We, our distributors and channel partners, and our other third-party intermediaries and manufacturer may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities (such as in the context of obtaining government approvals, registrations, or licenses) and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. In many foreign countries, particularly in countries with developing economies, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. We provide training to all employees, including management, to ensure compliance with the FCPA. As such, we intend to continue to implement an FCPA/anti-corruption compliance program to ensure compliance with such laws but cannot assure you that all of our employees and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies and applicable law, for which we have to defend ourselves and may be ultimately held responsible.

Any violation of the FCPA, other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, which could have a material and adverse effect on our reputation, business, operating results and prospects. In addition, responding to any enforcement action or related investigation may result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

***If we fail to comply with U.S. export control and economic sanctions or fail to expand and maintain an effective sales force or successfully develop our international distribution network, our business, financial condition and results of operations may be adversely affected.***

We currently derive the majority of our revenue from rentals or sales generated from our own direct sales force. Failure to maintain or expand our direct sales force could adversely affect our financial condition and results of operations. Additionally, we use international distributors to augment our sales efforts, certain of which are exclusive distributors in certain foreign countries. We cannot assure you that we will be able to successfully retain or develop our relationships with third-party distributors internationally. In addition, we are subject to United States export control and economic sanctions laws relating to the sale of our products, the violation of which could result in substantial penalties being imposed against us. In particular, we have secured annual export licenses from the U.S. Treasury Department's Office of Foreign Assets Control to sell our products to a distributor and hospital and clinic end-users in Iran. The use of this license requires us to observe strict conditions with respect to products sold, end-user limitations and payment requirements. Although we believe we have maintained compliance with license requirements, there can be no assurance that the license will not be revoked, be renewed in the future or that we will remain in compliance. More broadly, if we fail to comply with export control laws or successfully develop our relationship with international distributors, our sales could fail to grow or could decline, and our ability to grow our business could be adversely affected. Distributors that are in the business of selling other medical products may not devote a sufficient level of resources and support required to generate awareness of our products and grow or maintain product sales. If our distributors are unwilling or unable to market and sell our products, or if they do not perform to our expectations, we could experience delayed or reduced market acceptance and sales of our products resulting in adverse results of operations.

***We may be subject to substantial warranty or product liability claims or other litigation in the ordinary course of business that may adversely affect our business, financial condition and results of operations.***

As manufacturers of medical devices, we may be subject to substantial warranty or product liability claims or other litigation in the ordinary course of business that may require us to make significant expenditures to defend these claims or pay damage awards. For example, our Inogen One systems contain lithium ion batteries, which, under certain circumstances, can be a fire hazard. We, as well as our key suppliers, maintain product liability insurance, but this insurance is limited in amount and subject to significant deductibles. There is no guarantee that insurance will be available or adequate to protect against all claims. Our insurance policies are subject to annual renewal and we may not be able to obtain liability or product insurance in the future on acceptable terms or at all. In addition, our insurance premiums could be subject to increases in the future, which may be material. If the coverage limits are inadequate to cover our liabilities or our insurance costs continue to increase as a result of warranty or product liability claims or other litigation, then our business, financial condition and results of operations may be adversely affected.

We may also be subject to other types of claims arising from our normal business activities. These may include claims, suits, and proceedings involving labor and employment, wage and hour, commercial, alleged securities laws violations or other investor claims, patent defense and other matters. The outcome of any litigation, regardless of its merits, is inherently uncertain. Any claims and lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention and resources, and lead to attempts on the part of other parties to pursue similar claims. Any adverse determination related to litigation could require us to change our technology or our business practices, pay monetary damages or enter into royalty or licensing arrangements, which could adversely affect our business, financial condition and results of operations.

***Increases in our operating costs could have a material adverse effect on our business, financial condition and results of operations.***

Reimbursement rates are established by fee schedules mandated by Medicare, private payors and Medicaid, and are likely to remain constant or decrease due, in part, to federal and state government budgetary constraints. As a result, with respect to Medicare and Medicaid related revenue, we are not able to offset the effects of general inflation on our operating costs through increases in prices for our products. In particular, labor and related costs account for a significant portion of our operating costs and we compete with other healthcare providers to attract and retain qualified or skilled personnel and with various industries for administrative and service employees. This competitive environment could result in increased labor costs. As such, we must control our operating costs, particularly labor and related costs and failing to do so could adversely affect our financial condition and results of operations.

***We depend on the services of our senior executives and other key technical personnel, the loss of whom could negatively affect our business.***

Our success depends upon the skills, experience and efforts of our senior executives and other key technical personnel, including certain members of our engineering, accounting and compliance staff as well as our sales and marketing personnel. Much of our corporate expertise is concentrated in relatively few employees, the loss of which for any reason could negatively affect our business. Competition for our highly skilled employees is intense and we cannot prevent the resignation of any employee. We do not maintain "key man" life insurance on any of our senior executives. None of our senior executive team is bound by written employment contracts to remain with us for a specified period. In addition, we have not entered into non-compete agreements with members of our executive management team. The loss of any member of our executive management team could harm our ability to implement our business strategy and respond to the market conditions in which we operate.

***We and our vendors and service providers rely on information technology networks and systems, and if we are unable to protect against service interruptions, data corruption, cybersecurity risks, data security incidents and/or network security breaches, our operations could be disrupted and our business could be negatively affected.***

We rely on information technology networks and systems to process, transmit and store electronic, customer, operational, compliance, and financial information; to coordinate our business; and to communicate within our company and with customers, suppliers, partners and other third-parties. These information technology networks and systems may be susceptible to damage, disruptions or shutdowns, hardware or software failures, power outages, computer viruses, cybersecurity risks, data security incidents, telecommunication failures, user errors or catastrophic events. Like other companies, we have experienced data security incidents before. For example, on April 13, 2018, we announced that messages within an employee email account were accessed by unknown persons outside of our company without authorization. Some of the messages and attached files in that email account contained personal information belonging to our rental customers. We immediately took steps to secure customer information and hired a leading forensics firm to investigate the incident and to bolster our security. The unauthorized access of the potentially impacted email account appears to have occurred between January 2, 2018 and March 14, 2018. We notified approximately 30,000 current and former rental customers of this incident as well as the applicable regulatory authorities. We also provided resources, including credit monitoring and an insurance reimbursement policy, to assist all potentially affected individuals. We have incurred remedial, legal and other costs in connection with this incident. We have insurance coverage in place for certain potential liabilities and costs relating to service interruptions, data corruption, cybersecurity risks, data security incidents and/or network security breaches, but this insurance is limited in amount, subject to a deductible, and may not be adequate to cover us for all costs arising from these incidents.

If our information technology networks and systems suffer unauthorized access, severe damage, disruption or shutdown, and our business does not effectively identify or resolve the issues in a timely manner, our operations could be disrupted, we could be subject to regulatory and consumer lawsuits and our business could be negatively affected. In addition, cybersecurity risks and data security incidents could lead to potential unauthorized access to or acquisition of confidential information (including protected health information), and data loss and corruption. There is no assurance that we will not experience service interruptions, security breaches, cyber security risks and data security incidents, or other information technology failures in the future.

The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. As a result of these types of risks and attacks, we have implemented and periodically review and update systems, processes, and procedures to protect against unauthorized access to or use of data and to prevent data loss. For example, we have recently increased the security of our systems by requiring all email users to change their passwords following our recent data security incident and sooner than they would have otherwise been required to. We also implemented multi-factor authentication for remote email access and have taken additional steps to further limit access to our systems. However, the ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes and overall security environment. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data.



The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information or failure to comply with regulatory or contractual obligations with respect to such information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business. The costs to remediate breaches and similar system compromises that do occur could adversely affect our results of operations.

In addition, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in the U.S., Europe and elsewhere. For example, the European Union adopted the GDPR, which became effective on May 25, 2018. The GDPR imposes additional obligations on companies regarding the processing of personal data and provides certain individual privacy rights to natural persons whose data is stored. Compliance with existing, proposed and recently enacted laws (including implementation of the privacy and process enhancements called for under GDPR) and regulations can be costly and any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure or properly process personal information could also result in violation of data privacy laws and regulations, proceedings against the Company by governmental entities or others, damage to our reputation and credibility and could have a negative impact on revenues and profits. As the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could continue to result in significant costs.

***Our financial condition and results of operations may vary significantly from quarter-to-quarter due to a number of factors, which may lead to volatility in our stock price.***

Our quarterly revenue and results of operations have varied in the past and may continue to vary significantly from quarter-to-quarter. This variability may lead to volatility in our stock price as research analysts and investors respond to these quarterly fluctuations. These fluctuations are due to numerous factors, including: fluctuations in consumer demand for our products; seasonal cycles in consumer spending; HME providers' ability to adopt and finance portable oxygen concentrator purchases and restructure their businesses to remove delivery expenses; our ability to design, manufacture and deliver products to our consumers in a timely and cost-effective manner; quality control problems in our manufacturing operations; our ability to timely obtain adequate quantities of the components used in our products; new product introductions and enhancements by us and our competitors; unanticipated increases in costs or expenses; declines in sales personnel productivity; increased marketing cost per generated lead; unanticipated regulatory reimbursement changes that could result in positive or negative impacts to our earnings; changes or updates to generally accepted accounting principles; and fluctuations in foreign currency exchange rates. As more HME providers adopt portable oxygen concentrators in their businesses, we expect that this could change our historical seasonality in the domestic business-to-business channel as well, which was previously influenced mainly by consumer buying patterns. The foregoing factors are difficult to forecast, and these, as well as other factors, could materially and adversely affect our quarterly and annual results of operations. We have experienced significant revenue growth in the past, but we may not achieve similar growth rates, profit margins and/or net income in future periods. You should not rely on our operating results for any prior quarterly or annual period as an indication of our future operating performance. If we are unable to maintain adequate revenue growth and cost control, our operating results could suffer, and our stock price could decline. In addition, a significant amount of our operating expenses are relatively fixed due to our manufacturing, research and development and sales and general administrative efforts. Any failure to adjust spending quickly enough to compensate for a revenue shortfall could magnify the adverse impact of such revenue shortfall on our results of operations. Our results of operations may not meet the expectations of research analysts or investors, in which case the price of our common stock could decrease significantly.

***Given our levels of stock-based compensation, our tax rate may vary significantly depending on our stock price.***

The tax effects of the accounting for share-based compensation may significantly impact our effective tax rate from period to period. In periods in which our stock price is higher than the grant price of the stock-based compensation vesting in that period, we will recognize excess tax benefits that will decrease our effective tax rate. For example, in the three months ended March 31, 2019 excess tax benefits recognized from stock-based compensation decreased our provision for income taxes by \$0.6 million and our effective tax rate by 10.4% as compared to the tax rate without such benefits. In future periods in which our stock price may be lower than the grant price of the stock-based compensation vesting in that period, our effective tax rate may increase. The amount and value of stock-based compensation issued relative to our earnings in a particular period will also affect the magnitude of the impact of stock-based compensation on our effective tax rate. These tax effects are dependent on our stock price and employee stock option exercises, which we do not control, and a decline in our stock price could significantly increase our effective tax rate and adversely affect our results of operations.

***If the market opportunities for our products are smaller than we believe they are, our revenues may be adversely affected and our business may suffer.***

Our projections regarding (i) the size of the oxygen therapy market, both in the United States and internationally, (ii) the size and percentage of the long-term oxygen therapy market that is subject to competitive bidding in the United States, (iii) the number of oxygen therapy patients, (iv) the number of patients requiring ambulatory and stationary oxygen, (v) the number of patients who rely on the delivery model, (vi) the percentage of the long-term oxygen therapy market serviced by Medicare, Medicare Advantage, and other third party-payors, (vii) the size of the retail long-term oxygen therapy market and how the opportunity may change as portable oxygen concentrator penetration increases, and (viii) the share of portable oxygen concentrators as a percentage of the total oxygen therapy spend are based on estimates that we believe are reliable. These estimates may prove to be incorrect, new data or studies may change the estimated incidence or prevalence of patients requiring long-term oxygen therapy, or the type of long-term oxygen therapy patients. The number of patients in the United States and internationally may turn out to be lower than expected, patients may not be otherwise amenable to treatment with our products, or new patients may become increasingly difficult to identify or gain access to, all of which would adversely affect our results of operations and our business.

***An adverse outcome of a sales and use tax audit could have a material adverse effect on our results of operations and financial condition.***

The California State Board of Equalization conducted a sales and use tax audit of our operations in California in 2008. As a result of the audit, the California State Board of Equalization confirmed that our sales are not subject to California sales and use tax. We believe that our sales in three states may be subject to sales and use tax, but in other states they should be exempt from sales and use tax. There can be no assurance, however, that other states may agree with our position and we may be subject to an audit that may not be resolved in our favor. Such an audit could be expensive and time-consuming and result in substantial management distraction. If the matter were to be resolved in a manner adverse to us, it could have a material adverse effect on our results of operations and financial condition.

***Changes in accounting principles, or interpretations thereof, could have a significant effect on our financial condition and results of operations.***

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, referred to as U.S. GAAP. These principles are subject to interpretation by the Securities and Exchange Commission (SEC) and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls.

For example, the U.S.-based Financial Accounting Standards Board, referred to as FASB, is currently working together with the International Accounting Standards Board, referred to as IASB, on several projects to further align accounting principles and facilitate more comparable financial reporting between companies who are required to follow U.S. GAAP under SEC regulations and those who are required to follow International Financial Reporting Standards outside of the United States. These efforts by the FASB and IASB may result in different accounting principles under U.S. GAAP that may result in materially different financial results for us in areas including, but not limited to, principles for recognizing revenue and lease accounting. Additionally, significant changes to U.S. GAAP resulting from the FASB's and IASB's efforts may require that we change how we process, analyze and report financial information and that we change financial reporting controls.

It is not clear if or when these potential changes in accounting principles may become effective, whether we have the proper systems and controls in place to accommodate such changes and the impact that any such changes may have on our financial condition and results of operations.

***Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.***

Utilization of our net operating losses and tax credit carryforwards may be subject to annual limitations arising from ownership change limitations imposed by the Internal Revenue Code and similar state provisions. Such annual limitations could result in the expiration of our net operating losses and tax credit carryforwards before their utilization.

***Changes in tax laws or tax rulings could materially affect our financial condition, results of operations, and cash flows.***

The income and non-income tax regimes we are subject to or operate under are unsettled and may be subject to significant change. Changes in tax law or tax rulings, or changes in interpretations of existing law, could adversely affect our financial condition and results of operations. For example, changes to the U.S. tax laws enacted in December 2017 had a significant impact on our deferred tax assets, income tax provision and effective tax rate for the year ended December 31, 2017. In addition, many countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could significantly increase our tax obligations in many countries where we do business or require us to change the manner in which we operate our business.

**Risks related to the regulatory environment**

***We are subject to extensive federal and state regulation, and if we fail to comply with applicable regulations, we could suffer severe criminal or civil sanctions and be required to make significant changes to our operations that could adversely affect our business, financial condition and results of operations.***

The federal government and all states in which we currently operate regulate various aspects of our business. In particular, our operations are subject to state laws governing, among other things, distribution of medical equipment and certain types of home health activities, and we are required to obtain and maintain licenses in many states to act as a durable medical equipment supplier. Certain of our employees are subject to state laws and regulations governing the professional practices of respiratory therapy.

As a healthcare provider participating in governmental healthcare programs, we are subject to laws directed at preventing fraud and abuse, which subject our marketing, billing, documentation and other practices to strict government scrutiny. To ensure compliance with Medicare, Medicaid and other regulations, government agencies or their contractors often conduct routine audits and request customer records and other documents to support our claims submitted for payment of services rendered. Government agencies or their contractors also periodically open investigations and obtain information from healthcare providers. Violations of federal and state regulations can result in severe criminal, civil and administrative fines, penalties and sanctions, including debarment, suspension or exclusion from Medicare, Medicaid and other government reimbursement programs, any of which would have a material adverse effect on our business.

Changes in healthcare laws and regulations and new interpretations of existing laws and regulations may affect permissible activities, the relative costs associated with doing business, and reimbursement amounts paid by federal, state and other third-party payors. There have been and will continue to be regulatory initiatives affecting our business and we cannot predict the extent to which future legislation and regulatory changes could have a material adverse effect on our business.

***We are subject to significant regulation by numerous government agencies, including the U.S. Food and Drug Administration, or FDA. We cannot market or commercially distribute our products without obtaining and maintaining necessary regulatory clearances or approvals.***

Our Inogen concentrators are medical devices subject to extensive regulation in the United States and in the foreign markets where we distribute our products. The FDA and other U.S. and foreign governmental agencies regulate, among other things, with respect to medical devices:

- design, development and manufacturing;
- testing, labeling, content and language of instructions for use and storage;
- clinical trials;
- product safety;
- marketing, sales and distribution;
- pre-market clearance and approval;
- record keeping;
- advertising and promotion;
- recalls and field safety corrective actions;

- post-market surveillance, including reporting of deaths or serious injuries and malfunctions that, if they were to recur, could lead to death or serious injury;
- post-market approval studies; and
- product import and export.

Before we can market or sell a medical device in the United States, we must obtain either clearance from the FDA under Section 510(k) of the Federal Food, Drug, and Cosmetic Act, or the FDCA, or approval of a pre-market approval application from the FDA, unless an exemption applies. In the 510(k) clearance process, the FDA must determine that a proposed device is “substantially equivalent” to a device legally on the market, known as a “predicate” device, with respect to intended use, technology and safety and effectiveness, in order to clear the proposed device for marketing.

Our commercial products have received 510(k) clearance by the FDA. If the FDA requires us to go through a lengthier, more rigorous examination for future products or modifications to existing products than we had expected, our product introductions or modifications could be delayed or canceled, which could cause our sales to decline. In addition, the FDA may determine that future products will require the more costly, lengthy and uncertain pre-market approval process. Although we do not currently market any devices under a pre-market approval, the FDA may demand that we obtain a pre-market approval prior to marketing certain future products. In addition, if the FDA disagrees with our determination that a product we currently market is subject to an exemption from pre-market review, the FDA may require us to submit a 510(k) or pre-market approval application in order to continue marketing the product. Further, even with respect to those future products where a pre-market approval is not required, we cannot assure you that we will be able to obtain the 510(k) clearances with respect to those products or do so in a timely fashion.

The FDA can delay, limit or deny clearance or approval of a device for many reasons, including:

- we may not be able to demonstrate to the FDA’s satisfaction that our products are safe and effective for their intended uses;
- the data from our pre-clinical studies and clinical trials may be insufficient to support clearance or approval, where required; and
- the manufacturing process or facilities we use may not meet applicable Quality System Regulations.

Medical devices may only be promoted and sold for the indications for which they are approved or cleared. In addition, even if the FDA has approved or cleared a product, it can take action affecting such product approvals or clearances if serious safety or other problems develop in the marketplace. Delays in obtaining clearances or approvals could adversely affect our ability to introduce new products or modifications to our existing products in a timely manner, which would delay or prevent commercial sales of our products. Additionally, the FDA and other regulatory authorities have broad enforcement powers. Regulatory enforcement or inquiries, or other increased scrutiny on us, could affect the perceived safety and performance of our products and dissuade our customers from using our products.

***If we modify our FDA cleared devices, we may need to seek additional clearances or approvals, which, if not granted, would prevent us from selling our modified products.***

Any modification we make to our Inogen One systems and Inogen At Home systems that could significantly affect their safety or effectiveness, or would constitute a major change in intended use, manufacture, design, materials, labeling, or technology requires the submission and clearance of a new 510(k) pre-market notification or, possibly, pre-market approval. The FDA requires every manufacturer to make this determination in the first instance, but the FDA may review and disagree with any manufacturer’s decision. The FDA may not agree with our decisions regarding whether new clearances or approvals are necessary. We have modified some of our 510(k) cleared products and have determined that in certain instances new 510(k) clearances or pre-market approval are not required. If the FDA disagrees with our determination and requires us to submit new 510(k) notifications or pre-market approval for modifications to our previously cleared products for which we have concluded that new clearances or approvals are unnecessary, we may be required to cease marketing or to recall the modified product until we obtain clearance or approval, and we may be subject to significant regulatory fines or penalties.

***If we fail to comply with FDA or state regulatory requirements, we can be subject to enforcement action.***

Even after we have obtained regulatory clearance or approval to market a product, we have ongoing responsibilities under FDA regulations. The FDA and state authorities have broad enforcement powers. Our failure to comply with applicable regulatory requirements could result in enforcement action by the FDA or state agencies, which may include any of the following sanctions:

- adverse publicity, warning letters, fines, injunctions, consent decrees and civil penalties;
- recalls, termination of distribution, or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- delays in the introduction of products into the market;
- refusal to grant our requests for future 510(k) clearances or approvals of new products, new intended uses, or modifications to existing products;
- withdrawals or suspensions of current 510(k) clearances or approvals, resulting in prohibitions on sales of our products; and
- criminal prosecution.

Any of these sanctions could result in higher than anticipated costs or lower than anticipated sales and have a material adverse effect on our reputation, business, results of operations and financial condition.

***A recall of our products, either voluntarily or at the direction of the FDA or another governmental authority, or the discovery of serious safety issues with our products that leads to corrective actions, could have a significant adverse effect on us.***

The FDA and similar foreign governmental authorities have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design, labeling or manufacture of a product or in the event that a product poses an unacceptable risk to health. Manufacturers may also, under their own initiative, recall a product if any material deficiency in a device is found or withdraw a product to improve device performance or for other reasons. A government-mandated or voluntary recall by us or one of our distributors could occur as a result of an unacceptable risk to health, component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Similar regulatory agencies in other countries have similar authority to recall devices because of material deficiencies or defects in design or manufacture that could endanger health. Any recall would divert management attention and financial resources, could cause the price of our stock to decline and expose us to product liability or other claims and harm our reputation with customers. A recall involving our Inogen concentrators could be particularly harmful to our business, financial condition and results of operations.

We are required to timely report to the FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. Repeated product malfunctions may result in a voluntary or involuntary product recall. Depending on the corrective action we take to redress a product's deficiencies or defects, the FDA may require, or we may decide, that we will need to obtain new approvals or clearances for the device before we may market or distribute the corrected device. Seeking such approvals or clearances may delay our ability to replace the recalled devices in a timely manner. Moreover, if we do not adequately address problems associated with our devices, we may face additional regulatory enforcement action, including adverse publicity, FDA warning letters, product seizure, injunctions, administrative penalties, or civil or criminal fines. We may also be required to bear other costs or take other actions that may have a negative impact on our sales as well as face significant adverse publicity or regulatory consequences, which could harm our business, including our ability to market our products in the future.

Any adverse event involving our products, whether in the United States or abroad, could result in future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection, mandatory recall or other enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending ourselves in a lawsuit, will require the dedication of our time and capital, distract management from operating our business and may harm our reputation and results of operations.

***If we, our contract manufacturer, or our component manufacturers fail to comply with the FDA's Quality System Regulation, our manufacturing operations could be interrupted, and our product sales and operating results could suffer.***

We, our contract manufacturer, and our component manufacturers are required to comply with the FDA's Quality System Regulation, or QSR, which covers the procedures and documentation of the design, calibration, testing, production, control, quality assurance, labeling, packaging, storage and shipping of our devices. The FDA audits compliance with the QSR through periodic announced and unannounced inspections of manufacturing and other facilities. We and our component manufacturers have been, and anticipate in the future being, subject to such inspections. Although we believe our manufacturing facilities and those of our

component manufacturers are in compliance with the QSR, we cannot provide assurance that any future inspection will not result in adverse findings. If we fail to implement timely and appropriate corrective actions that are acceptable to the FDA or if our other manufacturing facilities or those of any of our component manufacturers, contract manufacturers, or suppliers are found to be in violation of applicable laws and regulations, or we or our manufacturers or suppliers fail to take prompt and satisfactory corrective action in response to an adverse inspection, the FDA could take enforcement action, including any of the following sanctions:

- adverse publicity, untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications or repair, replacement, refunds, recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for 510(k) clearance or pre-market approval of new products or modified products;
- withdrawing 510(k) clearances or pre-market approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

Any of these sanctions could adversely affect our business, financial condition and results of operations.

Outside the United States, our products and operations are also often required to comply with standards set by industrial standards bodies, such as the International Organization for Standardization, or ISO. Foreign regulatory bodies may evaluate our products or the testing that our products undergo against these standards. The specific standards, types of evaluation and scope of review differ among foreign regulatory bodies. If we fail to adequately comply with any of these standards, a foreign regulatory body may take adverse actions similar to those within the power of the FDA. Any such action may harm our reputation and could have an adverse effect on our business, results of operations and financial condition.

The primary regulatory body in Europe is the European Commission, which includes most of the major countries in Europe. The European Commission has adopted numerous directives and standards regulating the design, manufacture, clinical trial, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear the CE conformity marking, indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout Europe. The method of assessing conformity varies depending on the class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a "Notified Body." An assessment by a Notified Body of one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union.

***If we fail to obtain and maintain regulatory approval in foreign jurisdictions, our market opportunities will be limited.***

Approximately 21.9% and 21.4% of our revenue was from sales outside of the United States for the three months ended March 31, 2019 and March 31, 2018, respectively. We sell our products in 46 countries outside of the United States through our wholly owned subsidiary, distributors or directly to large "house" accounts. In order to market our products in the European Union or other foreign jurisdictions, we must obtain and maintain separate regulatory approvals and comply with numerous and varying regulatory requirements. The approval procedure varies from country to country and can involve additional product testing. The time required to obtain approval abroad may be longer than the time required to obtain FDA clearance. The foreign regulatory approval process includes many of the risks associated with obtaining FDA clearance and we may not obtain foreign regulatory approvals on a timely basis, if at all. FDA clearance does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries. However, the failure to obtain clearance or approval in one jurisdiction may have a negative impact on our ability to obtain clearance or approval elsewhere. If we do not obtain or maintain necessary approvals to commercialize our products in markets outside the United States, we may be required to discontinue sales in those countries which would negatively affect our overall market penetration, revenues, results of operations and financial condition.

***We are subject to burdensome and complex billing and record-keeping requirements in order to substantiate our claims for payment under federal, state and commercial healthcare reimbursement programs, and our failure to comply with existing requirements, or changes in those requirements or interpretations thereof, could adversely affect our business, financial condition and results of operations.***

We are subject to burdensome and complex billing and record-keeping requirements in order to substantiate our claims for payment under federal, state and commercial healthcare reimbursement programs. Our records also are subject to routine and other reviews by third-party payors, which can result in delays in payments or refunds of paid claims. We could experience a significant increase in pre-payment reviews of our claims by the Durable Medical Equipment Medicare Administrative Contractors, which could cause substantial delays in the collection of our Medicare accounts receivable as well as related amounts due under supplemental insurance plans.

Current law provides for a significant expansion of the government's auditing and oversight of suppliers who care for patients covered by various government healthcare programs. Examples of this expansion include audit programs being implemented by the Durable Medical Equipment Medicare Administrative Contractors, the Zone Program Integrity Contractors, the Recovery Audit Contractors, and the Comprehensive Error Rate Testing contractors, operating under the direction of CMS, and the various state Medicaid Fraud Control Units.

We have been informed by these auditors that healthcare providers and suppliers of certain durable medical equipment product categories are expected to experience further increased scrutiny from these audit programs. When a government auditor ascribes a high billing error rate to one or more of our locations, it generally results in protracted pre-payment claims review, payment delays, refunds and other payments to the government and/or our need to request more documentation from providers than has historically been required. It may also result in additional audit activity in other company locations in that state or Durable Medical Equipment Medicare Administrative Contractors jurisdiction. We cannot currently predict the adverse impact that these audits, methodologies and interpretations might have on our business, financial condition or results of operations, but such impact could be material.

***We may be subject to fines, penalties or injunctions if we are determined to be promoting the use of our products for unapproved or "off-label" uses, resulting in damage to our reputation and business.***

Our promotional materials and training methods must comply with the FDA and other applicable laws and regulations, including the prohibition of the promotion of a medical device for a use that has not been cleared or approved by the FDA. Physicians may use our products off-label, as the FDA does not restrict or regulate a physician's choice of treatment within the practice of medicine. If the FDA determines that our promotional materials or training constitutes promotion of an off-label use that is either false or misleading, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, which could have an adverse effect on our reputation and results of operations.

***Failure to comply with the Federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, the Health Information Technology for Economic and Clinical Health Act, or HITECH Act, and implementing regulations could result in significant penalties.***

Numerous federal and state laws and regulations, including HIPAA and the HITECH Act, govern the collection, dissemination, security, use and confidentiality of patient-identifiable health information. HIPAA and the HITECH Act require us to comply with standards for the use and disclosure of protected health information within our company and with third parties. The Privacy Standards and Security Standards under HIPAA establish a set of basic national privacy and security standards for the protection of individually identifiable health information by health plans, healthcare clearinghouses and certain healthcare providers, referred to as covered entities, and the business associates with whom such covered entities contract for services. Notably, whereas HIPAA previously directly regulated only these covered entities, the HITECH Act, which was signed into law as part of the stimulus package in February 2009, makes certain of HIPAA's privacy and security standards also directly applicable to covered entities' business associates. As a result, both covered entities and business associates are now subject to significant civil and criminal penalties for failure to comply with Privacy Standards and Security Standards.

HIPAA requires healthcare providers like us to develop and maintain policies and procedures with respect to protected health information that is used or disclosed, including the adoption of administrative, physical and technical safeguards to protect such information from unauthorized disclosure. The HITECH Act expands the notification requirement for breaches of patient-identifiable health information, restricts certain disclosures and sales of patient-identifiable health information and provides a tiered system for civil monetary penalties for HIPAA violations. The HITECH Act also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney fees and costs associated with pursuing federal civil actions. Additionally, certain states have adopted comparable privacy and security laws and regulations, some of which may be more stringent than HIPAA.

If we are determined to be out of compliance with existing or new laws and regulations related to patient health information, we could be subject to criminal or civil sanctions. New health information standards, whether implemented pursuant to HIPAA, the HITECH Act, congressional action or otherwise, could have a significant effect on the manner in which we handle healthcare related data and communicate with payors, and the cost of complying with these standards could be significant.

The 2013 final HITECH omnibus rule modifies the breach reporting standard in a manner that will likely make more data security incidents qualify as reportable breaches. Any liability from a failure to comply with the requirements of HIPAA or the HITECH Act could adversely affect our results of operations and financial condition. The costs of complying with privacy and security related legal and regulatory requirements are burdensome and could have a material adverse effect on our results of operations.

***Regulations requiring the use of “standard transactions” for healthcare services issued under HIPAA may negatively affect our profitability and cash flows.***

Pursuant to HIPAA, final regulations have been implemented to improve the efficiency and effectiveness of the healthcare system by facilitating the electronic exchange of information in certain financial and administrative transactions while protecting the privacy and security of the information exchanged.

The HIPAA transaction standards are complex, and subject to differences in interpretation by third-party payors. For instance, some third-party payors may interpret the standards to require us to provide certain types of information, including demographic information not usually provided to us by physicians. As a result of inconsistent application of transaction standards by third-party payors or our inability to obtain certain billing information not usually provided to us by physicians, we could face increased costs and complexity, a temporary disruption in accounts receivable and ongoing reductions in reimbursements and net revenue. In addition, requirements for additional standard transactions, such as claims attachments or use of a national provider identifier, could prove technically difficult, time-consuming or expensive to implement, all of which could harm our business.

***If we fail to comply with state and federal fraud and abuse laws, including anti-kickback, Stark, false claims and anti-inducement laws, we could face substantial penalties and our business, results of operations and financial condition could be adversely affected.***

The Federal Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce or in return for purchasing, leasing, ordering, or arranging for the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid, or other federal healthcare programs. Although there are a number of statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution, the exceptions and safe harbors are drawn narrowly, and any remuneration to or from a prescriber or purchaser of healthcare products or services may be subject to scrutiny if it does not qualify for an exception or safe harbor. Our practices may not in all cases meet all of the criteria for safe harbor protection from anti-kickback liability. Failure to meet all requirements of a safe harbor is not determinative of a kickback issue but could subject the practice to increased scrutiny by the government.

The “Stark Law” prohibits a physician from referring Medicare or Medicaid patients to an entity providing “designated health services,” which includes durable medical equipment, if the physician or immediate family member of the physician, has an ownership or investment interest in or compensation arrangement with such entity that does not comply with the requirements of a Stark exception. Violation of the Stark Law could result in denial of payment, disgorgement of reimbursements received under a non-compliant arrangement, civil penalties, and exclusion from Medicare, Medicaid or other governmental programs. Although we believe that we have structured our provider arrangements to comply with current Stark Law requirements, these arrangements may not expressly meet the requirements for applicable exceptions from the law.

Federal false claims laws prohibit any person from knowingly presenting or causing to be presented a false claim for payment to the federal government, or knowingly making or causing to be made a false statement to get a false claim paid. The majority of states also have statutes or regulations similar to the federal anti-kickback and self-referral laws and false claims laws, which apply to items or services, reimbursed under Medicaid and other state programs, or, in several states, apply regardless of payor. These false claims statutes allow any person to bring suit in the name of the government alleging false and fraudulent claims presented to or paid by the government (or other violations of the statutes) and to share in any amounts paid by the entity to the government in fines or settlement. Such suits, known as *qui tam* actions, have increased significantly in the healthcare industry in recent years. Sanctions under these federal and state laws may include civil monetary penalties, exclusion of a manufacturer’s products from reimbursement under government programs, criminal fines and imprisonment. In addition, the recently enacted Patient Protection and Affordable Care Act, among other things, amends the intent requirement of the federal anti-kickback and criminal healthcare fraud statutes. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the Patient Protection and Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the false claims statutes. Because of the breadth of these laws and the narrowness of the safe harbors and exceptions, it is possible that some of our business activities could be subject to challenge under one or more of such laws. Such a challenge, regardless of the outcome, could have a material adverse effect on our business, business relationships, reputation, financial condition and results of operations.



The Patient Protection and Affordable Care Act also imposes annual reporting and disclosure requirements on device and drug manufacturers for “transfers of value” made or distributed to licensed physicians and teaching hospitals. Device and drug manufacturers are also required to report and disclose annually any investment interests held by physicians and their immediate family members during the preceding calendar year. Failure to submit required information may result in civil monetary penalties of up to an aggregate of \$0.17 million per year (and up to an aggregate of \$1.128 million per year for “knowing failures”), for all payments, transfers of value or ownership or investment interests not reported in an annual submission.

In addition, there has been a recent trend of increased federal and state regulation of payments made to physicians. Certain states, mandate implementation of compliance programs and/or the tracking and reporting of gifts, compensation and other remuneration to physicians. The shifting compliance environment and the need to build and maintain robust and expandable systems to comply with different compliance and/or reporting requirements in multiple jurisdictions increase the possibility that a healthcare company may violate one or more of the requirements.

The Federal Civil Monetary Penalties Law prohibits the offering or giving of remuneration to a Medicare or Medicaid beneficiary that the person knows or should know is likely to influence the beneficiary’s selection of a particular supplier of items or services reimbursable by a Federal or state governmental healthcare program. We sometimes offer customers various discounts and other financial incentives in connection with the sales of our products. While it is our intent to comply with all applicable laws, the government may find that our marketing activities violate the Civil Monetary Penalties Law. If we are found to be in non-compliance, we could be subject to civil money penalties of up to \$0.02 million for each wrongful act, assessment of three times the amount claimed for each item or service and exclusion from the federal or state healthcare programs.

On February 3, 2017, the Department of Justice (DOJ) published a final rule that applies an inflation adjustment to civil monetary penalty (CMP) amounts, as mandated by the Bipartisan Budget Act of 2015. The maximum CMP for False Claims Act violations is \$0.02 million for civil penalties assessed after August 1, 2016 and whose violations occurred after November 2, 2015.

The Bipartisan Budget Act of 2018 increases the CMP and criminal fines and sentences for various fraud and abuse violations under the Medicare and Medicaid programs for violations committed after February 9, 2018. The new maximum CMP for a False Claims Act violation is \$0.02 million.

The scope and enforcement of each of these laws is uncertain and subject to rapid change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. If our operations are found to be in violation of any of the laws described above or any other government regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restricting of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could harm our ability to operate our business and our results of operations. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management’s attention from operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state fraud laws may prove costly.

***Foreign governments tend to impose strict price controls, which may adversely affect our future profitability.***

We sell our products in 46 countries outside the United States through our wholly owned subsidiary, distributors or directly to large “house” accounts. In some foreign countries, particularly in the European Union, the pricing of medical devices is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to supply data that compares the cost-effectiveness of our Inogen One and Inogen At Home systems to other available oxygen therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, it may not be profitable to sell our products in certain foreign countries, which would negatively affect the long-term growth of our business.

***Our business activities involve the use of hazardous materials, which require compliance with environmental and occupational safety laws regulating the use of such materials. If we violate these laws, we could be subject to significant fines, liabilities or other adverse consequences.***

Our research and development programs as well as our manufacturing operations involve the controlled use of hazardous materials. Accordingly, we are subject to international, federal, state and local laws governing the use, handling and disposal of these materials. Although we believe that our safety procedures for handling and disposing of these materials comply in all material respects with the standards prescribed by state and federal regulations of each country in which we conduct business, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of an accident or failure to comply with environmental laws, we could be held liable for resulting damages, and any such liability could exceed our insurance coverage and adversely affect our financial condition and results of operations.

***New regulatory requirements under Proposition 65 could adversely affect our business.***

We are subject to California's Proposition 65, or Prop 65, which requires a specific warning on any product that contains a substance listed by the State of California as having been found to cause cancer or birth defects, unless the level of such substance in the product is below a safe harbor level. Prop 65 required that all businesses must be in compliance by August 30, 2018 with new regulations that require modifications to product warnings and for businesses to coordinate with upstream vendors or downstream customers for the 800+ regulated chemicals in consumer products and assess whether new occupational exposure warnings need to be posted in California facilities. We have taken steps to add warning labels to our products packaged in California and manufactured after August 30, 2018. Although we cannot predict the ultimate impact of these new requirements, they could reduce overall consumption of our products or leave consumers with the perception (whether or not valid) that our products do not meet their health and wellness needs, all of which could adversely affect our business, financial condition and results of operations.

**Risks related to our intellectual property**

***If we are unable to secure and maintain patent or other intellectual property protection for the intellectual property used in our products, we will lose a significant competitive advantage, which may adversely affect our future profitability.***

Our commercial success depends, in part, on obtaining, defending, and maintaining patent and other intellectual property protection for the technologies used in our products. The patent positions of medical device companies, including ours, can be highly uncertain and involve complex and evolving legal and factual questions. Furthermore, we might in the future opt to license intellectual property from other parties. If we, or the other parties from whom we would license intellectual property, fail to obtain, defend, and maintain adequate patent or other intellectual property protection for intellectual property used in our products, or if any protection is reduced or eliminated, others could use the intellectual property used in our products, resulting in harm to our competitive business position. In addition, patent and other intellectual property protection may not:

- prevent our competitors from duplicating our products;
- prevent our competitors from gaining access to our proprietary information and technology
- prevent our competitors or other parties from suing us for alleged infringement; or
- permit us to gain or maintain a competitive advantage.

***Any of our patents may be challenged, invalidated, circumvented or rendered unenforceable. We cannot provide assurance that we will be successful should one or more of our patents be challenged for any reason. If our patent claims are rendered invalid or unenforceable, or narrowed in scope, the patent coverage afforded our products could be impaired, which could make our products less competitive.***

As of March 31, 2019, we have seven pending patent applications and one pending international patent application, thirty-three issued patents relating to the design and construction of our oxygen concentrators and our intelligent delivery technology. We cannot specify which of these patents individually or as a group will permit us to gain or maintain a competitive advantage. Patents may be subject to reexamination, *inter partes* review, post-grant review, and derivation proceedings in the U.S. Patent and Trademark Office or comparable proceedings in other patent offices worldwide. Foreign patents may be subject to opposition or comparable proceedings in the corresponding foreign patent offices. Any of these proceedings could result in loss of the patent or denial of the patent application, or loss or reduction in the scope of one or more of the claims of the patent or patent application. Changes in either patent laws or in interpretations of patent laws may also diminish the value of our intellectual property or narrow the scope of our protection. Interference, reexamination, *inter partes* review, defense, and opposition proceedings may be costly and time consuming, and we, or the other parties from whom we might potentially license intellectual property, may be unsuccessful in defending against such proceedings. Thus, any patents that we own or might license may provide limited or no protection against competitors. In addition, our pending patent applications and those we may file in the future may have claims narrowed during prosecution or may not result in patents being issued. Even if any of our pending or future applications are issued, they may not provide us with any competitive advantage or adequate protection from allegations of infringement, whether valid or frivolous, which may result in the incurrence of material defense costs. Our patents and patent applications are directed to particular aspects of our products. Other parties may develop and obtain patent protection for more effective technologies, designs or methods for oxygen therapy. If these developments were to occur, it would likely have an adverse effect on our sales. Our ability to develop additional patentable technology is also uncertain.

Non-payment or delay in payment of patent fees or annuities, whether intentional or unintentional, may also result in the loss of patents or patent rights important to our business. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to other parties. In addition, many countries limit the enforceability of patents against other parties, including government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States, particularly in the field of medical products and procedures.

***Our products could infringe or appear to infringe the intellectual property rights of others, which may lead to patent and other intellectual property litigation that could itself be costly, could result in the payment of substantial damages or royalties, prevent us from using technology that is essential to our products, and/or force us to discontinue selling our products.***

The medical device industry in general has been characterized by extensive litigation and administrative proceedings regarding patent infringement and intellectual property rights. Our competitors hold a significant number of patents relating to oxygen therapy devices and products. Third parties have in the past asserted and may in the future assert that we are employing their proprietary technology without authorization. For example, Separation Design Group IP Holdings, LLC (SDGIP) filed a lawsuit against us on October 23, 2015 in the United States District Court for the Central District of California. SDGIP alleged that we willfully infringed U.S. Patent Nos. 8,894,751 and 9,199,055, both of which are titled "Ultra Rapid Cycle Portable Oxygen Concentrator." SDGIP also alleged misappropriation of trade secrets and breach of contract stemming from a meeting in September 2010. SDGIP sought to recover damages (including compensatory and treble damages), costs and expenses (including attorneys' fees), pre-judgment and post-judgment interest, and other relief that the Court deem proper. SDGIP also sought a permanent injunction against us. Additionally, CAIRE, Inc. (CAIRE) filed a lawsuit in the United States District Court for the Northern District of Georgia against us on September 12, 2016. CAIRE alleged that we infringed U.S. Patent No. 6,949,133, entitled "Portable Oxygen Concentrator." While we settled our lawsuit with SDGIP in October 2017 and with CAIRE in December 2017, if we fail in defending against similar lawsuits or claims brought against us in the future, we could be subject to substantial monetary damages and injunctive relief, and we cannot predict the outcome of any lawsuit. An adverse determination or protracted defense costs of pending lawsuits could have a material effect on our business and operating results.

From time to time, we have also commenced litigation to enforce our intellectual property rights. For example, we previously pursued litigation against Inova Labs, Inc. (a subsidiary of ResMed Corp.) for infringement of two of our patents seeking damages, injunctive relief, costs, and attorneys' fees. While we settled our lawsuit with Inova Labs in June 2016, an adverse decision in any other legal action could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively affect our business, financial condition and results of operations.

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property may have occurred or may occur in the future. Although we have taken steps to minimize the risk of this occurring, any such failure to identify unauthorized use and otherwise adequately protect our intellectual property would adversely affect our business. Moreover, if we are required to commence litigation, whether as a plaintiff or defendant as has occurred with Inova Labs, SDGIP, and CAIRE, not only will this be time-consuming, but we will also be forced to incur significant costs and divert our attention and efforts of our employees, which could, in turn, result in lower revenue and higher expenses.

We cannot provide assurance that our products or methods do not infringe or appear to not infringe the patents or other intellectual property rights of third parties and if our business is successful, the possibility may increase that others will assert infringement claims against us whether valid or frivolous.

Determining whether a product infringes a patent involves complex legal and factual issues, defense costs and the outcome of a patent litigation action are often uncertain. We have not conducted an extensive search of patents issued or assigned to other parties, including our competitors, and no assurance can be given that patents containing claims covering or appearing to cover our products, parts of our products, technology or methods do not exist, have not been filed or could not be filed or issued. Because of the number of patents issued and patent applications filed in our technical areas, our competitors or other parties may assert that our products and the methods we employ in the use of our products are covered by U.S. or foreign patents held by them. In addition, because patent applications can take many years to issue and because publication schedules for pending applications may vary by jurisdiction and some patent applications may not be published in the U.S., there may be applications now pending of which we are unaware and which may result in issued patents that our current or future products infringe or appear to infringe. Also, because the claims of published patent applications can change between publication and patent grant, there may be published patent applications that may ultimately issue with claims that we infringe. There could also be existing patents that one or more of our products or parts may infringe and of which we are unaware. As the number of competitors in the market for oxygen products and the number of patents issued in this area grows, the possibility of patent infringement claims against us increases. In certain situations, we may determine that it is in our best interests to voluntarily challenge a party's patents in litigation or other proceedings, including patent reexaminations, or *inter partes* reviews. As a result, we may become involved in unwanted protracted litigation that could be costly, result in diversion of management's attention, require us to pay damages and/or licensing royalties and force us to discontinue selling our products.

Infringement and other intellectual property claims and proceedings brought against us, whether successful or not, could result in substantial costs and harm to our reputation. Such claims and proceedings can also distract and divert management and key personnel from other tasks important to the success of the business. We cannot be certain that we will successfully defend against allegations of infringement of patents or other intellectual property rights. In the event that we become subject to a patent infringement or other intellectual property related lawsuit and if the asserted patents or other intellectual property were upheld as valid and enforceable and we were found to infringe the asserted patents or other intellectual property, or violate the terms of a license to which we are a party, we could be required to do one or more of the following:

- cease selling or using any of our products that incorporate the asserted intellectual property, which would adversely affect our revenue;
- pay damages for past use of the asserted intellectual property, which may be substantial;
- obtain a license from the holder of the asserted intellectual property, which license may not be available on reasonable royalty terms, if at all, and which could reduce profitability; and
- redesign or rename, in the case of trademark claims, our products to avoid infringing the intellectual property rights of third parties, which may not be possible and could be costly and time-consuming if it is possible to do so.

***If we are unable to prevent unauthorized use or disclosure of trade secrets, unpatented know-how and other proprietary information, our ability to compete will be harmed.***

We rely on a combination of trade secrets, copyrights, trademarks, confidentiality agreements and other contractual provisions and technical security measures to protect certain aspects of our technology, especially where we do not believe that patent protection is appropriate or obtainable. We require our employees and consultants to execute confidentiality agreements in connection with their employment or consulting relationships with us. We also require our employees and consultants to disclose and assign to us all inventions conceived during the term of their employment or engagement while using our property or that relate to our business. We also require our corporate partners, outside scientific collaborators and sponsored researchers, advisors and others with access to our confidential information to sign confidentiality agreements. We also have taken precautions to initiate reasonable safeguards to protect our information technology systems. However, these measures may not be adequate to safeguard our proprietary intellectual property and conflicts may, nonetheless, arise regarding ownership of inventions. Such conflicts may lead to the loss or impairment of our intellectual property or to expensive litigation to defend our rights against competitors who may be better funded and have superior resources. Our employees, consultants, contractors, outside clinical collaborators and other advisors may unintentionally or willfully disclose our confidential information to competitors. In addition, confidentiality agreements may be unenforceable or may not provide an adequate remedy in the event of unauthorized disclosure. Enforcing a claim that a third-party illegally obtained and is using our trade secrets is expensive and time-consuming, and the outcome is unpredictable. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. Unauthorized parties may also attempt to copy or reverse engineer certain aspects of our products that we consider proprietary, and in such cases we could not assert any trade secret rights against such party. As a result, other parties may be able to use our proprietary technology or information, and our ability to compete in the market would be harmed.

“Inogen,” “Inogen One,” “Inogen One G2,” “Inogen One G3,” “G4,” “G5,” “Oxygenation,” “Live Life in Moments, not Minutes,” “Never Run Out of Oxygen,” “Oxygen Therapy on Your Terms,” “Oxygen.Anytime.Anywhere,” “Reclaim Your Independence,” “Intelligent Delivery Technology,” “Inogen At Home,” and the Inogen design are registered and/or pending trademarks with the United States Patent and Trademark Office of Inogen, Inc. We own trademark registrations for the mark “Inogen” in Australia, Canada, South Korea, Mexico, Europe (European Union registration), Japan, New Zealand, and Turkey. We own pending applications for the mark “Inogen” in Argentina, Brazil, China, Colombia, Ecuador, Iceland, India, Israel, Norway, Singapore, and Switzerland. We own a trademark registration for the mark “□□□□” in Japan. We own trademark applications for the marks “□□□” and “□□□” in China. We own trademark registrations for the mark “Inogen One” in Australia, Canada, China, South Korea, Mexico, and Europe (European Union registration). We own a trademark registration for the mark “Satellite Conserver” in Canada. We own a trademark registration for the mark “Inogen At Home” in Europe (European Union Registration). We own trademark registrations for the mark “G4” in Europe (European Union registration) and the United Kingdom. We own trademark applications for the Inogen design in Bolivia and China. Other service marks, trademarks, and trade names referred to in this Quarterly Report on Form 10-Q are the property of their respective owners.

*We may be subject to damages resulting from claims that our employees, agents or we have wrongfully used or disclosed alleged trade secrets of other companies.*

Some of our employees and consultants were previously employed by or contracted with other medical device companies focused on the development of oxygen therapy products, including our competitors. We may be subject to claims that these employees or agents have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights. Even if we are successful in defending against these claims, litigation could result in substantial costs, damage to our reputation and be a distraction to management.

#### **Risks related to being a public company**

*We will incur increased costs as a result of operating as a public company and our management will be required to devote substantial time to new compliance initiatives and corporate governance practices.*

As a public company, especially now that we are no longer an “emerging growth company,” we will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 and rules enforced by the Public Companies Oversight Board (PCAOB) subsequently implemented by the SEC and the NASDAQ Global Select Market impose numerous requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Also, the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. Our management and other personnel will need to devote a substantial amount of time to compliance with these laws and regulations. These requirements have increased and will continue to increase our legal, accounting, external audit and financial compliance costs and have made and will continue to make some activities more time consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees or as executive officers.

Overall, we estimate that our incremental costs resulting from operating as a public company, including compliance with these rules and regulations, may be between \$1.5 million and \$3.0 million per year. However, these rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies and public accounting firms are subject to PCAOB compliance audits. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

The Sarbanes-Oxley Act requires, among other things, that we assess and document the effectiveness of our internal control over financial reporting annually and the effectiveness of our disclosure controls and procedures quarterly. In particular, Section 404(a) of the Sarbanes-Oxley Act, or Section 404(a), requires us to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting. Section 404(b) of Sarbanes-Oxley Act, or Section 404(b), also requires our independent registered public accounting firm to attest to the effectiveness of our internal control over financial reporting. Now that we are no longer an “emerging growth company,” our independent registered public accounting firm is required to undertake an assessment of our internal control over financial reporting, and the cost of our compliance with Section 404(b) is higher. Our compliance with applicable provisions of Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements.

Furthermore, investor perceptions of our company may suffer if deficiencies are found, and this could cause a decline in the market price of our stock. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our stated operating results and harm our reputation. If we are unable to implement these requirements effectively or efficiently, it could harm our operations, financial reporting, or financial results and could result in an adverse opinion on our internal controls from our independent registered public accounting firm.

***Failure to maintain effective internal controls could cause our investors to lose confidence in us and adversely affect the market price of our common stock. If our internal controls are not effective, we may not be able to accurately report our financial results or prevent fraud.***

Section 404 of the Sarbanes-Oxley Act, or Section 404, requires that we maintain internal control over financial reporting that meets applicable standards. We may err in the design, operation or documentation of our controls, and all internal control systems, no matter how well designed and operated, can provide only reasonable assurance that the objectives of the control system are met. Because there are inherent limitations in all control systems, there can be no absolute assurance that all control issues have been or will be detected. If we are unable, or are perceived as unable, to produce reliable financial reports due to internal control deficiencies, investors could lose confidence in our reported financial information and operating results, which could result in a negative market reaction.

We are required to disclose significant changes made in our internal controls and procedures on a quarterly basis. Now that we are no longer an “emerging growth company,” our independent registered public accounting firm is also required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404. Our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future. Additionally, to comply with the requirements of being a public company, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff, which may adversely affect our results of operations and financial condition.

Although prior material weaknesses have been remediated, we cannot assure you that our internal controls will continue to operate properly or that our financial statements will be free from error. There may be undetected material weaknesses in our internal control over financial reporting, as a result of which we may not detect financial statement errors on a timely basis. Moreover, in the future we may implement new offerings and engage in business transactions, such as acquisitions, reorganizations or implementation of new information systems that could require us to develop and implement new controls and could negatively affect our internal control over financial reporting and result in material weaknesses.

If we identify new material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, we may be late with the filing of our periodic reports, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected. As a result of such failures, we could also become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation, financial condition or divert financial and management resources from our core business.

#### **Risks related to our common stock**

***We expect that our stock price will fluctuate significantly, you may have difficulty selling your shares, and you could lose all or part of your investment.***

Our stock is currently traded on NASDAQ, but we can provide no assurance that we will be able to maintain an active trading market on NASDAQ or any other exchange in the future. If an active trading market does not develop, you may have difficulty selling any of our shares of common stock that you buy. In addition, the trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- actual or anticipated quarterly variation in our results of operations or the results of our competitors;
- announcements of secondary offerings;
- announcements by us or our competitors of new commercial products, significant contracts, commercial relationships or capital commitments;
- issuance of new or changed securities analysts’ reports or recommendations for our stock;
- developments or disputes concerning our intellectual property or other proprietary rights;
- commencement of, or our involvement in, litigation;
- market conditions in the oxygen therapy market;
- reimbursement or legislative changes in the oxygen therapy market;

- failure to complete significant sales;
- manufacturing disruptions that could occur if we were unable to successfully expand our production in our current or an alternative facility;
- any future sales of our common stock or other securities;
- any major change to the composition of our board of directors or management;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- the other factors described in this “Risk Factors” section; and
- general economic conditions and slow or negative growth of our markets.

The stock market in general and market prices for the securities of technology-based companies like ours in particular, have from time to time experienced volatility that often has been unrelated to the operating performance of the underlying companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating performance. In several recent situations where the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock.

Stockholder litigation has been filed against us in the past, and a class action securities lawsuit against us is currently pending, as discussed in the “Legal Proceedings” section of this Quarterly Report on Form 10-Q. While we are continuing to defend such actions vigorously, the defense of such actions can be costly, divert the time and attention of our management and harm our operating results, and any judgment against us or any future stockholder litigation could result in substantial costs.

***If securities or industry analysts do not publish research or publish unfavorable research about our business, our stock price and trading volume could decline.***

The trading market for our common stock will rely in part on the research and reports that equity research analysts publish about us and our business. We will not have any control of the analysts or the content and opinions included in their reports. The price of our stock could decline if one or more equity research analysts downgrade our stock or issue other unfavorable commentary or research. If one or more equity research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which in turn could cause our stock price or trading volume to decline.

***Future sales of shares could cause our stock price to decline.***

Our stock price could decline as a result of sales of a large number of shares of our common stock or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

As of March 31, 2019, one holder of approximately 3.5 million shares, or approximately 16.2%, of our outstanding shares, has rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We have also registered the offer and sale of all shares of common stock that we may issue under our equity compensation plans.

In addition, in the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisition, litigation settlement, and employee arrangements or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and could cause our stock price to decline.

***Our directors, executive officers and principal stockholders will continue to have substantial control over us and could limit your ability to influence the outcome of key transactions, including changes of control.***

As of March 31, 2019, our executive officers, directors and stockholders who owned more than 5% of our outstanding common stock and their respective affiliates beneficially owned or controlled approximately 61.0% of the outstanding shares of our common stock. Accordingly, these executive officers, directors and stockholders who owned more than 5% of our outstanding common stock and their respective affiliates, acting as a group, have substantial influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transactions. These stockholders may also delay or prevent a change of control of us, even if such a change of control would benefit our other stockholders. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors’ perception that conflicts of interest may exist or arise.

*Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.*

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 10,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be affected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of the board of directors, or the Chief Executive Officer;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered three-year terms;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and
- require a super-majority of votes to amend certain of the above-mentioned provisions.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us.

*We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.*

We have paid no cash dividends on any of our classes of capital stock to date and currently intend to retain our future earnings to fund the development and growth of our business. In addition, we may become subject to covenants under future debt arrangements that place restrictions on our ability to pay dividends. As a result, capital appreciation, if any, of our common stock is expected to be your sole source of gain for the foreseeable future.

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

### *Unregistered Sales of Equity Securities*

None.

### *Issuer Purchases of Equity Securities*

We did not repurchase any shares of our common stock during the three months ended March 31, 2019 and March 31, 2018.

## **Item 3. Defaults Upon Senior Securities**

None.

## **Item 4. Mine Safety Disclosures**

Not applicable.

## **Item 5. Other Information**

None.



**Item 6. Exhibits**

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
10.1(1)	<a href="#"><u>Second Amendment to Private Label Distribution Agreement by and between the Company and OxyGo HQ, LLC, formerly known as Applied Home Healthcare Equipment, LLC, dated as of March 1, 2019</u></a>	Filed herewith		
31.1	<a href="#"><u>Certification Pursuant to Exchange Act Rules 13a - 14(a) and 15d - 14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer</u></a>	Filed herewith		
31.2	<a href="#"><u>Certification Pursuant to Exchange Act Rules 13a - 14(a) and 15d - 14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer</u></a>	Filed herewith		
32.1(2)	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Executive Officer</u></a>			
32.2(2)	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer</u></a>			
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Extension Schema Document			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			
101.DEF	XBRL Taxonomy Extension Definition Document			

(1) Portions of this exhibit have been omitted pursuant to Item 601(b)(10) of Regulation S-K. The Company agrees to furnish to the Securities and Exchange Commission a copy of any omitted portions of the exhibit upon request.

(2) The Certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Inogen, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

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

INOGEN, INC.

Dated: May 7, 2019

By: /s/ Scott Wilkinson  
Scott Wilkinson  
Chief Executive Officer  
President  
Director  
*(Principal Executive Officer)*

Dated: May 7, 2019

By: /s/ Alison Bauerlein  
Alison Bauerlein  
Chief Financial Officer  
Executive Vice President, Finance  
Secretary and Treasurer  
*(Principal Financial and Accounting Officer)*

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT HAS BEEN OMITTED BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. INFORMATION THAT HAS BEEN OMITTED HAS BEEN NOTED IN THIS DOCUMENT WITH A PLACEHOLDER IDENTIFIED BY THE MARK “[\*\*\*]”.

## SECOND AMENDMENT TO PRIVATE LABEL DISTRIBUTION AGREEMENT

THIS SECOND AMENDMENT TO PRIVATE LABEL DISTRIBUTION AGREEMENT (this “Amendment”) is made and entered as of March 1, 2019 (“Second Amendment Effective Date”), by and between **Inogen, Inc.**, a Delaware corporation (the “Company”) and **OxyGo HQ, LLC, formerly known as Applied Home Healthcare Equipment, LLC**, an Ohio limited liability company (the “Distributor”).

WHEREAS, the Company and the Distributor are parties to that certain Private Label Distribution Agreement dated November 12, 2014 (the “Agreement”);

WHEREAS, the Company and the Distributor have previously modified the Agreement in certain respects by way of Addendum dated November 12, 2014, attached hereto as Exhibit A, Addendum dated December 22, 2015, attached hereto as Exhibit B, Addendum dated February 17, 2016, attached hereto as Exhibit C, First Amendment dated February 21, 2018, attached hereto as Exhibit D (collectively, the “Prior Addenda”); and

WHEREAS, the Company and the Distributor wish to confirm and ratify the Prior Addenda and further to amend the Agreement as set forth below.

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants and promises contained in this Amendment and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Distributor agree as follows:

1. Ratification of the Prior Addenda. The Company and the Distributor hereby confirm and ratify the Prior Addenda, and agree that the provisions of the Prior Addenda have been incorporated into and made an integral part of the Agreement.

2. Amendments to the First Amendment to Private Label Distribution Agreement

2.1 Special Terms for Certain [\*\*\*] Sales. The Company and the Distributor hereby agree on the special pricing terms applicable solely to the sales of the Subject Products (as defined on Exhibit D) by the Distributor to [\*\*\*] effective as of March 1, 2019, as set forth on Exhibit E attached hereto. The pricing terms set forth on Exhibit D shall supersede any conflicting provisions of the Agreement solely with respect to sales of the Subject Products by the Distributor to [\*\*\*] on or after March 1, 2019.

3. No Other Modifications. Except as specifically provided in this Amendment, the terms and conditions of the Agreement remain in full force and effect. No provisions of this Amendment may be modified or amended except expressly in a writing signed by both parties, nor shall any terms be waived except expressly in a writing signed by the party charged therewith.

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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4. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the First Amendment Effective Date.

**INOGEN, INC.**

By: /s/ Alison Bauerlein  
Name: Alison Bauerlein  
Title: CFO

**OxyGo HQ, LLC.**

By: /s/ Victoria Marquard-Schultz  
Name: Victoria Marquard-Schultz  
Title: CEO

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## EXHIBIT A

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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**Addendum to Private Label Distribution Agreement Between Applied Home Health Equipment and Inogen**

This addendum to the private label agreement, entered into on November 12, 2014, documents changes in the warranty coverage for the OxyGo devices.

Inogen extends the warranty on the OxyGo devices to [\*\*\*] on the concentrator only for the following customers, effective on the following dates:

<u>Customer</u>	<u>Effective Date</u>	<u>Products Covered</u>
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

The [\*\*\*] warranty covers the concentrator only. All accessories, including sieve beds, batteries, power supplies and carry bags remain at [\*\*\*].

Agreed and acknowledged:

For Applied Home Health Equipment

For Inogen:

/s/ David Marquard  
David Marquard, CEO

/s/ Bob Fary  
Bob Fary, VP of Strategic Alliances

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[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

## EXHIBIT B

\*\*\* Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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Addendum to **PRIVATE LABEL DISTRIBUTION AGREEMENT (“Addendum”)**

5.1.1 **Export Restrictions.** Distributor agrees to comply with all applicable export and re-export control laws and regulations, including the Export Administration Regulations (“EAR”) maintained by the U.S. Department of Commerce, trade and economic sanctions maintained by the Treasury Department’s Office of Foreign Assets Control, and the International Traffic in Arms Regulations (“ITAR”) maintained by the Department of State. Specifically, Distributor covenants that it shall not -- directly or indirectly -- sell, export, re-export, transfer, divert, or otherwise dispose of any products received from Inogen under this Agreement to any destination, entity, or person prohibited by the laws or regulations of the United States, without obtaining prior authorization from the competent government authorities as required by those laws and regulations. Distributor agrees to indemnify, to the fullest extent permitted by law, Inogen from and against any fines or penalties that may arise as a result of Distributor’s breach of this provision. This export control clause shall survive termination or cancellation of this Agreement.

10.1 **Initial Term; Renewal Terms.** The initial term (the “Initial Term”) of this Agreement shall be [\*\*\*] from the date of this Addendum. The Initial Term shall be automatically extended and renewed for successive [\*\*\*] periods (each a “Renewal Term”) prior to the expiration of the Initial Term and each Renewal Term unless either party gives the other written notice of its election to terminate this Agreement at least [\*\*\*] prior to the expiration of the then current term of this Agreement.

**EXHIBIT B**

TERRITORY

Updated Authorized Territory for Inogen/Applied Home Healthcare Distribution Agreement

<b>Country</b>	<b>Channel(s)</b>	<b>Restriction(s)</b>
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

[\*\*\*]

[\*\*\*]

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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**IN WITNESS WHEREOF**, each of the undersigned has caused this Distribution Agreement to be duly executed as of the date first written above.

**DISTRIBUTOR**

Applied Home Healthcare Equipment, LLC, an Ohio Corporation

By: /s/ David J. Marquard, II

Name: David J. Marquard, II

Title: CEO & Owner

**THE COMPANY**

INOGEN, INC., a Delaware corporation

By: /s/ Scott A. Wilkinson

Name: Scott A. Wilkinson

Title: EVP - Sales & Marketing

12/22/15

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## EXHIBIT C

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## EXHIBIT A: PRODUCTS

For purposes of this Agreement, the term “Products” includes all oxygen systems, accessories and other oxygen goods and services offered for sale by Inogen.

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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EXHIBIT B: TERRITORY

Territory	Channel	Restriction
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***
***	***	***

\*\*\* Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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**DISTRIBUTOR**

Applied Home Healthcare Equipment, LLC  
an Ohio Corporation

By: /s/ David J. Marquard II

Name: David J. Marquard II

Title: Owner & CEO

Date: February 26, 2016

**THE COMPANY**

INOGEN, INC., a Delaware corporation

By: /s/ Scott A. Wilkinson

Name: Scott A. Wilkinson

Title: President & COO

Date: February 26, 2016

\*\*\* Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## EXHIBIT D

\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## FIRST AMENDMENT TO PRIVATE LABEL DISTRIBUTION AGREEMENT

THIS FIRST AMENDMENT TO PRIVATE LABEL DISTRIBUTION AGREEMENT (this "Amendment") is made and entered as of February 21, 2018 ("First Amendment Effective Date"), by and between **Inogen, Inc.**, a Delaware corporation (the "Company") and **Applied Home Healthcare Equipment, LLC**, an Ohio limited liability company (the "Distributor").

WHEREAS, the Company and the Distributor are parties to that certain Private Label Distribution Agreement dated November 12, 2014 (the "Agreement");

WHEREAS, the Company and the Distributor have previously modified the Agreement in certain respects by way of Addendum dated November 12, 2014, attached hereto as Exhibit A, Addendum dated December 22, 2015, attached hereto as Exhibit B, and Addendum dated February 17, 2016, attached hereto as Exhibit C (collectively, the "Prior Addenda"); and

WHEREAS, the Company and the Distributor wish to confirm and ratify the Prior Addenda and further to amend the Agreement as set forth below.

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants and promises contained in this Amendment and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Distributor agree as follows:

Ratification of the Prior Addenda. The Company and the Distributor hereby confirm and ratify the Prior Addenda, and agree that the provisions of the Prior Addenda have been incorporated into and made an integral part of the Agreement.

### Amendments to the Agreement.

Section 5.13(a) (Change in Control) of the Agreement is hereby renumbered as Section 5.14.

Section 6 (Additional Obligations of the Company) of the Agreement is hereby amended as follows:

Section 6.4 of the Agreement is replaced with the following:

"6.4 ISO 13485 and CE Mark. The Company shall implement such quality control systems and procedures as shall be appropriate to (a) ensure compliance with the requirements of International Standards Organization 13485, as applicable to the Company as the manufacturer and supplier of the

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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Products, and (b) place the CE marks (and/or other regulatory markings as may be applicable) on the Products in accordance with applicable law. Company will provide to Distributor current copies of ISO 13485, CE and DoC certificates for all Company products.”

Section 6.5 is added to the Agreement as follows:

“6.5 Regulatory Compliance Requirements. Distributor shall meet all regulatory requirements as outlined in this section:

- a. Distributor will market the Products only in countries where regulatory compliance has been confirmed.
- b. Distributor will determine requirements for sale of the Products as prescriptive devices in targeted markets. Distributor will document these requirements and inform Company prior to distribution into each country.
- c. Distributor will maintain shipping records of all the Products that are distributed.
- d. All customer complaints will be informed immediately to Company.
- e. In case of adverse medical events involving the Products, Distributor will submit to Company all information to evaluate applicable regulatory reporting requirements. All complaints shall be reviewed by Company and filed by Company should the results of Company’s complaint investigation deem the complaint to meet the criteria of a reportable event. Company shall have sole responsibility for reporting of any complaints or incidents to competent governmental authorities and Distributor shall not make any such report without the Company’s prior written approval.
- f. Distributor will comply with Company instructions in case of a need for product advisory product recall of the Products.
- g. Distributor will maintain all documentation and records referred above for at least seven years. Record will be made available to Company upon request.”

Section 6.6 is added to the Agreement as follows:

“6.6 U.S. Foreign Corrupt Practices Act. Without limiting any other provision in this Agreement, Distributor hereby represents, warrants and covenants that it shall comply with the requirements of the U.S. Foreign Corrupt Practices Act, U.S. and any other applicable foreign or domestic anti-bribery and anti-corruption laws, and other laws governing improper

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\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.



payments. Specifically, Distributor further represents, warrants, and covenants that, in connection with its activities under this Agreement, it will not offer, promise, authorize or otherwise act in furtherance or, or pay, anything of value, directly or indirectly, to a Government Official (as such term is hereinafter defined), or political party or party official, candidate for political office, or official of a public international organization. For purposes of this Agreement, the term "Government Official" shall mean and include any official or employee of a foreign (i.e., not the United States of America) national, local, provincial, or state government department, agency, or instrumentality, as well as an official in the judicial, legislative, or military, anyone acting in an official capacity for any foreign government, or any immediate family member (i.e., a spouse, sibling, child or parent) of such persons. Any such offer, promise, authorization, act in furtherance, or payment shall constitute a default by Distributor, and, to the extent, if any, required by law, the Company shall may immediately terminate this Agreement if Distributor breaches any of the representations and warranties set forth in this Section or if the Company learns that improper payments are being or have been made to any Government Official or private party by Distributor or its employees, subsidiaries or subcontractors."

Section 8 (Confidentiality and Property Rights) of the Agreement is hereby amended by adding a new Section 8.7 as follows:

"8.7 SEC or Similar Filings. The Company may disclose the terms of this Agreement to the extent reasonably required to comply with the rules and regulations promulgated by the United States Securities and Exchange Commission, comparable foreign regulators and self-regulatory organizations (such as securities exchanges)."

Section 10.2 (Termination of the Agreement) of the Agreement is hereby amended as follows:

Section 10.2(c) of the Agreement is replaced with the following:

"(c) The Company may terminate this Agreement, upon written notice, as set forth in Sections 3.5, 5.3, 5.9, 5.14 and 6.6."

Section 10.2(g) is added to the Agreement as follows:

"(g) The Company may terminate this Agreement if the Distributor is in material breach of the Company's Code of Conduct and fails to remedy any such breach within sixty (60) days after written notification of the breach by the Company."

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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Special Terms for [\*\*\*] Sales. The Company and the Distributor hereby agree on the special pricing terms applicable solely to the sales of the Subject Products (as defined on Exhibit D) by the Distributor to [\*\*\*] effective as of February 1, 2018, as set forth on Exhibit D attached hereto. The pricing terms set forth on Exhibit D shall supersede any conflicting provisions of the Agreement solely with respect to sales of the Subject Products by the Distributor to [\*\*\*] on or after February 1, 2018.

No Other Modifications. Except as specifically provided in this Amendment, the terms and conditions of the Agreement remain in full force and effect. No provisions of this Amendment may be modified or amended except expressly in a writing signed by both parties, nor shall any terms be waived except expressly in a writing signed by the party charged therewith.

Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the First Amendment Effective Date.

**INOGEN, INC.**

**APPLIED HOME HEALTHCARE  
EQUIPMENT, LLC**

By: /s/ Alison Bauerlein  
Name: Alison Bauerlein  
Title: CFO

By: /s/ Victoria Marquard-Schultz  
Name: Victoria Marquard-Schultz  
Title: Managing Director

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## EXHIBIT A

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**Addendum to Private Label Distribution Agreement Between Applied Home Health Equipment and Inogen**

This addendum to the private label agreement, entered into on November 12, 2014, documents changes in the warranty coverage for the OxyGo devices.

Inogen extends the warranty on the OxyGo devices to [\*\*\*] on the concentrator only for the following customers, effective on the following dates:

<u>Customer</u>	<u>Effective Date</u>	<u>Products Covered</u>
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

The [\*\*\*] warranty covers the concentrator only. All accessories, including sieve beds, batteries, power supplies and carry bags remain at [\*\*\*].

Agreed and acknowledged:

For Applied Home Health Equipment

For Inogen:

/s/ David Marquard  
\_\_\_\_\_  
David Marquard, CEO

/s/ Bob Fary  
\_\_\_\_\_  
Bob Fary, VP of Strategic Alliances

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## EXHIBIT B

\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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Addendum to **PRIVATE LABEL DISTRIBUTION AGREEMENT (“Addendum”)**

5.1.1 **Export Restrictions.** Distributor agrees to comply with all applicable export and re-export control laws and regulations, including the Export Administration Regulations (“EAR”) maintained by the U.S. Department of Commerce, trade and economic sanctions maintained by the Treasury Department’s Office of Foreign Assets Control, and the International Traffic in Arms Regulations (“ITAR”) maintained by the Department of State. Specifically, Distributor covenants that it shall not -- directly or indirectly -- sell, export, re-export, transfer, divert, or otherwise dispose of any products received from Inogen under this Agreement to any destination, entity, or person prohibited by the laws or regulations of the United States, without obtaining prior authorization from the competent government authorities as required by those laws and regulations. Distributor agrees to indemnify, to the fullest extent permitted by law, Inogen from and against any fines or penalties that may arise as a result of Distributor’s breach of this provision. This export control clause shall survive termination or cancellation of this Agreement.

10.1 **Initial Term; Renewal Terms.** The initial term (the “Initial Term”) of this Agreement shall be [\*\*\*] from the date of this Addendum. The Initial Term shall be automatically extended and renewed for successive [\*\*\*] periods (each a “Renewal Term”) prior to the expiration of the Initial Term and each Renewal Term unless either party gives the other written notice of its election to terminate this Agreement at least [\*\*\*] prior to the expiration of the then current term of this Agreement.

**EXHIBIT B**

**TERRITORY**

**Updated Authorized Territory for Inogen/Applied Home Healthcare Distribution Agreement**

<b>Country</b>	<b>Channel(s)</b>	<b>Restriction(s)</b>
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

[\*\*\*]

[\*\*\*]

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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IN WITNESS WHEREOF, each of the undersigned has caused this Distribution Agreement to be duly executed as of the date first written above.

**DISTRIBUTOR**

Applied Home Healthcare Equipment, LLC,  
an Ohio Corporation

By: /s/ David J. Marquard, II

Name: David J. Marquard, II

Title: CEO & Owner

**THE COMPANY**

INOGEN, INC., a Delaware corporation

By: /s/ Scott A. Wilkinson

Name: Scott A. Wilkinson

Title: EVP - Sales & Marketing

12/22/15

\*\*\* Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## EXHIBIT C

\*\*\* Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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## EXHIBIT A: PRODUCTS

For purposes of this Agreement, the term “Products” includes all oxygen systems, accessories and other oxygen goods and services offered for sale by Inogen.

\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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EXHIBIT B: TERRITORY

Territory	Channel	Restriction
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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DISTRIBUTOR

Applied Home Healthcare Equipment, LLC  
an Ohio Corporation

By: /s/ David J. Marquard II

Name: David J. Marquard II

Title: Owner & CEO

Date: February 26, 2016

THE COMPANY

INOGEN, INC., a Delaware corporation

By: /s/ Scott A. Wilkinson

Name: Scott A. Wilkinson

Title: President & COO

Date: February 26, 2016

\*\*\* Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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EXHIBIT D

[\*\*\*] PROGRAM

1. Distributor has agreed to certain [\*\*\*] terms with [\*\*\*], which terms are applicable as between the Distributor and [\*\*\*]. Notwithstanding the warranty terms offered by the Distributor to [\*\*\*], as between the Company and the Distributor, the warranty terms for the Products sold by the Company to the Distributor for resale to [\*\*\*] shall remain as provided in Section 4 of the Agreement.
2. The Company agrees that the price for each unit of OxyGo and OxyGo Fit Systems (1400-1000-[\*\*\*] & 1400-2000-[\*\*\*]) purchased by the Distributor from the Company on or after February 1, 2018 and resold to [\*\*\*] by the Distributor (“**Subject Products**”) shall be adjusted from \$[\*\*\*] to \$[\*\*\*] (discount of \$[\*\*\*] per unit). For all such Subject Product units purchased by and paid for the Distributor on or after February 1, 2018 at the prior price of \$[\*\*\*] per unit and resold by the Distributor to [\*\*\*], the Company shall issue to the Distributor a credit in the amount of \$[\*\*\*] per unit. Such credit shall be applied to the next invoice issued by the Company to the Distributor after the date of execution of this Amendment.
3. For each Subject Product, the Company will allow [\*\*\*] to be purchased at a price of \$[\*\*\*].
  - a. [\*\*\*].
  - b. The number of [\*\*\*] purchased for \$[\*\*\*].
  - c. The number of [\*\*\*] purchased for \$[\*\*\*] will not be tracked by concentrator serial number by the Company and [\*\*\*].
  - d. An RMA # is not required to purchase [\*\*\*].
  - e. [\*\*\*].
  - f. When any [\*\*\*] is processed and shipped from the Company, freight and shipping will be handled by the Company at the Company’s expense.
4. The Distributor agrees to use commercially reasonable efforts to establish a [\*\*\*].
  - a. [\*\*\*].
  - b. [\*\*\*]

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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EXHIBIT E

[\*\*\*] PRICING

1. The Company agrees that the price for each unit of OxyGo and OxyGo Fit Systems ([\*\*\*]) purchased by the Distributor from the Company on or after March 1, 2019 and resold to [\*\*\*] by the Distributor (“**Subject Products**”) shall be adjusted to \$[\*\*\*] for single battery configurations and \$[\*\*\*] for double battery configurations, [\*\*\*].
2. For each Subject Product, the Company will allow [\*\*\*].
  - a. [\*\*\*].
  - b. [\*\*\*].
  - c. The number of [\*\*\*] will not be tracked by concentrator serial number by the Company and will be allowed to exceed 2 for any given concentrator.
  - d. An RMA # is not required to purchase the eligible [\*\*\*].
  - e. If any of the Subject Products covered by the Company’s standard warranty terms are returned due to issues unrelated to [\*\*\*] and are repaired by the Company [\*\*\*], this will not be counted towards the maximum number of [\*\*\*] that the Distributor is allowed to purchase at [\*\*\*]. However, if [\*\*\*].
  - f. When any [\*\*\*] is processed and shipped from the Company, freight and shipping will be handled by the Company at the Company’s expense.
3. The Distributor agrees to use commercially reasonable efforts to establish a [\*\*\*].
  - a. the Distributor will work with [\*\*\*] to try and set up such recycling program.
  - b. If the Distributor processes repairs for [\*\*\*], the Distributor will send all failed [\*\*\*] back to the Company

[\*\*\*] Certain confidential information contained in this document, marked by brackets, has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

**Certification by the Chief Executive Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Scott Wilkinson, certify that:

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

Dated: May 7, 2019

By: /s/ Scott Wilkinson  
Scott Wilkinson  
Chief Executive Officer, President and Director  
(Principal Executive Officer)

**Certification by the Chief Financial Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Alison Bauerlein, certify that:

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

Dated: May 7, 2019

By: /s/ Alison Bauerlein  
Alison Bauerlein  
Chief Financial Officer  
Executive Vice President, Finance  
Secretary and Treasurer  
(Principal Financial Officer)



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott Wilkinson, the chief executive officer of Inogen, Inc. (the “Company”), certify for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

(i) the Quarterly Report of the Company on Form 10-Q for the three months ended March 31, 2019 (the “Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 7, 2019

By: /s/ Scott Wilkinson  
Scott Wilkinson  
Chief Executive Officer, President and Director

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Alison Bauerlein, the chief financial officer of Inogen, Inc. (the “Company”), certify for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

(i) the Quarterly Report of the Company on Form 10-Q for the three months ended March 31, 2019 (the “Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 7, 2019

By: /s/ Alison Bauerlein  
Alison Bauerlein  
Chief Financial Officer  
Executive Vice President, Finance  
Secretary and Treasurer