# 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 September 30, 2014**

**OR**

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

**For the Transition Period From _____to _____**

**Commission file number: 001-36309**

# INOGEN, INC.

**(Exact name of registrant as specified in its charter)**

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

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

**None**
**(Former name, former address and former fiscal year, if changed since last report )**

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

The total number of shares of common stock outstanding as of October 31, 2014 was 18,628,900.

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## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS.

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 56,160 | $ 13,521 |
| Accounts receivable, net of allowances of $3,981 and $3,390 at September 30, 2014 and December 31, 2013, respectively | 18,061 | 10,231 |
| Inventories, net of allowances of $183 and $100 at September 30, 2014 and December 31, 2013, respectively | 7,331 | 4,248 |
| Deferred cost of rental revenue | 423 | 289 |
| Income tax receivable | - | 87 |
| Deferred tax asset - current | 6,360 | 3,923 |
| Prepaid expenses and other current assets | 980 | 531 |
| Total current assets | 89,315 | 32,830 |
| **Property and equipment** | | |
| Rental equipment, net of allowances of $682 and $157 at September 30, 2014 and December 31, 2013, respectively | 45,532 | 37,573 |
| Manufacturing equipment and tooling | 2,745 | 2,551 |
| Computer equipment and software | 3,611 | 2,973 |
| Furniture and equipment | 608 | 601 |
| Leasehold improvements | 889 | 887 |
| Land and building | 126 | - |
| Construction in process | 1,186 | 1,093 |
| Total property and equipment | 54,697 | 45,678 |
| **Less accumulated depreciation** | (23,640) | (15,956) |
| Property and equipment, net | 31,057 | 29,722 |
| **Intangible assets, net** | 274 | 215 |
| **Deferred tax asset - noncurrent** | 16,427 | 17,865 |
| **Other assets** | 80 | 1,765 |
| **Total assets** | $ 137,153 | $ 82,397 |

*See accompanying condensed notes to the financial statements.*

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)** | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | $ 11,201 | $ 9,219 |
| Accrued payroll | 3,732 | 2,898 |
| Current portion of long-term debt | 267 | 5,258 |
| Warranty reserve | 669 | 420 |
| Deferred revenue | 1,959 | 1,487 |
| Income tax payable | 2,647 | - |
| Total current liabilities | 20,475 | 19,282 |
| **Long-term liabilities** | | |
| Warranty reserve - noncurrent | 503 | 389 |
| Preferred stock warrant liability | - | 260 |
| Deferred revenue-noncurrent | 1,878 | 776 |
| Long-term debt, net of current portion | 391 | 5,391 |
| Total liabilities | 23,247 | 26,098 |
| **Commitments and contingencies (Note 5)** | | |
| **Redeemable convertible preferred stock** | | |
| Preferred stock, $0.001 par value per share; 10,000,000 authorized as of December 31, 2013; 0 and 9,541,631 shares issued and outstanding; liquidation preference of $0 and $136,660 at September 30, 2014 and December 31, 2013, respectively (Note 7) | - | 118,671 |
| **Stockholders' equity (deficit)** | | |
| Preferred stock, $0.001 par value per share; 10,000,000 and 100,000 shares authorized; 0 and 66,666 shares issued and outstanding; liquidation preference of $0 and $250 at September 30, 2014 and December 31, 2013, respectively. (Note 7) | - | 247 |
| Common stock, $0.001 par value per share; 200,000,000 and 60,000,000 shares authorized; 18,436,802 and 280,974 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively. | 18 | 1 |
| Additional paid-in-capital | 172,100 | - |
| Accumulated deficit | (58,212) | (62,620) |
| Total stockholders' equity (deficit) | 113,906 | (62,372) |
| Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit) | $ 137,153 | $ 82,397 |

*See accompanying condensed notes to the financial statements.*

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Revenue** | | | | |
| Sales revenue | $ 19,425 | $ 12,134 | $ 54,746 | $ 33,780 |
| Rental revenue | 9,968 | 7,643 | 28,673 | 21,901 |
| **Total revenue** | 29,393 | 19,777 | 83,419 | 55,681 |
| **Cost of revenue** | | | | |
| Cost of sales revenue | 10,146 | 6,751 | 28,369 | 18,406 |
| Cost of rental revenue, including depreciation of $2,752 and $1,955 for the three months ended and $7,512 and $4,921 for the nine months ended, respectively | 4,598 | 3,384 | 13,349 | 8,459 |
| **Total cost of revenue** | 14,744 | 10,135 | 41,718 | 26,865 |
| **Gross profit** | 14,649 | 9,642 | 41,701 | 28,816 |
| **Operating expenses** | | | | |
| Research and development | 798 | 674 | 2,312 | 1,817 |
| Sales and marketing | 5,587 | 4,550 | 17,656 | 13,292 |
| General and administrative | 4,697 | 3,532 | 12,654 | 9,796 |
| **Total operating expenses** | 11,082 | 8,756 | 32,622 | 24,905 |
| **Income from operations** | 3,567 | 886 | 9,079 | 3,911 |
| **Other income (expense)** | | | | |
| Interest expense | (104) | (113) | (440) | (312) |
| Interest income | 10 | 3 | 28 | 9 |
| Change in fair value of preferred stock warrant liability | - | 41 | 36 | (202) |
| Other income | 1 | - | 12 | 209 |
| **Total other expense, net** | (93) | (69) | (364) | (296) |
| **Income before provision for income taxes** | 3,474 | 817 | 8,715 | 3,615 |
| **Provision for income taxes** | 1,341 | 43 | 3,408 | 151 |
| **Net income** | $ 2,133 | $ 774 | $ 5,307 | $ 3,464 |
| **Less deemed dividend on redeemable convertible preferred stock** | - | (1,851) | (987) | (5,359) |
| **Net income (loss)** | $ 2,133 | $ (1,077) | $ 4,320 | $ (1,895) |
| | | | | |
| **Basic net income (loss) per share attributable to common stockholders (note 2)** | $ 0.12 | $ (3.90) | $ 0.24 | $ (6.91) |
| **Diluted net income (loss) per share attributable to common stockholders (note 2)** | $ 0.11 | $ (3.90) | $ 0.22 | $ (6.91) |
| **Weighted-average number of shares used in calculating income (loss) per share attributable to common stockholders (note 2):** | | | | |
| **Basic common shares** | 18,286,208 | 276,618 | 15,340,877 | 274,357 |
| **Diluted common shares** | 20,213,102 | 276,618 | 17,293,833 | 274,357 |

*See accompanying condensed notes to the financial statements.*

**Inogen, Inc.**
**Statement of Redeemable Convertible Preferred Stock**
**(unaudited)**
**(amounts in thousands, except share amounts)**

| | Series B redeemable convertible preferred stock | | Series C redeemable convertible preferred stock | | Series D redeemable convertible preferred stock | | Series E redeemable convertible preferred stock | | Series F redeemable convertible preferred stock | | Series G redeemable convertible preferred stock | | Total redeemable convertible preferred stock |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | |
| Balance, December 31, 2013 | 425,511 | $ 5,056 | 365,903 | $ 6,460 | 1,573,126 | $ 34,619 | 1,634,874 | $ 29,130 | 2,701,957 | $ 15,620 | 2,840,260 | $ 27,786 | $ 118,671 |
| Warrants exercised | — | — | 11,094 | 279 | 11,415 | 314 | — | — | — | — | — | — | 593 |
| Deemed dividend on redeemable convertible preferred stock | — | — | — | — | — | — | — | 139 | — | 207 | — | 641 | 987 |
| Conversion of preferred stock to common stock in connection with initial public offering | (425,511) | (5,056) | (376,997) | (6,739) | (1,584,541) | (34,933) | (1,634,874) | (29,269) | (2,701,957) | (15,827) | (2,840,260) | (28,427) | (120,251) |
| Balance, September 30, 2014 | — | $ — | — | $ — | — | $ — | — | $ — | — | $ — | — | $ — | $ — |

*See accompanying condensed notes to the financial statements.*

**Inogen, Inc.**
**Statement of Stockholders' Equity (Deficit)**
**(unaudited)**
**(amounts in thousands, except share amounts)**

| | Series A convertible preferred stock | | Common stock | | Additional paid-in | Accumulated | Total stockholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | capital | deficit | equity (deficit) |
| Balance, December 31, 2013 | 66,666 | $ 247 | 280,974 | $ 1 | $ - | $ (62,620) | $ (62,372) |
| Stock-based compensation | — | — | — | — | 1,035 | 88 | 1,123 |
| Employee stock purchase | | | 30,358 | | 413 | | 413 |
| Stock options exercised | — | — | 243,828 | — | 229 | — | 229 |
| Warrants exercised - preferred & common | — | — | 92,584 | — | 76 | — | 76 |
| Reclassification of warrant liability | — | — | — | — | 22 | — | 22 |
| Deemed dividend on redeemable convertible preferred stock | — | — | — | — | — | (987) | (987) |
| Conversion of preferred stock | (66,666) | (247) | 14,259,647 | 14 | 120,484 | — | 120,251 |
| Issuance of common stock in connection with initial public offering | — | — | 3,529,411 | 3 | 49,841 | — | 49,844 |
| Net income | — | — | — | — | — | 5,307 | 5,307 |
| Balance, September 30, 2014 | — | $ — | 18,436,802 | $ 18 | $ 172,100 | $ (58,212) | $ 113,906 |

*See accompanying condensed notes to the financial statements.*

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

| | Nine months ended September 30, | |
|---|---|---|
| | **2014** | **2013** |
| **Cash flows from operating activities** | | |
| Net income | $ 5,307 | $ 3,464 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,779 | 5,995 |
| Loss on rental units | 1,203 | 330 |
| Loss on disposal of other fixed assets | — | 85 |
| Provision for sales returns | 2,558 | 1,090 |
| Provision for doubtful accounts | 1,201 | 1,353 |
| Provision for rental revenue adjustments | 5,530 | 4,057 |
| Provision for inventory obsolescence | 125 | 92 |
| Stock-based compensation expense | 1,123 | 116 |
| Deferred tax assets | (999) | — |
| Increase (decrease) in fair value of preferred stock warrant liability | (36) | 202 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (17,119) | (9,176) |
| Inventories | (3,208) | (130) |
| Deferred costs of rental revenue | (134) | (124) |
| Prepaid expenses and other current assets | (449) | (404) |
| Accounts payable and accrued expenses | 1,982 | 2,718 |
| Accrued payroll | 834 | 447 |
| Warranty reserve | 363 | 396 |
| Deferred revenue | 1,574 | 867 |
| Income tax receivable | 87 | — |
| Income tax payable | 2,647 | 100 |
| Net cash provided by operating activities | 11,368 | 11,478 |
| **Cash flows from investing activities** | | |
| Investment in intangible assets | (184) | (7) |
| Production of rental equipment | (10,132) | (11,918) |
| Purchases of property and equipment | (1,060) | (2,572) |
| Net cash used in investing activities | (11,376) | (14,497) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 6,000 | 6,000 |
| Proceeds from redeemable convertible preferred stock warrants and common stock warrants exercised | 467 | 1,875 |
| Proceeds from stock options exercised | 229 | — |
| Proceeds from initial public offering | 56,471 | — |
| Costs associated with initial public offering | (4,942) | — |
| Employee stock purchase | 413 | — |
| Repayment of debt from investment in intangible assets | (130) | (159) |
| Repayment of borrowings | (15,861) | (2,750) |
| Net cash provided by financing activities | 42,647 | 4,966 |
| **Net increase (decrease) in cash and cash equivalents** | 42,639 | 1,947 |
| **Cash and cash equivalents, beginning of period** | 13,521 | 15,112 |
| **Cash and cash equivalents, end of period** | $ 56,160 | $ 17,059 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the period for interest | 478 | 307 |
| Cash paid during the period for income taxes | 1,673 | 124 |
| **Non-cash transactions:** | | |
| Deemed dividend on redeemable convertible preferred stock | 987 | 5,359 |

*See accompanying condensed notes to the financial statements.*

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

## 1. General

### *a) Basis of presentation*

The unaudited condensed financial statements have been prepared on the same basis as the annual audited financial statements and, in the opinion of management, reflect all adjustments necessary for a fair presentation for each of the periods presented. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years or other interim periods.

Inogen, Inc. (Company or Inogen) was incorporated in Delaware on November 27, 2001. The Company is a medical technology company that develops, manufactures and markets innovative oxygen concentrators used for supplemental long-term oxygen therapy by patients with chronic obstructive pulmonary disease, or COPD, and other chronic respiratory conditions. The Company's proprietary Inogen One systems are designed to address the quality-of-life and other shortcomings of the traditional oxygen therapy model, which Inogen calls the delivery model. Traditionally, oxygen therapy patients have relied upon stationary oxygen concentrator systems in the home in conjunction with regular deliveries of oxygen tanks or cylinders for ambulatory, or mobile, use, limiting their mobility and requiring them to plan activities outside of their homes around delivery schedules and a finite oxygen supply. The Company's Inogen One systems concentrate the air around them to offer a single source of supplemental oxygen anytime, anywhere from devices weighing approximately five to seven pounds. Inogen's products eliminate the need for oxygen deliveries, as well as regular use of a stationary concentrator, thereby improving patient quality-of-life and fostering patient mobility.

As contemplated by the Securities and Exchange Commission (SEC) under Rule 10-01 of Regulation S-X, the accompanying financial statements and related footnotes have been condensed and do not contain certain information that will be included in the Company's annual financial statements and footnotes thereto. For further information refer to the financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on April 1, 2014 (Annual Report).

### *b) Use of estimates*

The preparation of the Company's condensed financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these condensed financial statements and accompanying notes. 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 inventory and rental asset valuations and write-downs, accounts receivable reserves and allowance for bad debts, returns and adjustments, stock compensation expense, impairment assessments, depreciation and amortization, income tax provision and uncertain tax positions, fair value of financial instruments, and fair values of acquired intangibles. Actual results could differ materially from these estimates.

### *c) Reclassifications*

Certain reclassifications have been made to prior years financial statements to conform to current period financial statement presentation with no effect on previously reported financial position, results of operations or cash flows.

### *d) Initial public offering (IPO)*

The Company completed an initial public offering on February 20, 2014, and sold 3,529,411 shares to the public for $16.00 per share. In addition, the selling shareholders sold 981,902 shares for a combined total of 4,511,313 shares sold in the offering. The Company netted approximately $49,668 after the underwriters discount and other associated expenses. In connection with the completion of our IPO, the Company's outstanding redeemable convertible preferred stock and non-redeemable preferred stock were all converted to common stock. As of September 30, 2014, the Company had 18,436,802 shares of common stock outstanding.

e***) Revenue from contracts with customers***

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of the Company's pending adoption of ASU 2014-09 on the Company's consolidated financial statements and has not yet determined the method by which the Company will adopt the standard in 2017.

**2. Summary of significant accounting policies**

***Sales 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 Operations, comes from service contracts, extended warranty contracts and freight revenue for product shipments.

Revenue from product sales is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the price to the customer is fixed or determinable; and (4) collectability is reasonably assured. Revenue from product sales is recognized upon shipment of the product. Provisions for estimated returns and discounts are made at the time of shipment. Provisions for standard warranty obligations, which are included in cost of sales revenue on the Statements of Operations, are also provided for at the time of shipment.

Revenue from the sales of the Company's services is recognized when no significant obligations remain undelivered and collection of the receivables is reasonably assured. The Company offers extended service contracts on its Inogen One concentrator line for periods ranging from 12 to 24 months after the end of the standard warranty period. Revenue from these extended service contracts is recognized in income on a straight-line basis over the contract period.

Accruals for estimated standard warranty expenses are made at the time that the associated revenue is recognized. The provisions for estimated returns, discounts and warranty obligations are made based on known claims and discount commitments and estimates of additional returns and warranty obligations based on historical data and future expectations. The Company accrued $1,172 and $809 to provide for future warranty costs at September 30, 2014 and December 31, 2013, respectively.

The Company also offers a lifetime warranty for direct-to-consumer sales. For a fixed price, the Company agrees to provide a fully functional oxygen concentrator for the remaining life of the patient. Lifetime warranties are only offered to patients upon the initial sale of oxygen equipment by the Company and are non-transferable. Product sales with lifetime warranties are considered to be multiple element arrangements within the scope of the Accounting Standards Codification (ASC) 605-25—*Revenue Recognition-Multiple-Element Arrangements.*

There are two deliverables when product that includes a lifetime warranty is sold. The first deliverable is the oxygen concentrator equipment which comes with a standard warranty of three years. The second deliverable is the lifetime warranty that provides for a functional oxygen concentrator for the remaining lifetime of the patient. These two deliverables qualify as separate units of accounting.

The revenue is allocated to the two deliverables on a relative selling price method. The Company has vendor-specific objective evidence of selling price for the equipment. To determine the selling price of the lifetime warranty, the Company uses its best estimate of the selling price for that deliverable 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 considered the profit margins of the overall business, the average estimated cost of lifetime warranties and the price of extended warranties. A significant estimate used to calculate the price and expense of lifetime warranties is the life expectancy of patients. Based on clinical studies, the Company estimates that 60% of patients will succumb to their disease within three years. Given the approximate mortality rate of 20% per year, the Company estimates on average all patients will succumb to their disease within five years. The Company has taken into consideration that when patients decide to buy an Inogen portable oxygen concentrator with a lifetime warranty, they typically have already been on oxygen for a period of time, which can have a large impact on their life expectancy from the time the Company's product is deployed.

After applying the relative selling price method, revenue from equipment sales is recognized when all other revenue recognition criteria for product sales are met. Lifetime warranty revenue is recognized using the straight-line method during the fourth and fifth year after the delivery of the equipment which is the estimated usage period of the contract based on the average patient life expectancy.

Shipping and handling costs for sold products and rental assets, shipped to the Company's customers are included on the Statements of Operations as part of cost of sales revenue and cost of rental revenue, respectively.

Revenue from the sales of used rental equipment is recognized upon delivery and when collectability is reasonably assured and other revenue recognition criteria are met. When a rental unit is sold, the related cost and accumulated depreciation are removed from their respective accounts, and any gains or losses are included in cost of sales revenue on the Statements of Operations.

***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 840—*Leases*. The Company has separate contracts with each patient that are not subject to a master lease agreement with any payor. The Company evaluates the individual lease contracts at lease inception and the start of each monthly renewal period to determine if there is reasonable assurance that the bargain renewal option associated with the potential capped free rental period would be exercised. Historically, the exercise of such bargain renewal option is not reasonably assured at lease inception and most subsequent monthly lease renewal periods. If the Company determines that the reasonable assurance 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. To date, the Company has not deferred any amounts associated with the capped rental period. Amounts related to the capped rental period have not been material in the periods presented.

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. 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. Upon determination that an account is uncollectible, it is written-off and charged to the allowance. Amounts billed but not earned due to the timing of the billing cycle are deferred and recognized in income 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.

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

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 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 unbilled rental revenue accrual is based on historical trends and estimates of future collectability.

***Fair value of financial instruments***

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

The fair value of the Company's debt approximates carrying value based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. Imputed interest associated with the Company's non-interest bearing debt is insignificant and has been appropriate recognized in the respective periods.

The fair value of the Company's preferred stock warrant liability was estimated using a Monte Carlo valuation model.

***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 should be determined based on assumptions that market participants would use in pricing the asset or liability. 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 following table summarizes fair value measurements by level at December 31, 2013 for the liabilities measured at fair value on a recurring basis:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Preferred stock warrant liability | $ — | $ — | $ 260 | $ 260 |
| Total liabilities | $ — | $ — | $ 260 | $ 260 |

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

The following table summarizes the fair value measurements using significant Level 3 inputs, and changes therein as of nine months ended September 30, 2014.

| | Warrant liability |
|---|---|
| Balance as of December 31, 2013 | $ 260 |
| Fair value of preferred stock warrants exercised | (148) |
| Change in fair value | (36) |
| Reclassification of liability to additional paid in capital | (76) |
| Balance as of September 30, 2014 | $ — |

The preferred stock warrant liability was marked to market at each reporting date and the fair value was estimated using a Monte Carlo valuation model, which takes into consideration the market values of comparable public companies, considering among other factors, the use of multiples of earnings, and adjusted to reflect the restrictions on the ability of the Company's shares to trade in an active market.

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

The Company does not allow returns from providers. Provision for sales returns applies to direct-to-consumer sales only. This reserve is calculated based on actual historical return rates under the Company's 30-day return program and is applied to the sales revenue for direct-to-consumer sales for the last month of the quarter reported.

The Company also records an allowance for rental revenue adjustments and write-offs, which is recorded as a reduction of rental revenue and rental accounts receivable balances. These adjustments and write-offs 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 becoming realizable. The reserve is based on historical revenue adjustments as a percentage of rental revenue billed during the related period.

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

At September 30, 2014 and December 31, 2013, included in accounts receivable on the balance sheets were earned but unbilled receivables of $3,410 and $1,435, respectively.

***Concentration of credit risk***

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents 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 and short-term investments to date.

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

***Concentration of customers and vendors***

The Company sells its products to home medical equipment providers in the United States and in foreign countries on a credit basis. No single customer represented more than 10% of the Company's total revenue for the nine months ended September 30, 2014 and September 30, 2013. No single customer represented more than 10% of the Company's total accounts receivable balance as of September 30, 2014, or as of December 31, 2013.

The Company also rents products directly to patients, which resulted in a customer concentration relating to Medicare's service reimbursement programs. Medicare's service reimbursement programs (net of patient co-insurance obligations) accounted for 78.6% and 70.8% of rental revenue for the three months ended September 30, 2014 and September 30, 2013, respectively, and based on total revenue were 26.7% and 27.4% for the three months ended September 30, 2014 and September 30, 2013, respectively. Medicare's service reimbursement programs (net of patient co-insurance obligations) accounted for 74.3% and 73.1% of rental revenue for the nine months ended September 30, 2014 and September 30, 2013, respectively, and based on total revenue were 25.6% and 28.8% for the nine months ended September 30, 2014 and September 30, 2013, respectively. Accounts receivable balances relating to Medicare's service reimbursement programs amounted to $3,661 or 20.3% of total accounts receivable at September 30, 2014 as compared to $2,560, or 25.0% of total accounts receivable at December 31, 2013.

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 nine months ended September 30, 2014, the Company's three major vendors accounted for 18.8%, 17.8%, and 8.0%, respectively, of total raw material purchases. For the nine months ended September 30, 2013, the Company's three major vendors accounted for 15.7%, 14.9% and 8.6%, respectively, of total raw material purchases.

A portion of revenue is earned from sales outside the United States. Non-U.S. revenue is denominated in U.S. dollars. A breakdown of the Company's revenue from U.S. and non-U.S. sources for the three months and nine months ended September 30, 2014 and September 30, 2013 is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| U.S. revenue | $ 22,571 | $ 15,194 | $ 65,996 | $ 42,768 |
| Non-U.S. revenue | 6,822 | 4,583 | 17,423 | 12,913 |
| Total revenue | $ 29,393 | $ 19,777 | $ 83,419 | $ 55,681 |

***Inventories***

Inventories are stated at the lower of cost or market. 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 and market represents the lower of replacement cost or estimated net realizable value. The Company records adjustments at least quarterly to inventory for potentially excess, obsolete, slow-moving or impaired items. Inventories consist of the following:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Raw materials and work-in-progress | $ 6,058 | $ 3,783 |
| Finished goods | 1,456 | 565 |
| Less: reserves | (183) | (100) |
| Inventories | $ 7,331 | $ 4,248 |

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

***Property and equipment***

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

| | |
|---|---|
| Rental equipment | 1.5-5 years |
| Manufacturing equipment and tooling | 5 years |
| Computer equipment and software | 3 years |
| Furniture and equipment | 3-5 years |
| Leasehold improvements | Shorter of 3-10 years or life of underlying lease |

Expenditures for additions, improvements and replacements are capitalized and depreciated to a salvage value of zero. Repair and maintenance costs are included in cost of revenue on the Statements of Operations. Repair and maintenance expense, which includes labor, parts and freight for rental equipment was $367 and $251 for the three months ended September 30, 2014 and September 30, 2013, respectively, and $1,157 and $707 for the nine months ended September 30, 2014 and September 30, 2013, respectively.

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

Depreciation and amortization expense related to property and equipment and rental equipment is summarized below for the three months ended September 30, 2014 and September 30, 2013, respectively, and the nine months ended September 30, 2014 and September 30, 2013, respectively.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **Depreciation and amortization** | **2014** | **2013** | **2014** | **2013** |
| Rental equipment | $ 2,752 | $ 1,955 | $ 7,512 | $ 4,921 |
| Other property and equipment | 396 | 319 | 1,142 | 871 |
| Total depreciation and amortization | $ 3,148 | $ 2,274 | $ 8,654 | $ 5,792 |

Property and equipment and rental equipment with associated accumulated depreciation is summarized below for September 30, 2014 and December 31, 2013, respectively.

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Property and equipment** | | |
| Rental equipment, net of allowance | $ 45,532 | $ 37,573 |
| Other property and equipment | 9,165 | 8,105 |
| Property and equipment | 54,697 | 45,678 |
| | | |
| **Accumulated depreciation** | | |
| Rental equipment | 19,087 | 12,545 |
| Other property and equipment | 4,553 | 3,411 |
| Accumulated depreciation | 23,640 | 15,956 |
| | | |
| **Net property and equipment** | | |
| Rental equipment | 26,445 | 25,028 |
| Other property and equipment | 4,612 | 4,694 |
| Property and equipment, net | $ 31,057 | $ 29,722 |

***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 three months and six months and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company's 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 operations as income tax expense. No significant interest or penalties were recognized during the periods presented.

The Company operates in multiple states. The statute of limitations has expired for all tax years prior to 2011 for federal and 2010 to 2011 for various state tax purposes. However, the net operating loss generated on the federal and state tax returns in prior years may be subject to adjustments by the federal and state tax authorities.

***Accounting for stock-based compensation***

The Company accounts for its stock-based compensation in accordance with ASC 718, *Compensation—Stock Compensation*, which establishes accounting for share-based awards, exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. Stock–based compensation cost is determined at the grant date using the Black-Scholes option pricing model. The value of the award that is ultimately expected to vest is recognized as expense on a straight line basis over the employee's requisite service period.

As part of the provisions of ASC 718, the Company is required to estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

***Business segments***

The Company operates in only one business segment – manufacturing, sales, rental and marketing of respiratory products.

***Stock split***

On November 11, 2013, the Company's board of directors and stockholders approved a 3:1 reverse stock split. This became effective as of November 12, 2013 and the effect of this event has been reflected in all of the share quantities and per share amounts throughout these financial statements. The shares of common stock retained a par value of $0.001.

***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, redeemable convertible preferred stock and preferred stock warrants, and common stock warrants) 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 warrants are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive.

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

The shares used to compute basic and diluted net income per share represent the weighted-average common shares outstanding, reduced by the weighted-average unvested common shares subject to repurchase. Further, as the Company's holders of redeemable convertible preferred stock have the right to participate in any dividend declared on the Company's common stock, basic and diluted EPS are potentially subject to computation using the two-class method, under which the Company's undistributed earnings are allocated amongst the holders of common and redeemable convertible preferred stock.

On February 20, 2014, the Company completed an initial public offering (IPO) of 4,411,763 shares of common stock at a price of $16.00 per share. The Company sold 3,529,411 shares of common stock and certain stockholders sold 882,352 shares of common stock. As of March 7, 2014 the underwriters elected to purchase 99,550 additional shares of common stock at the IPO price from the certain selling shareholders. All redeemable convertible preferred stock and non-redeemable preferred stock-outstanding as of the IPO automatically converted into 14,259,647 shares of common stock.

The computation of EPS is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Numerator—basic:** | | | | |
| Net income | $ 2,133 | $ 774 | $ 5,307 | $ 3,464 |
| Less deemed dividend on redeemable convertible preferred stock | - | (1,851) | (987) | (5,359) |
| Net income (loss) before preferred rights dividend | 2,133 | (1,077) | 4,320 | (1,895) |
| Less preferred rights dividend | - | - | - | - |
| Less: undistributed earnings to preferred stock | - | - | (563) | - |
| Net income (loss) attributable to common stockholders - basic | $ 2,133 | $ (1,077) | $ 3,757 | $ (1,895) |
| **Numerator—diluted:** | | | | |
| Net income | $ 2,133 | $ 774 | $ 5,307 | $ 3,464 |
| Less deemed dividend on redeemable convertible preferred stock | - | (1,851) | (987) | (5,359) |
| Net income (loss) before preferred rights dividend | 2,133 | (1,077) | 4,320 | (1,895) |
| Less undistributed earnings to preferred stock | - | - | (507) | - |
| Net income (loss) attributable to common stockholders - diluted | $ 2,133 | $ (1,077) | $ 3,813 | $ (1,895) |
| **Denominator:** | | | | |
| Weighted-average common shares - basic common stock | 18,286,208 | 276,618 | 15,340,877 | 274,357 |
| Weighted-average common shares - diluted common stock | 20,213,102 | 276,618 | 17,293,833 | 274,357 |
| Net income (loss) per share - basic common stock | $ 0.12 | $ (3.90) | $ 0.24 | $ (6.91) |
| Net income (loss) per share - diluted common stock | $ 0.11 | $ (3.90) | $ 0.22 | $ (6.91) |

The computations of diluted net income applicable to common shareholders exclude redeemable convertible preferred stock, warrants and common stock options which were anti-dilutive for the three months and nine months ended September 30, 2013. There were no anti-dilutive instruments for the three and nine months ended September 30, 2014.

### 3. Intangible assets

During the year ended December 31, 2008, the Company acquired Comfort Life Medical, LLC (Comfort Life). The acquisition resulted in recording an intangible asset in the amount of $92 related to the Medicare license held by the acquired company. The Company amortizes this intangible asset over its estimated useful life of ten years. As of September 30, 2014 and December 31, 2013, there were no impairments recorded related to this intangible asset. On April 1, 2009, Comfort Life Medical, LLC merged with Inogen, Inc., and was simultaneously dissolved. During the year ended December 31, 2009, the Company was assigned four patents previously held as an exclusive license from Air Products & Chemicals (APC) in exchange for an increase in a long-term liability due to APC of $250. The acquisition of these patents resulted in an intangible asset of $250. During the year ended December 31, 2011, the Company purchased additional patents from APC for a total value of $650. The Company amortizes these intangible assets over an estimated useful life of five years. There were no impairments recorded related to these intangible assets for the three and nine months ended September 30, 2014 and September 30, 2013. The Company recalculated interest and amortization of the period based on adjusted asset and debt.

During the year ended December 31, 2011, the Company acquired Breathe Oxygen Services, LLC. The acquisition resulted in recording an intangible asset in the amount of $66 related to the Medicare license held by the acquired Breathe Oxygen Services that

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

allowed them to operate in the state of Tennessee as well as other assets. On August 29, 2011, Breathe Oxygen Services, LLC merged with Inogen, Inc., and was simultaneously dissolved. The Company amortizes this intangible asset over its estimated useful life of ten years. During the three months and nine months ended September 30, 2014 and September 30, 2013, there were no impairments recorded related to this intangible asset. The Company also capitalizes costs incurred for the production of direct response advertising commercials and amortizes these intangible assets over a useful life of two years. During the three months and nine months ended September 30, 2014, the Company paid $4 and $184 for its patient setup video, website development and redesign and production of commercials. The Company did not capitalize any intangible assets during the three and nine months ended September 30, 2013.

Amortization expense for intangible assets for the three months ended September 30, 2014 and September 30, 2013 was $45 and $68 respectively, and for the nine months ended September 30, 2014 and September 30, 2013 was $125 and $203, respectively.

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

| September 30, 2014 | Average estimated useful lives (in years) | Gross carrying amount | Accumulated amortization | Net amount |
|---|---|---|---|---|
| Licenses | 10 | $ 185 | $ 77 | $ 108 |
| Patents and websites | 5 | 873 | 737 | 136 |
| Commercial | 2 | 107 | 77 | 30 |
| Total | | $ 1,165 | $ 891 | $ 274 |

| December 31, 2013 | Average estimated useful lives (in years) | Gross carrying amount | Accumulated amortization | Net amount |
|---|---|---|---|---|
| Licenses | 10 | $ 185 | $ 63 | $ 122 |
| Patents | 5 | 723 | 662 | 61 |
| Commercial | 2 | 73 | 41 | 32 |
| Total | | $ 981 | $ 766 | $ 215 |

## 4. Long-term debt

***Amended and restated credit and term loan agreement***

On October 12, 2012, the Company entered into an amended and restated credit and term loan agreement with its current lenders whereby the existing balances and the payback terms were not changed. This transaction did not result in any debt extinguishment losses or gains. The Company did not incur or defer any financing cost directly related to the amendment of the credit and term loan agreement. Due to the completion of the IPO during the term of this facility, a fee equal to 1% of the facility amount of $120, was paid to the lenders in March of 2014, and was included in general and administrative expenses in the Company's Statements of Operations for the quarter ended March 31, 2014.

The amended and restated credit and term loan agreement with the Company's current lenders provided for new borrowings of up to $12,000 secured by substantially all of the Company's assets. The amended and restated credit and term loan agreement provided for the existing term loan facility for rental assets amounting to up to $3,000 (Term Loan A), a term loan facility for rental assets amounting to up to $8,000 (Term Loan B), a new term loan facility for rental assets amounting to up to $12,000 (Term Loan C), and an accounts receivable revolving line of credit amounting to up to $1,000 based on 80% of eligible accounts receivable, as defined (AR Revolver).

Principal and interest amounts for all the term loans were payable monthly. Each term loan bore interest at the Base Rate, which is a rate equal to the applicable margin plus the greater of (i) the prime rate, (ii) the federal funds effective rate, as defined in the agreement, plus 1% and (iii) the daily adjusting LIBOR rate, plus 1%. The applicable margins for Term Loans A, B, and C were 1.25%, 2.5% and 2.25%, respectively.

The Term Loan A facility of $3,000 is presented net of principal payments that began in May 2011. The net balances of this term loan facility were $0 and $417 as of September 30, 2014 and December 31, 2013, respectively.

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

The Term Loan B facility for $8,000 is presented net of principal payments that began in May 2012. The net balances of this term loan facility were $0 and $3,778 as of September 30, 2014 and December 31, 2013, respectively.

The Term Loan C facility for $12,000 is presented net of principal payments that began in November 2013. The net balances were $0 and $5,666 as of September 30, 2014 and December 31, 2013, respectively.

The AR Revolver expired on October 13, 2013, and was not renewed by the Company. There were no borrowings under the AR Revolver as of and during the nine months ended September 30, 2014.

The interest rates were 4.5% for Term Loan A, 5.75% for Term Loan B, and 5.5% for Term Loan C at September 30, 2014 and December 31, 2013. As of September 30, 2014 and December 31, 2013, the Company was in compliance with all covenants of the amended and restated credit and term loan agreement.

The Company paid all outstanding balances and accrued interest on the term loan agreements on August 22, 2014 totaling $11,600.

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Term Loan A, bearing interest at Base Rate, monthly payments of $83 beginning May 2011 through April 2014 | $ — | $ 417 |
| Term Loan B, bearing interest at Base Rate, monthly payments of $222 beginning May 2012 through April 2015 | — | 3,778 |
| Term Loan C bearing interest at Base Rate, monthly payments of $167 beginning November 2013 through May 2014, $367 a month beginning June 2014 through October 2016. | — | 5,666 |
| Contractual obligation, bearing imputed interest at prime plus two, quarterly payments of $53 beginning May 2011 through October 2014 and quarterly payments of $81 beginning January 2015 through October 2016 | 658 | 788 |
| Subtotal | $ 658 | $ 10,649 |
| Less: current maturities | (267) | (5,258) |
| Long-term debt, net of current portion | $ 391 | $ 5,391 |

As of September 30, 2014, the minimum aggregate payments due under non-cancelable debt are summarized as follows:

| | September 30, 2014 |
|---|---|
| Remaining 3 months of 2014 | $ 44 |
| 2015 | 299 |
| 2016 | 315 |
| Total | $ 658 |

**5. Commitments and contingencies**

***Leases***

The Company leases its offices and certain equipment under operating leases that expire through December 2019. At September 30, 2014, the minimum aggregate payments due under non-cancelable leases are summarized as follows:

| | September 30, 2014 |
|---|---|
| Remaining three months of 2014 | $ 214 |
| 2015 | 738 |
| 2016 | 336 |
| 2017 | 328 |
| 2018 | 315 |
| Thereafter | 313 |
| | $ 2,244 |

Rent expense of $182 and $223, for the three months ended September 30, 2014 and September 30, 2013, respectively, and $569 and $690 for the nine months ended September 30, 2014 and September 30, 2013, respectively was included in the accompanying Statements of Operations.

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

***Warranty obligation***

The following table identifies the changes in the Company's aggregate product warranty liabilities for the nine and twelve month periods ended September 30, 2014 and December 31, 2013, respectively:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Product warranty liability at beginning of period | $ 809 | $ 447 |
| Accruals for warranties issued | 814 | 533 |
| Adjustments related to preexisting warranties (including changes in estimates) | 296 | 322 |
| Settlements made (in cash or in kind) | (747) | (493) |
| Product warranty liability at end of period | $ 1,172 | $ 809 |

***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 expulsion 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 Company believes that is complies in all material respects with the provisions of those regulations that are applicable to the Company's business.

The Health Insurance Portability and Accountability Act (HIPAA) assures 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 may be subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

***Amended & restated employment agreements***

On October 1, 2013, the Company entered into an Employment Agreement with the Chief Executive Officer (CEO) including considerations for salary, bonus awards, and severance and change of control benefits upon certain qualifying terminations up to a period of thirty-six months.

On October 1, 2013, the Company entered into employment agreements with certain key employees including considerations for salary, bonus awards, and severance and change of control benefits for a period up to twenty-four months upon certain qualifying terminations.

***Legal proceedings***

On November 4, 2011, the Company filed a lawsuit in the United States District Court for the Central District of California against Inova Labs Inc., or Defendant, for infringement of two of our patents. The case, Inogen Inc. v. Inova Labs Inc., Case No. 8:11-cv-01692-JST-AN, or the Lawsuit, involves U.S. Patent Nos. 7,841,343, entitled "Systems and Methods For Delivering Therapeutic Gas to Patients," or the '343 patent, and 6,605,136 entitled "Pressure Swing Adsorption Process Operation And Optimization," or the '136 patent. The Company alleged in the Lawsuit that certain of Defendant's oxygen concentrators infringe various claims of the '343 and '136 patents. The Lawsuit seeks damages, injunctive relief, costs and attorneys' fees.

The Defendant has answered the complaint, denying infringement and asserting various sets of defenses including non-infringement, invalidity and unenforceability, patent misuse, unclean hands, laches and estoppel. The Defendant also filed counterclaims against us

alleging patent invalidity, non-infringement and inequitable conduct. The Company denied the allegations in the Defendant's counterclaims and filed a motion to dismiss Defendant's inequitable conduct counterclaim.

The Defendant filed a request with the U.S. Patent and Trademark Office seeking an inter partes reexamination of the '343 and '136 patents. The Defendant also filed a motion to stay the Lawsuit pending outcome of the reexamination. On March 20, 2012, the Court granted the Defendant's motion to stay the Lawsuit pending outcome of the reexamination and also granted our motion to dismiss the Defendant's inequitable conduct counterclaim.

The Company is party to various legal proceedings arising in the normal course of business. The Company carries insurance, subject to deductibles under the specified policies, to protect against losses from certain types of legal claims. At this time, the Company does not anticipate that any of these proceedings will have a material adverse effect on our business.

**6. Income taxes**

The Company operates in multiple states. The statute of limitations has expired for all tax years prior to 2011 for federal and 2010 to 2011 for various state tax purposes. However, the net operating loss generated on the federal and state tax returns in prior years may be subject to adjustments by the federal and state tax authorities. The Company does not expect any material changes to unrecognized tax benefits in the next 12 months, and has not incurred any tax related penalties or interest.

Income tax expense was $1,341 and $3,408, an effective tax rate of 38.6% and 39.1%, for the three and nine months ended September 30, 2014, respectively, compared to $43 and $151, an effective tax rate of 5.3% and 4.2% for the comparable periods ended September 30, 2013, respectively. The variation in the tax rate year-over-year was primarily driven by the change in the Company's deferred tax asset valuation allowance. As of September 30, 2013, the Company maintained a full valuation allowance against its federal and state deferred tax assets which significantly reduced the Company's effective tax rate. In December of 2013, the Company evaluated its facts and circumstances and concluded that it was appropriate to release $22,909 of the valuation allowance which created a one-time tax benefit of $21,587 for the year ended December 31, 2013. Refer to the Company's 2013 10-K filing for additional information regarding the deferred tax asset valuation allowance. Variations in the tax rate year-over-year were also due to an increase in permanent tax differences related to employee stock option expense.

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.

**7. Convertible preferred stock**

All outstanding preferred stock automatically converted into common stock in connection with the closing of the IPO. At the closing of the IPO, 9,564,140 shares of redeemable convertible preferred stock and 66,666 shares of convertible preferred stock were automatically converted into 14,259,647 shares of common stock. Following the IPO, all warrants previously exercisable for preferred stock became exercisable for common stock. The previously reported warrant liability associated with the convertible warrants was applied to additional paid-in-capital. There was no outstanding preferred stock as of September 30, 2014.

The Company's Series C preferred stock warrants expired in connection with the IPO. As of February 20, 2014, 2,756 Series C preferred stock warrants were forfeited and cancelled since they were not exercised prior to the IPO.

On February 20, 2014, the Company's Thirteenth Amended and restated Certificate of Incorporation came in to effect which authorized the Company to issue 10,000,000 of preferred stock. As of September 30, 2014 there was no preferred stock outstanding.

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

A summary of the terms of the various types of redeemable convertible preferred stock at December 31, 2013 is as follows:

**Redeemable convertible preferred stock as of December 31, 2013 (1)**

| Series | B | C | D | E | F | G | Total |
|---|---|---|---|---|---|---|---|
| Shares authorized | 500,000 | 400,000 | 1,700,000 | 1,700,000 | 2,800,000 | 2,900,000 | 10,000,000 |
| Shares issued | 425,511 | 365,903 | 1,573,126 | 1,634,874 | 2,701,957 | 2,840,260 | 9,541,631 |
| Par value | $ 0.001 | $ 0.001 | $ 0.001 | $ 0.001 | $ 0.001 | $ 0.001 | |
| Conversion rate | 1.45108 | 1.73014 | 1.87951 | 2.69244 | 1.0000 | 1.0000 | |
| Liquidation preference per share | $ 11.880 | $ 17.580 | $ 21.900 | $ 19.224 | $ 7.140 | $ 14.083 | |
| Dividend rate | 5 % | 8 % | 8 % | 8 % | 8 % | 8 % | |
| Issue date | July 2003 | June 2004 | July 2005 to July 2007 | October 2007 to February 2009 | February 2010 to June 2010 | March 2012 | |
| Redemption date | January 1, 2016 | January 1, 2016 | January 1, 2016 | January 1, 2016 | January 1, 2016 | January 1, 2016 | |

A summary of the terms of non-redeemable convertible preferred stock at December 31, 2013 is as follows:

| As of December 31, 2013<br>Series A | |
|---|---|
| Shares authorized | 100,000 |
| Share issued | 66,666 |
| Par value | $ 0.001 |
| Conversion rate | 1.01706 |
| Liquidation preference per share | $ 3.750 |
| Dividend rate | 5 % |
| Issue date | May 2002 |

**8. Stock incentive plans**

Previously, the Company had a 2002 Stock Incentive Plan (2002 Plan), as amended. As of March 12, 2012, the 2002 Plan was terminated and the 2012 Plan was created in its place. On termination, the 2002 Plan had 1,424,540 shares of common stock outstanding. Any shares returned to the 2002 Plan as a result of expiration or termination of equity awards are now added to the 2014 Plan Share reserve.

The Company had a 2012 Stock Incentive Plan (2012 Plan) under which the Company reserved 1,216,772 shares of common stock, to be issued in connection with stock options and other equity awards. The 2012 Plan provided for option grants at exercise prices not less than 100% of the fair value of common stock on the date of grant. As of February 14, 2014, the 2012 Plan was terminated and the 2014 Plan was created in its place.

The board of directors approved and adopted a 2014 Equity Incentive Plan (2014 Plan) to become effective in connection with the Company's IPO. A total of 895,346 shares of common stock were reserved for issuance pursuant to the 2014 Plan. In addition, the shares reserved for issuance under the 2014 Plan also includes shares returned to the 2002 Plan and the 2012 Plan as the 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 2002 Plan and 2012 Plan is 2,328,569 shares). The number of shares available for issuance under the 2014 Plan will also include an annual increase on the first day of each fiscal year beginning in 2015, equal to the least of: (i) 895,346 shares; (ii) 4% of the outstanding shares of common stock as of the last day of the Company's immediately preceding fiscal year; or (iii) such other amount as the Company's board of directors may determine.

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

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

On April 1, 2014 and August 6, 2014, the board approved grants totaling 632,694 and 12,222 shares, respectively to board members, executive officers and certain key employees with an exercise price of $16.62 and $18.93 per share, respectively.

The activity under the Plans for the nine months ended September 30, 2014 is as follows:

| Series | 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, 2013 | 2,328,675 | $0.60-$8.70 | $ 1.94 | 7.04 | $ 10.23 |
| Granted | 644,916 | $16.62 - $18.93 | $ 16.66 | | |
| Exercised | (243,828 ) | $0.60-$16.62 | $ 0.94 | | |
| Forfeited | (46,636 ) | $0.60 - $16.62 | $ 6.33 | | |
| Expired | (4,799 ) | $0.60-$8.37 | $ 1.09 | | |
| Outstanding as of September 30, 2014 | 2,678,328 | $0.60-$16.62 | $ 5.50 | 6.37 | $ 15.11 |
| Vested and exercisable at September 20, 2014 | 1,574,614 | $0.60-$16.62 | $ 2.21 | 5.58 | $ 18.40 |
| Vested and expected to vest, at September 30, 2014 | 2,562,500 | $0.60-$18.93 | $ 5.40 | 6.31 | $ 15.21 |

Employee stock-based compensation expense for the nine months ended September 30, 2014 is calculated based on awards ultimately expected to vest. The Company's rate for estimated forfeitures for new options issued was at a rate of 6.66% based on the Company's historical option cancellations calculated on the date of grant. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The forfeiture rates on previously issued options have remained unchanged.

The board approved and adopted an employee stock purchase plan (ESPP) to be effective in connection with the Company's IPO. The first offering period of the ESPP began on February 12, 2014 and will end on the first trading date on or after September 1, 2014. Enrollment dates for future offering periods under the ESPP will begin on the first trading date after September 1st or March 1st and will end on the first trading date on or after March 1st or September 1st six months later. There are two offering periods per year. Accumulated contributions during each offering period will be used to purchase shares of the Company's common stock at the end of each offering period. The purchase price for each offering period will be 85% of the lower of: the Company's closing stock price on the enrollment date or the Company's closing stock price on the purchase date. The total number of shares initially reserved for issuance under the ESPP is 179,069. The number of shares available for issuance under the ESPP automatically increases on the first day of each fiscal year beginning with the 2015 fiscal year equal to the least of (i) 179,069 shares of common stock, (ii) one-and-a-half percent (1.5%) of the outstanding shares of common stock on the last day of the immediately preceding fiscal year, or (iii) an amount determined by the ESPP plan administrator. The first purchase date for the ESPP occurred on September 2, 2014, and the Company received $414 in contributions from the participants. The Company issued 30,358 shares to the participants of the plan. As of September 30, 2014, the ESPP has 148,711 shares available for issuance.

For the three months ended September 30, 2014 and September 30, 2013, stock-based compensation expense recognized under ASC 718, included in cost of sales, sales and marketing expense, general and administrative expense, and research and development expense, for all the Plans was $457 and $65, respectively, and for the nine months ended September 30, 2014 and September 30, 2013 $1,123 and $116, respectively. The unrecognized compensation expense related to non-vested share based compensation granted under the Plans as of September 30, 2014 and December 31, 2013 was $5,055 and $1,370, respectively.

**9. Warrants**

In connection with certain of its redeemable convertible preferred stock issuances, convertible debt financings, and other financing arrangements the Company issued warrants for shares of its common stock and various issues of its redeemable convertible preferred stock. Such warrants related to its redeemable convertible preferred stock were recorded as liabilities as a result of non-standard anti-dilution and redemption rights of the underlying stock and were carried at their estimated fair value using the Monte Carlo valuation model. In connection with the Company's IPO, the warrants were converted to common stock warrants with no anti-dilution features. The Company revalued the warrants as of the offering date, recorded a gain on the liability through the Statements of Operations, and subsequently reclassified the warrant liability to additional paid-in-capital.

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

All common stock warrants outstanding convert on a one-to-one basis to common stock. During the three months ended September 30, 2014, 16,206 common stock warrants were exercised via a net exercise into 15,987 shares of common stock.

A summary of outstanding common stock warrants at September 30, 2014 is as follows:

| Security | Number of warrants | Exercise price/share | Expiration date |
|---|---|---|---|
| Common stock | 145,089 | $ 0.30 | 2017-2019 |

A summary of outstanding warrants at December 31, 2013 is as follows:

| Security | Number of warrants | Exercise price/share | Expiration date |
|---|---|---|---|
| Series C redeemable convertible preferred stock warrants | 14,215 | $ 17.580 | 2015 |
| Series D redeemable convertible preferred stock warrants | 11,415 | 21.900 | 2013-2014 |
| Series E redeemable convertible preferred stock warrants | 3,120 | 9.612 | 2015 |
| Series E redeemable convertible preferred stock warrants | 1,102 | 9.612 | 2016 |
| Common stock | 233,611 | 0.300 | 2017-2019 |
| | 263,463 | | |

The fair value of the preferred stock warrant liability was $0 and $260 at September 30, 2014 and December 31, 2013, respectively. During the three months ended September 30, 2014 and September 30, 2013, the Company recorded a gain of $0 and $41, respectively, and $36 and ($202), respectively for the nine months ended September 30, 2014 and September 30, 2013, on the change in fair value of the preferred stock warrants. The liability was reclassified to additional paid-in-capital as of February 20, 2014, and the warrants were converted to common stock warrants.

## 10. Subsequent Events

On November 4, 2014 the Company completed an underwritten public offering in which selling stockholders sold 2,415,891 shares of the Company's common stock at $21.50 per share (including 315,116 shares that were offered and sold by the selling stockholders pursuant to the full exercise of the underwriters' option to purchase additional shares). All of the shares were sold by existing stockholders. The Company did not receive any proceeds from the sale of the shares in this offering. The primary purposes of the offering were to facilitate an orderly distribution of shares and to increase the Company's public float. The Company's estimated cost associated with this offering was approximately $500 and will be expensed in the fourth quarter of 2014.

In November 2014, the Company secured a primary banking relationship that provides access to a $15,000 working capital revolving line of credit, and treasury and cash management services through commercial banking with JP Morgan. This agreement is a three-year working capital revolving line of credit which replaces the previous loan facility the Company maintained with Comerica. The interest rate on outstanding debt balances will be LIBOR plus 1.25%.

**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 condensed consolidated financial statements and the notes to those statements included elsewhere in this Form 10-Q. This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or 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 information concerning our possible or assumed future cash flow, revenue, sources of revenue and results of operations, operating and other expenses, our assessment of the impact from Competitive Bidding and the Centers for Medicare and Medicaid services rules, market share expectations, unit sales, business strategies, financing plans, expansion of our business, competitive position, industry environment, potential growth opportunities, our expectations regarding the Inogen At Home product, 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 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.

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. You should read this Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.

"Inogen," "Inogen One," "Inogen One G2," "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," and the Inogen design are trademarks or registered trademarks of Inogen, Inc. We have applied with the United States Patent and Trademark Office to register the trademark "Inogen at Home," and have registered the trademark "Inogen at Home" in Europe (European Community registration). Other service marks, trademarks, and trade names referred to in this Form 10-Q are the property of their respective owners.

In this Form 10-Q, "we," "us" and "our" refer to Inogen, Inc.

Unless otherwise specifically indicated, all amounts herein are expressed in thousands, except for share quantity, per share data, and unit counts. The following discussion of our financial condition and results of operations should be read together with our condensed financial statements and the accompanying 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 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 financial statements which have been prepared in accordance with 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 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 condensed financial statements during the three months and nine months ended September 30, 2014 compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on April 1, 2014.

***Overview***

We are a medical technology company that primarily develops, manufactures and markets innovative 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 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 approximately 4.8 or 7.0 pounds. Our Inogen One G3 and G2 have up to 4.5 and 5 hours of battery life, respectively, with a single battery and can be plugged into an outlet when at home, in a car or in a public place with outlets available. 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.

We believe our direct-to-consumer strategy has been critical to driving patient adoption of our technology. Other portable oxygen concentrator manufacturers access patients by selling through home medical equipment providers, which we believe are disincentivized to encourage adoption of portable oxygen concentrators. In order to facilitate the regular delivery and pickup of oxygen tanks, home medical equipment providers have invested in geographically dispersed distribution infrastructure consisting of delivery vehicles, physical locations and delivery personnel within each area. Because portable oxygen concentrators eliminate the need for a physical distribution infrastructure, but have higher initial equipment costs than the delivery model, we believe converting to a portable oxygen concentrator model would require significant restructuring and capital investment for home medical equipment providers. Our direct-to-consumer marketing strategy allows us to sidestep the home medical equipment channel, appeal to patients directly and capture both the manufacturing and provider margin associated with long-term oxygen therapy. We believe our ability to capture this top-to-bottom margin, combined with our portable oxygen concentrator technology that eliminates the need for the service and infrastructure costs associated with the delivery model, gives us a cost structure advantage over our competitors.

We believe our ability to capture this top-to-bottom margin, combined with our portable oxygen concentrator technology that eliminates the need for the costs associated with oxygen deliveries, gives us a cost structure advantage over our competitors using the delivery model. We derive a 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. We sell multiple configurations of our Inogen One 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 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 oxygen therapy is delivered. To accomplish this goal and to grow our revenue, we intend to continue to:

- *Expand our sales and marketing channels*. We will continue to expand our sales and marketing through efficiency improvement and/or additional hires and increased consumer awareness to drive our direct-to-consumer revenues. In addition, we are continually looking to increase our personnel capacity to service a larger physician referral channel to facilitate growth in this area.
- *Invest in our product offerings to develop innovative products.* We expended $0.8 million and $0.7 million for the three months ended September 30, 2014 and September 30, 2013, respectively, and $2.3 million and $1.8 million for the nine months ended September 30, 2014 and September 30, 2013, respectively, in research and development expenses, and we intend to continue to make such investments in the foreseeable future.
- *Secure contracts with healthcare payors and insurers.* Based on our patient population, we estimate that at least 30% of oxygen therapy patients are covered by non-Medicare payors, and that these patients often represent a younger, more active patient segment. By becoming an in-network provider with more insurance companies, we can reduce the co-insurance for patients, which we believe will allow us to attract additional patients to our Inogen One solutions.

We have been developing and refining the manufacturing of our Inogen One systems over the past ten years. While nearly all of our manufacturing and assembly processes were originally outsourced, assembly of the manifold, compressor, sieve bed and concentrator is now conducted in-house in order to improve quality control and reduce cost. Additionally, we 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, 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, pistons, valves, and molded plastic components. While alternative sources of supply are readily available for these components, we believe that maintaining a single-source of supply allows us to control production costs and inventory levels, and to manage component quality.

Historically, we have generated a majority of our revenue from sales and rentals to customers in the United States. For the three months ended September 30, 2014 and September 30, 2013 approximately 23.2% and 23.2%, respectively was from customers outside of the United States. For the nine months ended September 30, 2014 and September 30, 2013, approximately 20.9% and 23.2%, respectively, of our total revenue was from customers outside of the United States, primarily in Europe. To date, all of our revenue has been denominated in United States dollars. We sell our products in 44 countries outside the United States through distributors or directly to large "house" accounts, which include gas companies and home oxygen providers. In this case, 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. The vast majority of our revenue consists of sales revenue and rental revenue.

Our total revenue increased $9.6 million to $29.4 million for the three months ended September 30, 2014 from $19.8 million for the three months ended September 30, 2013. Our total revenue increased $27.7 million to $83.4 million for the nine months ended September 30, 2014 from $55.7 million for the nine months ended September 30, 2013. Both period increases were primarily due to the growth in direct-to-consumer cash sales and business-to-business sales of our Inogen One systems as well as growth in rental revenue associated with an increase in the number of patients using Medicare or private payors to rent our products, partially offset by declining Medicare reimbursement rates. We generated Adjusted EBITDA of $7.2 million and $3.3 million for the three months ended September 30, 2014 and September 30, 2013, respectively. We generated Adjusted EBITDA of $19.0 million and $10.2 million for the nine months ended September 30, 2014 and September 30, 2013, respectively. We generated net income of $2.1 million and $0.8 million for the three months ended September 30, 2014 and September 30, 2013, respectively. We generated net income of $5.3 million and $3.5 million for the nine months ended September 30, 2014 and September 30, 2013, respectively. As of September 30, 2014, our accumulated deficit was $58.2 million.

**Basis of presentation**

The following describes the line items set forth in our Statements of Operations.

***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 rentals from period-to-period. We expect direct-to-consumer revenues should constitute a larger percentage of total revenue, which would increase our gross margins. In addition, we expect both the average selling price and the manufacturing cost of our products to decrease following the introduction of future generations of our Inogen One systems. Inogen One system selling prices and gross margins may fluctuate as we introduce new products and reduce our product costs. For example, the gross margin for our Inogen One G3 is higher than our Inogen One G2. Thus, to the extent our sales of our Inogen One G3 systems are higher than sales of our Inogen One G2 systems, our overall gross margins should improve and, conversely, to the extent our sales of our Inogen One G2 systems are higher than sales of our Inogen One G3 systems, our overall gross margins should decline.

*Sales revenue*

Our sales revenue is derived from the sale of our Inogen One systems and related accessories to patients in the United States and to home healthcare 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 September 30, 2014 and September 30, 2013, business-to-business sales as a percentage of sales revenue were 63.6% and 61.4%, respectively. For the nine months ended September 30, 2014 and September 30, 2013, business-to-business sales as a percentage of sales revenue were 58.3% and 61.3%, respectively. Generally, our direct-to-consumer sales have higher margins than our business-to-business sales. We sold approximately 8,800 Inogen One systems in the three months ended September 30, 2014 compared to approximately 5,300 for the same period in 2013. We sold approximately 24,300 Inogen One systems for the first nine months of 2014 compared to approximately 14,400 for the same period in 2013 across all sales channels. Management focuses on system sales as an indicator of current business success.

Our sales of used equipment revenue is included in sales revenue, and is derived from the sale of our Inogen One systems and related accessories to home healthcare providers and patients when the product has previously been sold or rented to another patient or business.

Other revenue included in sales revenue consists of service and freight revenue. Revenue from the sales of our services is recognized when no significant obligations remain undelivered and collection of the receivables is reasonably assured. We offer extended service contracts on our Inogen One concentrator line for periods ranging from 12 to 24 months after the end of the standard warranty period. Revenue from these extended service contracts is recognized in income on a straight-line basis over the contract period.

We also offer a lifetime warranty for direct-to-consumer sales. For a fixed price, we agree to provide a fully functional oxygen concentrator for the remaining life of the patient. Lifetime warranties are only offered to patients upon the initial sale of oxygen equipment by us and are non-transferable. Product sales with lifetime warranties are considered to be multiple element arrangements within the scope of ASC 605-25.

There are two deliverables when a product that includes a lifetime warranty is sold. The first deliverable is the oxygen concentrator equipment which comes with a standard warranty of three years. The second deliverable is the lifetime warranty that provides for a functional oxygen concentrator for the remaining lifetime of the patient. These two deliverables qualify as separate units of accounting.

The revenue is allocated to the two deliverables on a relative selling price method. We have vendor-specific objective evidence of selling price for the equipment. To determine the selling price of the lifetime warranty, we use our best estimate of the selling price for that deliverable as the lifetime warranty is neither separately priced nor is a selling price available through third-party evidence. To calculate the selling price associated with the lifetime warranties, management considered the profit margins of the overall business, the average estimated cost of lifetime warranties and the price of extended warranties. A significant estimate used to calculate the price and expense of lifetime warranties is the life expectancy of patients. Based on clinical studies, we estimate that 60% of patients will succumb to their disease within three years. Given the approximate mortality rate of 20% per year, we estimate on average all patients will succumb to their disease within five years. We have taken into consideration that when patients decide to buy an Inogen portable oxygen concentrator with a lifetime warranty, they typically have already been on oxygen for a period of time, which can have a large impact on their life expectancy from the time our product is deployed.

After applying the relative selling price method, revenue from equipment sales is recognized when all other revenue recognition criteria for product sales are met. Lifetime warranty revenue is recognized using the straight-line method during the fourth and fifth year after the delivery of the equipment which is the estimated usage period of the contract based on the average patient life expectancy.

Freight revenue consists of fees associated with the deployment of products internationally or domestically, when expedited freight options or minimum order quantities are not met. Freight revenue is a percentage markup of freight costs.

*Rental revenue*

Our rental revenue is derived from the rental of our Inogen One 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. On average, our product rentals have higher gross margins than our product sales.

As of September 30, 2014, we had approximately 26,800 oxygen rental patients, an increase of 7,600 patients from approximately 19,200 oxygen rental patients as of September 30, 2013.

***Cost of revenue***

We manufacture our Inogen One product line in our Goleta, California and Richardson, Texas facilities. Our manufacturing process includes final assembly, testing, and packaging to customer specifications. 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 and delivery costs for items sold. Cost of rental revenue consists primarily of depreciation expense and service costs for rental assets, including material, labor, freight, consumable disposables and logistics costs. We provide a three-year or lifetime warranty on Inogen One systems sold, and we establish a reserve for warranty repairs based on historical warranty repair costs incurred. Provisions for warranty obligations, which are included in cost of sales revenue, are provided for at the time of shipment. We expect the average unit costs of our Inogen One systems to decline in future periods as a result of our ongoing efforts to develop lower-cost Inogen One systems and to improve our manufacturing processes, reduced rental service costs and expected increases in production volume and yields.

As a result of bringing manufacturing and assembly largely in-house and our commitment to driving efficient manufacturing processes, we have reduced our overall system cost by 40% from 2009 to 2013. We intend to continue to seek ways to reduce our cost of revenue through manufacturing and design improvements.

***Operating expenses***

*Research and development*

Research and development expenses consist primarily of personnel-related expenses, including salaries, benefits and stock-based compensation, allocated facility costs, laboratory supplies, consulting fees and related costs, costs associated with patent amortization costs, patent legal fees including defense costs and testing costs for new product launches. 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 expect to have moderate increases in research and development expense over time.

*Sales and marketing*

Our sales and marketing expenses primarily support our direct-to-consumer strategy. Our sales and marketing expenses consist primarily of personnel-related expenses, including salaries, commissions, benefits, and stock-based compensation for employees and allocated facilities costs. They also include expenses for media and advertising, informational kits, public relations and other promotional and marketing activities, including travel and entertainment expenses as well as customer service and clinical services. Sales and marketing expenses increased throughout 2014 primarily due to an increase in the sales force and the increasing number of rental patients and we expect a further increase in 2015 as we continue to increase sales and marketing activities.

*General and administrative*

General and administrative expenses consist primarily of personnel-related expenses, including salaries, benefits, and stock-based compensation for employees in our compliance, finance, medical billing, human resources, information technology, business development and general management functions, and allocated facilities costs. In addition, general and administrative expenses include professional services, such as legal, consulting and accounting services. We expect general and administrative expenses 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 also expect legal, accounting, insurance and compliance costs to increase due to costs associated with being a public company.

***Other income (expense), net***

Other income (expense), net consists primarily of interest expense related to our revolving credit and term loan agreement and interest income driven by the interest accruing on cash and cash equivalent. Other income (expense) also includes the change in valuation of warrant liability based on the Monte Carlo valuation model.

**Results of operations**

***Comparison of three months ended September 30, 2014 and September 30, 2013***

***Revenue***

| | Three months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Revenue: | | | | | | |
| Sales revenue | $ 19,425 | $ 12,134 | $ 7,291 | 60.1 % | 66.1 % | 61.4 % |
| Rental revenue | 9,968 | 7,643 | 2,325 | 30.4 % | 33.9 % | 38.6 % |
| Total revenue | $ 29,393 | $ 19,777 | $ 9,616 | 48.6 % | 100.0 % | 100.0 % |

The increase in sales revenue for the three months ended September 30, 2014 compared to the three months ended September 30, 2013 was primarily attributable to an increase in the number of systems sold as the adoption of portable oxygen concentrators improved. In addition, the increase in the number of systems sold resulted from an increase in direct-to-consumer sales in the United States due to increased sales and marketing efforts and an increase in business-to-business sales worldwide.

The increase in rental revenue for the three months ended September 30, 2014 compared to the three months ended September 30, 2013 was primarily attributable to the increase in rental patients from approximately 19,200 as of September 30, 2013 to approximately 26,800 as of September 30, 2014. This increase was primarily due to additional marketing efforts, increased sales personnel and productivity improvements. The increase in rental revenue was partially offset by the reduced reimbursement rates resulting from Competitive Bidding. Round two of Competitive Bidding became effective in 91 Metropolitan Statistical Areas (MSAs) on July 1, 2013 and round one re-compete became effective in nine MSAs on January 1, 2014.

As expected, the growth in sales revenue was not impacted by the reduced reimbursement rates resulting from Competitive Bidding. However, a recent ruling from the Centers for Medicare & Medicaid Services (CMS) has outlined the expansion of Competitive Bidding to certain previously unbid areas by applying regional pricing averages to unbid areas with 110% of regional prices to be paid for defined rural and frontier areas. While we are monitoring the implementation of this ruling, we believe that the net effect of the ruling would be an approximately 3-4% decrease in 2016 revenue since this pricing will be applied partially in from January 1, 2016 to June 30, 2016 and completely starting on July 1, 2016. CMS has also announced the Round Two Re-Compete schedule beginning in the fourth quarter of 2014 for contracts set to expire June 30, 2016. For additional discussion of the impact of the recent competitive bidding proposals, please see "— Risk Factors" herein.

| | Three months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| **Revenue by region and category** | | | | | | |
| Business-to-business domestic sales | $ 5,529 | $ 2,871 | $ 2,658 | 92.6 % | 18.8 % | 14.5 % |
| Business-to-business international sales | 6,822 | 4,583 | 2,239 | 48.9 % | 23.2 % | 23.2 % |
| Direct-to-consumer domestic sales | 7,074 | 4,680 | 2,394 | 51.2 % | 24.1 % | 23.7 % |
| Direct-to-consumer domestic rentals | 9,968 | 7,643 | 2,325 | 30.4 % | 33.9 % | 38.6 % |
| Total revenue | $ 29,393 | $ 19,777 | $ 9,616 | 48.6 % | 100.0 % | 100.0 % |

Domestic sales in both business-to-business and direct-to-consumer increased 92.6% and 51.2%, respectively, for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. This increase was in direct relation to the Company's refocus on cash sales versus rental set-ups in 2014 and the hiring of the additional internal sales representatives in the fourth quarter of 2013. The business-to-business international sales continued to grow steadily with an increase of 48.9% for the three months ended September 30, 2014 compared to the three months ended September 30, 2013 primarily due to continued strong demand primarily in Europe, and partially due to the approval of our Inogen One G3 system for reimbursement in France. We now sell in 44 countries outside of the United States, and will continue to expand our presence in other countries as the opportunities present themselves. Our rental revenue increase was mainly attributable to the increase in the number patients on service to 26,800 as of September 30, 2014 versus 19,200 as of September 30, 2013. This represented an increase in the patient base of 39.6% from September 30, 2013, which was partially offset by reimbursement declines in total rental revenues.

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

| | Three months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Cost of sales revenue | $ 10,146 | $ 6,751 | $ 3,395 | 50.3 % | 34.5 % | 34.1 % |
| Cost of rental revenue | 4,598 | 3,384 | 1,214 | 35.9 % | 15.6 % | 17.1 % |
| Total cost of revenue | $ 14,744 | $ 10,135 | $ 4,609 | 45.5 % | 50.2 % | 51.2 % |
| | | | | | | |
| Gross profit - sales revenue | $ 9,279 | $ 5,383 | $ 3,896 | 72.4 % | 31.6 % | 27.2 % |
| Gross profit - rental revenue | 5,370 | 4,259 | 1,111 | 26.1 % | 18.3 % | 21.5 % |
| Total gross profit | $ 14,649 | $ 9,642 | $ 5,007 | 51.9 % | 49.8 % | 48.8 % |
| | | | | | | |
| Gross margin percentage - sales revenue | 47.8 % | 44.4 % | | | | |
| Gross margin percentage - rental revenue | 53.9 % | 55.7 % | | | | |
| Total gross margin percentage | 49.8 % | 48.8 % | | | | |

The increase in cost of sales revenue was attributable to an increase in the number of systems sold and an increase in direct-to-consumer sales as a percentage of overall revenues which on average have higher revenues and cost of goods per system than business-to-business sales.

The increase in cost of rental revenue was attributable to an increase of rental patients and related rental assets, depreciation and product exchange and logistics costs. Cost of rental revenue includes depreciation of our rental assets of $2.8 million for the three months ended September 30, 2014 versus $2.0 million for the three months ended September 30, 2013.

Gross margin is defined as revenue less costs of revenue divided by revenue. The overall gross margin increase period-over-period was mainly due to the reflected lower average cost of goods sold, partially offset by sales mix changes and rental rate changes due to Competitive Bidding. The rental revenue gross margin was 53.9% for the three months ended September 30, 2014 versus 55.7% for the three months ended September 30, 2013, partially due to lower rental reimbursement rates resulting from the implementation of round one re-compete of Competitive Bidding that became effective January 1, 2014. In addition, costs of rental revenue including asset write-offs, depreciation, and disposables were higher per patient in the three months ended September 30, 2014 versus the comparative period ending September 30, 2013.

The sales revenue gross margin percentages increased to 47.8% for the three months ended September 30, 2014 from 44.4% for the three months ended September 30, 2013. This increase in sales revenue gross margin was primarily attributed to increased mix towards direct-to-consumer sales versus business-to-business sales and lower average cost of goods sold, partially offset by lower average selling prices across all channels.

***Research and development expense***

| | Three months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Research and development expense | $ 798 | $ 674 | $ 124 | 18.4 % | 2.7 % | 3.4 % |

The increase in research and development expense was primarily attributable to a $0.2 million increase in personnel-related expenses as a result of increased headcount, and slightly higher facility allocations costs, and partially offset with a reduction in product development costs and patent amortization.

***Sales and marketing expense***

| | Three months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Sales and marketing expense | $ 5,587 | $ 4,550 | $ 1,037 | 22.8 % | 19.0 % | 23.0 % |

The increase in sales and marketing expense was primarily attributable to an increase in personnel-related expenses as a result of increased headcount to support the growth of our business and a $0.1 million increase in media-related marketing costs. We also experienced slight increases in sales incentives, facility allocations and outside services.

***General and administrative expense***

| | Three months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| General and administrative expense | $ 4,697 | $ 3,532 | $ 1,165 | 33.0 % | 16.0 % | 17.9 % |

The increase in general and administrative expense was primarily attributable to a $0.3 million increase in personnel-related expenses as a result of increased headcount in billing, finance, information technology and compliance to support the growth of our business. In addition, we incurred an increase of $0.3 million for costs associated with being a public company, $0.2 million in bad debt expense, $0.2 million in professional services for information technology and legal services and $0.1 million in higher licensing and fees.

Bad debt expense, expressed as a percentage of total revenue, was 2.1% and 1.9% for the three months ended September 30, 2014 and September 30, 2013, respectively.

We expect general and administrative expenses to increase in the fourth quarter of 2014 as a result of the recently completed secondary offering and continue to increase in order for us to support the costs of being a public company.

***Other income (expense), net***

| | Three months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Interest expense | $ (104) | $ (113) | $ 9 | -8.0 % | -0.4 % | -0.6 % |
| Interest income | 10 | 3 | 7 | 233.3 % | 0.0 % | 0.0 % |
| Revaluation of preferred stock warrant liability | - | 41 | (41) | -100.0 % | 0.0 % | 0.2 % |
| Other income | 1 | - | 1 | * | 0.0 % | 0.0 % |
| Total other expense, net | $ (93) | $ (69) | $ (24) | 34.8 % | -0.3 % | -0.3 % |

* not measured

The slightly higher interest income in 2014 was associated with higher excess cash balances attained from the net proceeds generated from our initial public offering in February of 2014. The decrease in interest expense in 2014 for the three months ended September 30, 2014 compared to the three months ended September 30, 2013 resulted from the pay-off of our outstanding debt balances in August of 2014.

***Income tax expense***

| | Three months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Income tax expense | $ 1,341 | $ 43 | $ 1,298 | 3018.6 % | 4.6 % | 0.2 % |

The increase in the effective tax rate to 38.6% for the three months ended September 30, 2014 from 5.3% for the three months ended September 30, 2013 was largely driven by the change in the Company's deferred tax asset valuation allowance. As of September 30, 2013, the Company maintained a full valuation allowance against its federal and state deferred tax assets which significantly reduced the Company's effective tax rate. In December of 2013, the Company evaluated its facts and circumstances and concluded that it was appropriate to release $22.9 million of the valuation allowance which created a one-time tax benefit of $21.6 million. Also, variations in the tax rate year-over-year were due to an increase in permanent tax differences related to employee stock option expense.

***Comparison of nine months ended September 30, 2014 and September 30, 2013***

***Revenue***

| | Nine months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Revenue: | | | | | | |
| Sales revenue | $ 54,746 | $ 33,780 | $ 20,966 | 62.1 % | 65.6 % | 60.7 % |
| Rental revenue | 28,673 | 21,901 | 6,772 | 30.9 % | 34.4 % | 39.3 % |
| Total revenue | $ 83,419 | $ 55,681 | $ 27,738 | 49.8 % | 100.0 % | 100.0 % |

The increase in sales revenue for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 was primarily attributable to an increase in the number of systems sold as the adoption of portable oxygen concentrators has continued to improve in the marketplace. In addition, the increase in the number of systems sold resulted from an increase in direct-to-consumer sales in the United States due to increased sales and marketing efforts and an increase in business-to-business sales worldwide. As expected, the growth in sales revenue was not impacted by the reduced reimbursement rates resulting from Competitive Bidding.

The increase in rental revenue for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 was primarily attributable to the increase in rental patients from approximately 19,200 as of September 30, 2013 to approximately 26,800 as of September 30, 2014. This increase was primarily due to additional marketing efforts, increased sales personnel and increased sales productivity improvements. The increase in rental revenue was partially offset by the reduced reimbursement rates resulting from Competitive Bidding. Round two of Competitive Bidding became effective in 91 Metropolitan Statistical Areas (MSAs) on July 1, 2013 and round one re-compete became effective in nine MSAs on January 1, 2014.

A recent ruling from the Centers for Medicare & Medicaid Services (CMS) has recommended the expansion of Competitive Bidding to certain previously unbid areas by applying regional pricing averages to unbid areas with 110% of regional prices to be paid for defined rural and frontier areas. While we are monitoring the implementation of this ruling, we believe that the net effect of the ruling would be an approximately 3-4% decrease in 2016 revenue since this pricing will be applied partially from January 1, 2006 to June 30, 2016 and completely starting July 1, 2016. CMS has also announced the Round Two Re-Compete schedule beginning in the fourth quarter of 2014 for contracts set to expire June 30, 2016. For additional discussion of the impact of the recent competitive bidding proposals, please see "—Risk Factors" herein.

| | Nine months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| **Revenue by region and category** | | | | | | |
| Business-to-business domestic sales | $ 14,467 | $ 7,797 | $ 6,670 | 85.5 % | 17.3 % | 14.0 % |
| Business-to-business international sales | 17,423 | 12,913 | 4,510 | 34.9 % | 20.9 % | 23.2 % |
| Direct-to-consumer domestic sales | 22,856 | 13,070 | 9,786 | 74.9 % | 27.4 % | 23.5 % |
| Direct-to-consumer domestic rentals | 28,673 | 21,901 | 6,772 | 30.9 % | 34.4 % | 39.3 % |
| Total revenue | $ 83,419 | $ 55,681 | $ 27,738 | 49.8 % | 100.0 % | 100.0 % |

Domestic sales in both business-to-business and direct-to consumer increased 85.5% and 74.9%, respectively, for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. This increase was primarily attributable to our refocus on direct-to-consumer sales versus rentals in 2014, and the hiring of additional internal sales representatives in the fourth quarter of 2013. The business-to-business international sales continue to grow steadily with an increase of 34.9% in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. As of September 30, 2014 we sold in 44 countries outside of the United States, and we plan to continue to expand our presence in other countries. Our rental revenue increase was mainly attributable to the increase in the number patients on service to 26,800 as of September 30, 2014 versus 19,200 as of September 30, 2013, which was partially offset by reimbursement declines in total rental revenues.

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

| | Nine months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Cost of sales revenue | $ 28,369 | $ 18,406 | $ 9,963 | 54.1 % | 34.0 % | 33.1 % |
| Cost of rental revenue | 13,349 | 8,459 | 4,890 | 57.8 % | 16.0 % | 15.2 % |
| Total cost of revenue | $ 41,718 | $ 26,865 | $ 14,853 | 55.3 % | 50.0 % | 48.2 % |
| | | | | | | |
| Gross profit - sales revenue | $ 26,377 | $ 15,374 | $ 11,003 | 71.6 % | 31.6 % | 27.6 % |
| Gross profit - rental revenue | 15,324 | 13,442 | 1,882 | 14.0 % | 18.4 % | 24.1 % |
| Total gross profit | $ 41,701 | $ 28,816 | $ 12,885 | 44.7 % | 50.0 % | 51.8 % |
| | | | | | | |
| Gross margin percentage - sales revenue | 48.2 % | 45.5 % | | | | |
| Gross margin percentage - rental revenue | 53.4 % | 61.4 % | | | | |
| Total gross margin percentage | 50.0 % | 51.8 % | | | | |

The increase in cost of sales revenue was primarily attributable to an increase in the number of systems sold and an increase in direct-to-consumer sales as a percentage of overall revenues which on average have higher revenues and cost of goods per system than business-to-business sales. Product costs declined due to reduced bill of material and labor and overhead costs for our products associated with better sourcing and increased volumes, partially offset by slightly higher warranty costs.

The increase in cost of rental revenue was primarily attributable to an increase of rental patients and related rental assets, depreciation and product exchange and logistics costs. Cost of rental revenue included depreciation of our rental assets of $7.5 million for the nine months ended September 30, 2014 versus $4.9 million for the nine months ended September 30, 2013.

Gross margin is defined as revenue less costs of revenue divided by revenue. The overall gross margin increased year-over-year mainly due to the gross margin increase in sales revenue. The rental revenue gross margin was 53.4% for the nine months ended September 30, 2014 versus 61.4% for the nine months ended September 30, 2013, partially due to lower rental reimbursement rates resulting from the implementation of round two and round one re-compete of Competitive Bidding that became effective July 1, 2013 and January 1, 2014, respectively. In addition, costs of rental revenue including asset write-offs, depreciation, and freight were higher per patient on rental for the nine months ended September 30, 2014 versus the comparative period ending September 30, 2013.

The sales revenue gross margin increased to 48.2% for the nine months ended September 30, 2014 from 45.5% for the nine months ended September 30, 2013. This increase in sales revenue gross margin was primarily attributed to the continued shift towards direct-

to-consumer sales revenue in our revenue mix and the lower product costs, partially offset by declining average selling prices across all channels. As a percentage of total revenue, direct-to-consumer sales increased for the nine months ended September 30, 2014 to 27.4% of total revenue from 23.5% of total revenue for the nine months ended September 30, 2013. Direct-to-consumer sales normally have a higher margin than that of the business-to-business sales (both domestically and internationally). The lower direct-to-consumer average selling prices were due to declining retail prices, and the lower business-to-business average selling prices were due to increasing volume orders and our tiered pricing structure.

***Research and development expense***

| | Nine months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Research and development expense | $ 2,312 | $ 1,817 | $ 495 | 27.2 % | 2.8 % | 3.3 % |

The increase in research and development expense was primarily attributable to a $0.5 million increase personnel-related expenses as a result of increased headcount, $0.1 million of patent and patent defense costs and adjusted rates for facility allocations. These increases were partially offset by a $0.1 million decrease in patent amortization costs and $0.1 million decrease in product development costs.

***Sales and marketing expense***

| | Nine months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Sales and marketing expense | $ 17,656 | $ 13,292 | $ 4,364 | 32.8 % | 21.2 % | 23.9 % |

The increase in sales and marketing expense was primarily attributable to a $2.2 million increase in personnel-related expenses as a result of increased headcount to support the growth of our business, $1.4 million in media-related marketing costs and software licensing to continue to grow our rental patient base and consumer cash sales, $0.3 million increase in personnel-related expenses for customer service and clinical services to support our increased rental patient base, $0.3 million increase in sales incentives and giveaways, and $0.2 million increase in credit card processing fees due to higher sales.

***General and administrative expense***

| | Nine months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| General and administrative expense | $ 12,654 | $ 9,796 | $ 2,858 | 29.2 % | 15.2 % | 17.6 % |

The increase in general and administrative expense was primarily attributable to a $1.3 million increase in personnel-related expenses as a result of increased headcount in billing, finance, information technology and compliance to support the growth of our business. In addition, we incurred an increase of $0.6 million for new costs associated with being a public company, $0.3 million in additional licenses and fees, $0.2 million of increased depreciation expense, $0.3 million increase in professional services for accounting, information technology and legal services, $0.2 million for a one-time fee to our lenders for our initial public offering, and $0.1 million in higher travel and entertainment costs.

Bad debt expense, expressed as a percentage of total revenue, was 1.4% and 2.4% for the nine months ended September 30, 2014 and September 30, 2013, respectively.

We expect general and administrative expenses to increase in the fourth quarter of 2014 as a result of the recently completed secondary offering and continue to increase in order for us to support the costs of being a public company.

***Other income (expense), net***

| | Nine months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Interest expense | $ (440) | $ (312) | $ (128) | 41.0 % | -0.5 % | -0.6 % |
| Interest income | $ 28 | $ 9 | 19 | 211.1 % | 0.0 % | 0.0 % |
| Revaluation of preferred stock warrant liability | $ 36 | $ (202) | 238 | -117.8 % | 0.0 % | -0.4 % |
| Other income | $ 12 | $ 209 | (197) | -94.3 % | 0.0 % | 0.4 % |
| Total other expense, net | $ (364) | $ (296) | $ (68) | 23.0 % | -0.4 % | -0.5 % |

The increase in interest expense in 2014 was driven by the increase in average outstanding debt balances under our revolving credit and term loan agreement during the nine months ended September 30, 2014 compared to the prior year. Other income in 2013 was primarily associated with investment income received in connection with the sale of our interest in our former product liability insurance company. This other income is not expected to recur in future periods.

***Income tax expense***

| | Nine months ended September 30, | | Change 2014 vs. 2013 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | $ | % | 2014 | 2013 |
| Income tax expense | $ 3,408 | $ 151 | $ 3,257 | 2157.0 % | 4.1 % | 0.3 % |

The increase in the effective tax rate was largely driven by the change in the Company's deferred tax asset valuation allowance. As of September 30, 2013, the Company maintained a full valuation allowance against its federal and state deferred tax assets which significantly reduced the Company's effective tax rate. In December of 2013 the Company evaluated its facts and circumstances and concluded that it was appropriate to release $22.9 million of the valuation allowance which created a one-time tax benefit of $21.6 million. Also, variations in the tax rate year-over-year were due to an increase in permanent tax differences related to employee stock option expense.

**Contractual Obligations**

There have been no 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", as contained in our Annual Report on Form 10-K filed with the SEC on April 1, 2014.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Liquidity and Capital Resources**

As of September 30, 2014, we had cash and cash equivalents of $56.2 million, which consisted of highly-liquid investments with an original maturity of six months or less. Since inception, we have financed our operations primarily through our sales and rental revenue, the sale of equity securities and, to a lesser extent, from borrowings. On February 20, 2014, we completed our initial public offering and received net proceeds after commissions and expenses of $49.7 million. As of September 30, 2014, we had $0.7 million secured debt outstanding which consisted of patent licensing debt. Since inception, we have received net proceeds of $91.9 million from the issuance of redeemable convertible preferred stock. Our principal uses of cash are funding our capital expenditures including additional rental assets and debt service payments as described below.

We believe that our current cash and cash equivalents together with our short-term investments and available borrowings under our revolving credit and term loan agreement 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 12 months.

The following table shows a summary of our cash flows for the periods indicated:

| | Nine months ended September 30, | | Change 2014 vs. 2013 | |
|---|---|---|---|---|
| | 2014 | 2013 | $ | % |
| Cash provided by operating activities | $ 11,368 | $ 11,478 | $ (110) | -1.0 % |
| Cash used in investing activities | (11,376) | (14,497) | 3,121 | 21.5 % |
| Cash provided by financing activities | 42,647 | 4,966 | 37,681 | -758.8 % |

***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 each period has increased associated with increased sales, improving product mix and lower costs of revenues. In addition, operating expense leverage has increased as expenses have not grown as quickly as revenues due to improved operating efficiencies. The changes in cash related to operating assets and liabilities discussed below were primarily due to the following factors that occurred across all periods: an increase in cash used related to inventory to support our growth in revenue; an increase in cash used by accounts receivable resulting from growth in rental receivables which typically have a longer collection cycle; and an increase in cash related to accounts payable resulting from the higher level of operating expenses needed to support the higher sales level.

Net cash provided by operating activities for the nine months ended September 30, 2014 consisted of our net income of $5.3 million and non-cash expense items such as depreciation and amortization of our equipment and leasehold improvements of $8.8 million, provision for rental revenue adjustments of $5.5 million, provision for sales returns of $2.6 million, provision for doubtful accounts of $1.2 million, loss on disposal of rental units and other fixed assets of $1.2 million, and stock-based compensation expense of $1.1 million. The net changes in operating assets and liabilities consisted of ($13.4) million of which ($20.9) million was due to a net increase in accounts receivable, inventory and other asset balances during this period, partially offset by a net increase of $2.6 million of income taxes payable, $2.0 million on accounts payable and $2.9 million of other liabilities. The increase in accounts receivable was mainly due to higher revenues in the nine months ended September 30, 2014 along with a decrease in the collection activity of our rental receivables.

***Investing activities***

Net cash used in investing activities for each of the periods presented was primarily related to the production of rental assets, manufacturing tooling, and computer equipment and software to support our expanding business.

For the nine months ended September 30, 2014, we invested $10.1 million in rental assets, $1.1 million in other property and equipment and $0.2 million in intangible assets.

We expect to continue investing in property and equipment as we expand our operations. Other than the deployment of product for rental to our patients and the necessary manufacturing equipment and tooling for the launch of our next oxygen concentrator in development, our operations are inherently capital intensive due to our portions of revenue derived from our rental business model; investments will continue to be required in order to grow rental revenue.

***Financing activities***

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

For the nine months ended September 30, 2014, net cash provided by financing activities consisted primarily of $51.5 million of net proceeds from the initial public offering which closed on February 20, 2014 after commissions and expenses (an additional $1.8 million in expenses were incurred during 2013 for total net proceeds of $49.7 million), $1.1 million from the proceeds from redeemable convertible preferred stock, common stock warrants and options that were exercised and employee stock purchase plan, and borrowings of $6.0 million from the final draw on the term loan financing. This was partially offset by the nine months of debt reduction and final pay-off of borrowings under our revolving credit and term loan agreement of ($15.9) million, and payment on our contractual obligation of ($0.1) million. The term loan agreement was paid off on August 22, 2014, and the remaining debt and accrued interest at that time was $11.6 million.

**Non-GAAP financial measures**

EBITDA and Adjusted EBITDA are financial measures that are not calculated in accordance with generally accepted accounting principles in the United States, or GAAP. We define EBITDA as net income or loss excluding interest income, interest expense, taxes and depreciation and amortization. Adjusted EBITDA also excludes the change in the fair value of our preferred stock warrant liability and stock-based compensation. Below, we have provided a reconciliation of EBITDA and Adjusted EBITDA to our net income or loss, the most directly comparable financial measure calculated and presented in accordance with GAAP. EBITDA and Adjusted EBITDA should not be considered alternatives to net income or loss or any other measure of financial performance calculated and presented in accordance with 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, changes related to the fair value re-measurements of our preferred stock warrant, 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 use 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 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;
- EBITDA and Adjusted EBITDA do not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our indebtedness; and
- Other companies, including companies in our industry, may calculate EBITDA, Adjusted EBITDA measures differently, which reduces their usefulness as a comparative measure.

In evaluating EBITDA and Adjusted EBITDA you should be aware that in the future we will incur expenses similar to the adjustments in this presentation. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these expenses or any unusual or non-recurring items. When evaluating our performance, you should consider EBITDA and Adjusted EBITDA alongside other financial performance measures, including our net loss and other GAAP results.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **EBITDA** | **2014** | **2013** | **2014** | **2013** |
| Net income | $ 2,133 | $ 774 | $ 5,307 | $ 3,464 |
| Non-GAAP adjustments: | | | | |
| Interest expense | 104 | 113 | 440 | 312 |
| Interest income | (10) | (3) | (28) | (9) |
| Provision for income taxes | 1,341 | 43 | 3,408 | 151 |
| Depreciation and amortization | 3,193 | 2,342 | 8,779 | 5,995 |
| EBITDA | 6,761 | 3,269 | 17,906 | 9,913 |
| Change in fair value of preferred stock warrant liability | — | (41) | (36) | 202 |
| Stock-based compensation | 457 | 65 | 1,123 | 116 |
| Adjusted EBITDA | $ 7,218 | $ 3,293 | $ 18,993 | $ 10,231 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **Pro-forma non-GAAP results of EPS calculation (1) (2)** | **2014** | **2013** | **2014** | **2013** |
| Net income (loss) attributable to common stockholders - GAAP | $ 2,133 | $ (1,077) | $ 4,320 | $ (1,895) |
| Add deemed dividend on redeemable convertible preferred stock | — | 1,851 | 987 | 5,359 |
| Pro-forma net income attributable to common stockholders | $ 2,133 | $ 774 | $ 5,307 | $ 3,464 |
| | | | | |
| Pro-forma net income per share - basic common stock | $ 0.12 | $ 0.05 | $ 0.30 | $ 0.24 |
| Pro-forma net income per share - diluted common stock | $ 0.11 | $ 0.05 | $ 0.27 | $ 0.21 |
| | | | | |
| **Denominator:** | | | | |
| Pro-forma weighted-average common shares - basic common stock | 18,286,208 | 14,515,083 | 17,637,741 | 14,516,523 |
| Pro-forma weighted-average common shares - diluted common stock | 20,213,102 | 16,262,495 | 19,590,565 | 16,350,537 |

(1) The pro-forma non-GAAP EPS calculations give effect to: (1) the automatic conversion of the outstanding convertible preferred stock into a weighted-average of 14,163,056, and 14,057,509 for the three and nine months ended September 30, 2013, and 14,219,001 for the nine months ended September 30, 2014. The convertible preferred stock was converted prior to the three months ended September 30, 2014, therefore, shares are not on a pro-forma basis for this period. (2) the cash exercise of warrants to purchase an aggregate of 130,385 and 47,811 shares of common stock for the three and nine months ended September 30, 2013, respectively.

(2) See note 2 to our unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q for an explanation of the calculations of our basic and diluted net income per share attributable to common stockholders and pro-forma net income per share attributable to common stockholders.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including fluctuation in interest rates and foreign currency exchange rates. Market risk is the potential loss arising from adverse changes in market rates and prices. Prices for our products are denominated in U.S. dollars and, as a result, we do not face significant risk with respect to foreign currency exchange rates. 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 $56.2 million as of September 30, 2014, which consisted of highly-liquid investments with an original maturity of three months or less. 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. If overall interest rates had decreased by 10% during the periods presented, our interest income would not have been materially affected.

As of September 30, 2014, we did not have any outstanding term loan agreements. We paid off all outstanding bank debt and accrued interest under the amended and restated revolving credit and term loan agreement with Comerica Bank on August 22, 2014 in the amount of $11.6 million.

***Foreign currency exchange risk***

To date, our international customer and distributor agreements have been denominated almost exclusively in U.S. dollars. Accordingly, we have limited exposure to foreign currency exchange rates. The effect of a 10% adverse change in exchange rates on foreign denominated cash, receivables and payables as of September 30, 2014 and December 31, 2013 would not have been material. 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. To date, we have not entered into any material foreign currency hedging contracts although we may do so in the future.

## ITEM 4. CONTROLS AND PROCEDURES

***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.

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

The Company maintains a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or 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 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 principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company carried out an evaluation, under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2014 pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the principal executive officer and the principal financial officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in internal controls over financial reporting***

There has been no change in our internal control over financial reporting during the three months ended September 30, 2014 or during the nine months ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

On November 4, 2011, we filed a lawsuit in the United States District Court for the Central District of California against Inova Labs Inc., or Defendant, for infringement of two of our patents. The case, Inogen Inc. v. Inova Labs Inc., Case No. 8:11-cv-01692-JST-AN, or the Lawsuit, involves U.S. Patent Nos. 7,841,343, entitled "Systems and Methods For Delivering Therapeutic Gas to Patients," or the '343 patent, and 6,605,136 entitled "Pressure Swing Adsorption Process Operation And Optimization," or the '136 patent. We alleged in the Lawsuit that certain of Defendant's oxygen concentrators infringe various claims of the '343 and '136 patents. The Lawsuit seeks damages, injunctive relief, costs and attorneys' fees.

The Defendant has answered the complaint, denying infringement and asserting various sets of defenses including non-infringement, invalidity and unenforceability, patent misuse, unclean hands, laches and estoppel. The Defendant also filed counterclaims against us alleging patent invalidity, non-infringement and inequitable conduct. We denied the allegations in the Defendant's counterclaims and filed a motion to dismiss Defendant's inequitable conduct counterclaim.

The Defendant filed a request with the U.S. Patent and Trademark Office seeking an inter partes reexamination of the '343 and '136 patents. The Defendant also filed a motion to stay the Lawsuit pending outcome of the reexamination. On March 20, 2012, the Court granted the Defendant's motion to stay the Lawsuit pending outcome of the reexamination and also granted our motion to dismiss the Defendant's inequitable conduct counterclaim.

We are party to various legal proceedings arising in the normal course of business. We carry insurance, subject to deductibles under the specified policies, to protect against losses from certain types of legal claims. At this time, we do not anticipate that any of these proceedings will have a material adverse effect on our business.

### Item 1A. Risk Factors

*We operate in a rapidly changing environment that involves numerous uncertainties and risks. The following risks and uncertainties may have a material and adverse effect on our business, financial condition or results of operations. You should consider these risks and uncertainties carefully, together with all of the other information included or incorporated by reference in this Form 10-Q. 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.*

#### Risks related to our business and strategy

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

As a provider of oxygen product rentals, we have historically depended heavily on Medicare reimbursement as a result of the higher proportion of elderly persons suffering from chronic 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 more than 60% of oxygen therapy patients in the United States have primary coverage under Medicare Part B. For the three months ended September 30, 2014 and September 30, 2013, we derived approximately 26.7% and 27.4%, respectively, and for the nine months ended September 30, 2014 and September 30, 2013, we derived approximately 25.6% and 28.8%, respectively, of our total revenue from Medicare's program or beneficiaries (including patient co-insurance obligations). 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, and the Patient Protection and Affordable Care 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 portable oxygen equipment is 60 months. After 60 months, if the patient requests, the rental cycle starts over and a new 36-month capped 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 36-month capped service period, resulting in potentially two or more years without rental income from these customers. We cannot state with certainty the number of patients in the capped rental period or the potential impact to revenue associated with patients in the capped rental period.
- The Medicare Improvements for Patients and Providers Act of 2008 retroactively delayed the implementation of competitive bidding for 18 months from previously established dates and decreased the 2009 fee schedule payment amounts by 9.5% for product categories included in competitive bidding. In addition to the 9.5% reduction under Medicare Improvements for Patients and Providers Act of 2008, the Centers for Medicare & Medicaid Services implemented a reduction to the monthly payment amount for stationary oxygen equipment. The monthly payment rate for non-delivery ambulatory oxygen in the relevant period was flat at $51.63. The table below summarizes the increases and decreases in the monthly payment amounts for stationary oxygen equipment.

| (dollars in hundreds) | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Stationary oxygen percentage rate changes | -2.30 % | -1.50 % | 0.10 % | 1.60 % | 0.70 % | 0.50 % |
| Stationary oxygen monthly payment amounts | $ 175.79 | $ 173.17 | $ 173.31 | $ 176.06 | $ 177.36 | $ 178.24 |

- The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, includes, among other things, a deductible excise tax on any entity that manufactures or imports medical devices offered for sale in the United States, with limited exceptions including oxygen products such as ours, which began in 2013, new face-to-face physician encounter requirements for 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.

These legislative provisions, as currently in effect and when fully implemented, have had and will continue to have a material and adverse effect on our business, financial condition and operating results.

Due to budgetary shortfalls, many states are considering, or have enacted, cuts to their Medicaid programs. These 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.

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

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 required 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.

The Centers for Medicare & Medicaid Services, the agency responsible for administering the Medicare program, conducts a competition for each competitive acquisition area under which providers submit bids to supply certain covered items of durable medical equipment. Successful bidders must meet certain program quality standards in order to be awarded a contract and only successful bidders can supply the covered items to Medicare beneficiaries in the acquisition area. There are, however, regulations in place that allow non-contracted providers to continue to provide products and services to their existing customers at the new competitive bidding payment amounts. The contracts are expected to be re-bid every three years. The Centers for Medicare & Medicaid Services is required to award contracts to multiple entities submitting bids in each area for an item or service, but has the authority to limit the number of contractors in a competitive acquisition area to the number it determines to be necessary to meet projected demand.

Although the Centers for Medicare & Medicaid Services concluded the bidding process for the first round of Metropolitan Statistical Areas in September 2007, in July 2008, Congress enacted the Medicare Improvements for Patients and Providers Act of 2008, which retroactively delayed the implementation of competitive bidding. The Medicare Improvements for Patients and Providers Act of 2008 also reduced Medicare prices nationwide by 9.5% beginning in 2009 for the product categories, including oxygen, that were initially included in competitive bidding.

In 2009, the Centers for Medicare & Medicaid Services implemented a new bidding process in nine Metropolitan Statistical Areas, covering approximately 9% of the Medicare oxygen market. Reimbursement rates from the re-bidding process were publicly released by the Centers for Medicare & Medicaid Services on June 30, 2010. The Centers for Medicare & Medicaid Services announced average savings of approximately 35% off the current standard Medicare payment rates in effect for the product categories included in competitive bidding. As of January 1, 2011, these payment rates were in effect in the nine markets only. We were offered six three-year contracts to provide oxygen equipment in six of the nine markets, and we accepted and signed those contracts.

The Centers for Medicare & Medicaid Services implemented the second phase of competitive bidding in an additional 100 competitive bidding areas covering approximately 50% of the Medicare oxygen market, with three-year contracts effective July 1, 2013. The Centers for Medicare & Medicaid Services announced average savings of approximately 45% off the current standard Medicare payment rates in effect for the product categories included in competitive bidding. As of July 1, 2013, these payment rates were in effect in the 100 competitive bidding areas. We were offered 89 contracts to provide oxygen equipment in 89 of the 100 competitive bidding areas, and we accepted and signed those contracts.

Round one re-compete rates went into effect on January 1, 2014; reimbursement rates from the re-bidding process were publicly released by the Centers for Medicare & Medicaid Services on October 1, 2013. The Centers for Medicare & Medicaid Services announced average savings of approximately 37% off the current standard Medicare payment rates in effect from the product categories included in competitive bidding. We were offered 3 contracts to provide respiratory equipment in 3 of the 9 competitive bidding areas, and we accepted and signed those contracts. We are required to be able to supply additional respiratory products such as sleep and aerosol therapy, which have lower margins than our existing products. This could have a negative impact on our financial conditions and results of operations.

The Patient Protection and Affordable Care Act legislation requires the Centers for Medicare & Medicaid Services to expand competitive bidding further to additional geographic markets or to use competitive bid pricing information to adjust the payment amounts otherwise in effect for areas that are not competitive acquisition areas by January 1, 2016.

In October 2014, the Centers for Medicare and Medicaid services released a ruling that sets forth methodologies to adjust the fee schedule amounts for items subject to competitive bidding in areas where competitive bidding is not implemented. The ruling applies rate reductions to all un-bid areas instead of doing an additional bidding process. The fee schedules in the un-bid areas would be adjusted based on regional averages of the single payment amounts for areas already under competitive bidding. The regional prices would be limited by a national ceiling (110% of the average of the regional prices) and a floor (90% of the average regional prices). The regions would be defined as follows:

| Region Name | States Covered |
|---|---|
| Far West | CA, NV, OR, WA |
| Great Lakes | IL, IN, MI, OH, WI |
| Mideast | DC, DE, MD, NJ, NY, PA |
| New England | CT, MA, NH, RI |
| Plains | IA, KS, MN, MO, NE |
| Rocky Mountain | CO, ID, UT |
| Southeast | AL, AR, FL, GA, KY, LA, NC, SC, TN, VA |
| Southwest | AZ, NM, OK, TX |

The Centers for Medicare and Medicaid 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. For frontier and rural states, and frontier and rural zip codes in non-frontier/rural states, the single payment amount will be the national ceiling (110% of the average of the regional prices) to account for higher servicing costs in these areas. For non-contiguous United States areas, single payment amounts will be the higher of the national ceiling, or the average of competitive bidding pricing from these areas, if the areas had been bid through competitive bidding.

While we are monitoring the implementation of this ruling, we believe that the net effect of the ruling would be an approximately 3-4% decrease in 2016 revenue since this pricing will be applied partially from January 1, 2016 to June 30, 2016 and completely starting July 1, 2016.

The Centers for Medicare and Medicaid Services also announced in July 2014 the schedule for competitive bidding round two re-compete, associated with approximately 50% of the market with contracts set to expire June 30, 2016. The Centers for Medicare and Medicaid Services intends to announce the bidding schedule in fall 2014 and commence bidding in winter 2015. The Centers for Medicare and Medicaid Services updated the product categories and the competitive bidding areas. Respiratory equipment includes oxygen, oxygen equipment, continuous positive airway pressure devices, respiratory assist devices and related supplies and accessories, such that nebulizers, which are now their own separate product category instead of being included in the respiratory equipment category. Round two re-compete is in the same geographic areas that were included in the original round two. However, as a result of the Office of Management and Budget's updates to the original 91 round two metropolitan statistical areas, there are now 90 metropolitan statistical areas for round two re-compete. The round two re-compete competitive bidding areas have nearly the same ZIP codes as the round two competitive bidding areas, the associated changes in the zip codes since the competitive bidding was implemented are reflective in this round two re-compete. Also, competitive bidding areas that were located in multi-state metropolitan statistical areas were defined so that no competitive bidding area is included in more than one state.

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 payment 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 payment rates will continue to fluctuate and a large negative payment adjustment could adversely affect our business, financial conditions and results of operations.

***We face intense 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 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 oxygen therapy solutions such as home delivery of oxygen tanks or cylinders.

Our significant manufacturing competitors are Invacare Corporation, Respironics (a subsidiary of Koninklijke Philips N.V.), AirSep Corporation and SeQual Technologies (subsidiaries of Chart Industries, Inc.), Inova Labs, Inc. and DeVilbiss Healthcare. 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. Manufacturing companies compete for sales to providers primarily on the basis of product features, service and price.

For many years, Lincare Inc., Apria Healthcare, Inc. Rotech Healthcare, Inc. and American HomePatient, Inc. have been among the market leaders in providing oxygen therapy, while the remaining oxygen therapy market is serviced by local providers. Because many oxygen therapy providers were either excluded from contracts in the Medicare competitive bidding process, or will have difficulty providing service at the prevailing Medicare reimbursement rates, we expect more industry consolidation. 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 relations 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 or 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, patent litigation and customer financing.

As a result, our competitors may be able to respond more quickly and effectively than we can 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, 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.

***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. As discussed above, the Patient Protection and Affordable Care Act, among other things, imposes a new excise tax, which began in 2013, on entities that manufacture, produce or import medical devices in an amount equal to 2.3% of the price for which such devices are sold in the United States, however, oxygen products such as ours were exempt. In addition, as discussed above, the Patient Protection and Affordable Care Act also expands the round two of competitive bidding to a total of 91 competitive bidding areas, and by 2016, the process must be nationalized or prices in non-competitive bidding areas must be adjusted to match competitive bidding prices.

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 among other things, created 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 payments 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. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012 which, among other things, further reduced Medicare payments to certain providers, including physicians, hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. 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.

***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 $0.8 million and $0.7 million for the three months ended September 30, 2014 and September 30, 2013, respectively, and $2.3 million and $1.8 million for research and development efforts for nine months ended September 30, 2014 and September 30, 2013, respectively, we cannot assure you that this level of investment in research and development 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, and testing at the technological, product, and manufacturing process levels and we may not be able to timely develop product improvements or new products. 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 upon reimbursement from Medicare, private payors and Medicaid 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 suffer.***

A significant portion of our 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 from customers under co-insurance provisions. For the three months ended September 30, 2014 and September 30, 2013, approximately 33.9% and 38.6%, respectively, and for the nine months ended September 30, 2014 and September 30, 2013, approximately 34.4% and 39.3% of our total revenue was derived from Medicare, private payors, Medicaid, and individual customers who directly receive reimbursement from third-party payors.

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 reimbursement process and collect payments for our products promptly. If we fail to manage the complex and lengthy reimbursement process, it would adversely affect our business, financial conditions and results of operations.

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

A portion of our revenue is derived from private payors. Based on our patient population, we estimate at least 30% of potential customers have non-Medicare insurance coverage, and we believe these patients represent a younger and more active patient population that will be drawn to the quality-of-life benefits of our solution. 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 operating results. 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 payment 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 obtain or maintain private payor contracts or the unavailability of third-party coverage or inadequacy of reimbursement for our products would adversely affect our business, financial conditions 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 from a single source or a limited group of manufacturers or suppliers, and the partial or complete loss of one of these manufacturers or suppliers could cause significant production delays, an inability to meet customer demand and a substantial loss in revenue.***

We utilize single source suppliers for some of the components and subassemblies we use in our Inogen One systems and our Inogen At Home. We have qualified alternate sources of supply sufficient to support future needs and we have taken other mitigating steps to reduce the impact of a change in supplier; however, there may be delays in switching to these alternative suppliers if our primary source is terminated without notice. 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 efficacy 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 regulatory standards to which our business is subject;
- 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;
- We may experience delays in delivery by our suppliers due to 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.

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, in future periods, 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 new requirements could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of our products. In addition, we may incur 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 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 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 operating results.

***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 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 operating results.

***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 operating results 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 impact our financial and operating performance. 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 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.

***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 operating results.***

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 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 operating results may be adversely affected.

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

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 conditions 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 staff and our sales and marketing executives. 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 senior management team. The loss of any member of our senior management team could harm our ability to implement our business strategy and respond to the market conditions in which we operate.

***We rely on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks 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 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 systems may be susceptible to damage, disruptions or shutdowns, hardware or software failures, power outages, computer viruses, cyber attacks, telecommunication failures, user errors or catastrophic events. If our information technology systems suffer severe damage, disruption or shutdown, and our business continuity plans do not effectively resolve the issues in a timely manner, our operations could be disrupted and our business could be negatively affected. In addition, cyber attacks could lead to potential unauthorized access and disclosure of confidential information, and data loss and corruption. There is no assurance that we will not experience these service interruptions or cyber attacks in the future.

***We incurred losses from inception until fiscal year 2012, and we have only recently achieved profitability.***

We have a limited operating history and incurred significant net losses in each fiscal year until fiscal year 2012, when we achieved positive net income. As of September 30, 2014, we had an accumulated deficit of $58.2 million. These net losses have resulted principally from costs incurred in our research and development programs and from our selling, general and administrative expenses. We expect to incur increases in expenses for research and development and significant expansion of our sales and marketing capabilities. Additionally, since completing our initial public offering, we expect that our selling, general and administrative expenses will increase due to the additional operational and reporting costs associated with being a public company. Because of the numerous risks and uncertainties associated with our commercialization efforts and future product development, we are unable to predict if we will maintain or increase our net income.

***Our financial results 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; 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; and fluctuations in foreign currency exchange rates. For example, we typically experience higher sales in the second quarter, as a result of consumers traveling and vacationing during the summer months. 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. 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.

***The terms of our revolving credit agreement may restrict our current and future operations, and could affect our ability to respond to changes in our business and to manage our operations.***

On November 7, 2014, we entered into a revolving credit agreement with JPMorgan Chase Bank, N.A., which we refer to as our revolving credit agreement. The agreement provides for a revolving credit facility in an aggregate principal amount of $15.0 million with a sublimit of $1.0 million for the issuance of letters of credit on our behalf. The agreement is secured by all or substantially all of our assets.

Pursuant to the revolving credit agreement, we are subject to certain financial covenants relating to our net worth and EBITDA. Tangible net worth under the revolving credit agreement is calculated by subtracting the sum of intangible assets and total liabilities from total assets. EBITDA is defined as our net income plus interest expense, plus depreciation expense, plus amortization expense, plus income tax expense, plus non-cash expense, plus extraordinary losses, minus non-cash income, and minus extraordinary gains, as computed during certain test periods provided in the revolving credit agreement. We are required to maintain at all times a tangible net worth of $90 million and EBITDA (i) of $10.0 million for any period of four consecutive quarters commencing with the four-quarter test period ending September 30, 2014 through the four-quarter test period ending March 31, 2016 and (ii) of $12.5 million for any four-quarter test period commencing with the four-quarter test period ending June 30, 2016 and continuing thereafter.

The agreement contains events of default customary for transactions of this type, including nonpayment, misrepresentation, breach of covenants, and bankruptcy. In the event we fail to satisfy our covenants, or otherwise go into default, JPMorgan Chase Bank, N.A. has a number of remedies, including sale of our assets and acceleration of all outstanding indebtedness. Certain of these remedies would likely have a material adverse effect on our business. As of September 30, 2014, in order to be in compliance with the EBITDA and tangible net worth requirements, we were required to maintain $10 million in EBITDA for the preceding test period, and we had $22.2 million in EBITDA for that period, and we were required to maintain a tangible net worth of $90.0 million and we had a tangible net worth of $113.6 million.

***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 other states should not be subject to 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 position.

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

As of December 31, 2013, we had federal and state net operating loss carryforwards, or NOLs, of approximately $56.7 million and $54.9 million, respectively. They expire in various years beginning in 2022 and 2013, respectively, if not utilized. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. In general, an "ownership change" occurs if there is a cumulative change in our ownership by "5% shareholders" that exceeds 50 percentage points over a rolling three-year period. Our existing NOLs may be subject to limitations arising from previous ownership changes, and if we undergo one or more ownership changes in connection with this offering or future transactions in our stock, our ability to utilize NOLs could be further limited by Section 382 of the Code. Even after factoring in these limitations, we were able to determine based on future projections of income that it is more likely than not that all of our federal NOLs will be utilized before they expire and therefore determined that releasing the valuation allowance relating to these NOLs was appropriate during this period. However, we determined that some of our California NOLs will expire unused and therefore we have maintained a valuation allowance of $4.1 million relating to these NOLs.

**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 or be required to make significant changes to our operations that could adversely affect our business, financial condition and operating results.***

The federal government and all states in which we currently operate regulate various aspects of our business. In particular, our sales and customer service centers are subject to federal laws that regulate interstate motor-carrier transportation. Our operations also 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 each state 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 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 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 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 operating results.***

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. For example, we have also experienced a significant increase in pre-payment reviews of our claims by the Durable Medical Equipment Medicare Administrative Contractors, which has caused 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 the Centers for Medicare & Medicaid Services.

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 operating results, but such impact could be material.

***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 procedures;
- 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 from pre-market review 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. Clinical data is sometimes required to support substantial equivalence. The pre-market approval pathway requires an applicant to demonstrate the safety and effectiveness of the device based, in part, on extensive data, including, but not limited to, technical, preclinical, clinical trial, manufacturing and labeling data. The pre-market approval process is typically required for devices that are deemed to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices. Products that are approved through a pre-market approval application generally need FDA approval before they can be modified. Similarly, some modifications made to products cleared through a 510(k) may require a new 510(k). Both the 510(k) and pre-market approval processes can be expensive and lengthy and require the payment of significant fees, unless an exemption applies. The FDA's 510(k) clearance process usually takes from three to twelve months, but may take longer. The process of obtaining a pre-market approval is much more costly and uncertain than the 510(k) clearance process and generally takes from one to three years, or longer, from the time the application is submitted to the FDA until an approval is obtained. The process of obtaining regulatory clearances or approvals to market a medical device can be costly and time consuming, and we may not be able to obtain these clearances or approvals on a timely basis, if at all.

In the United States, our currently commercialized products are marketed pursuant to pre-market clearance under Section 510(k) of the FDCA. 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 of our 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.

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 users;
- 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 requirements.

In addition, the FDA may change its clearance and approval policies, adopt additional regulations or revise existing regulations, or take other actions which may prevent or delay approval or clearance of our products under development or impact our ability to modify our currently approved or cleared products on a timely basis. For example, in response to industry and healthcare provider concerns regarding the predictability, consistency and rigor of the 510(k) regulatory pathway, the FDA initiated an evaluation of the program, and in January 2011, announced several proposed actions intended to reform the review process governing the clearance of medical devices. The FDA intends these reform actions to improve the efficiency and transparency of the clearance process, as well as bolster patient safety. Some of these proposals, if enacted, could impose additional regulatory requirements upon us which could delay our ability to obtain new 510(k) clearances, increase the costs of compliance or restrict our ability to maintain our current clearances. In addition, as part of the Food and Drug Administration Safety and Innovation Act, Congress reauthorized the Medical Device User Fee Amendments with various FDA performance goal commitments and enacted several "Medical Device Regulatory Improvements" and miscellaneous reforms which are further intended to clarify and improve medical device regulation both pre- and post-market.

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 efficacy 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.***

Our Inogen One systems and Inogen At Home system have received pre-market clearance under Section 510(k) of the FDCA. The modifications made to our Inogen One G2 and Inogen One G3 systems represent non-significant modifications to the original Inogen One system, have the same indications for use, and are covered under our initial Inogen One 510(k) clearance. Any modifications to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or would constitute a major change in its intended use, manufacture, design, components, 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 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 based on our review of the applicable FDA guidance 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.

Furthermore, the FDA's ongoing review of the 510(k) program may make it more difficult for us to make modifications to our previously cleared products, either by imposing more strict requirements on when a manufacturer must submit a new 510(k) for a modification to a previously cleared product, or by applying more onerous review criteria to such submissions. Specifically, pursuant to the Food and Drug Administration Safety and Innovation Act, which was signed into law in July 2012, the FDA was obligated to prepare a report for Congress on the FDA's approach for determining when a new 510(k) will be required for modifications or changes to a previously cleared device. The FDA issued this report in 2014 and indicated that manufacturers should continue to adhere to the FDA's 1997 Guidance on this topic when making a determination as to whether or not a new 510(k) is required for a change or modification to a device. However, the practical impact of the FDA's continuing scrutiny of these issues remains unclear.

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

The regulations to which we are subject are complex and have become more stringent over time. Regulatory changes could result in restrictions on our ability to continue or expand our operations, higher than anticipated costs or lower than anticipated sales. Even after we have obtained the proper 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:

- 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 exiting 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 impact on us.***

Medical devices, such as our Inogen concentrators, can experience performance problems in the field that require review and possible corrective action by us or the product manufacturer. We cannot provide assurance that component failures, manufacturing errors, design defects and/or labeling inadequacies, which could result in an unsafe condition or injury to the operator or the patient will not occur. 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 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 and operating results.

In addition, under the FDA's medical device reporting regulations, we are required to 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 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 financial results.

***If we 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 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, testing, production, control, quality assurance, labeling, packaging, sterilization, 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 our manufacturing facilities or those of any of our component manufacturers or suppliers are found to be in violation of applicable laws and regulations, or we or our manufacturers or suppliers fail to take satisfactory corrective action in response to an adverse inspection, the FDA could take enforcement action, including any of the following sanctions:

- 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 conditions and operating results.

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.

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

Approximately 23.2% and 23.2% of our revenue was from sales outside of the United States for three months ended September 30, 2014 and September 30, 2013, respectively and 20.9% and 23.2% for the nine months ended September 30, 2014 and September 30, 2013, respectively. As of September 30, 2014, we sold our products in 44 countries outside of the United States through 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 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, it would negatively affect our overall market penetration.

***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. Use of a device outside its cleared or approved indications is known as "off-label" use. 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, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, which could have an adverse impact on our reputation and financial results.

***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 (including the final omnibus rule published on January 25, 2013) affecting the transmission, security and privacy of health information 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 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 and the HITECH Act also include standards for common healthcare electronic transactions and code sets, such as claims information, plan eligibility, payment information and the use of electronic signatures, and privacy and electronic security of individually identifiable health information. Covered entities, such as healthcare providers, are required to conform to such transaction set standards pursuant to HIPAA.

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. 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 do not comply 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 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. These new provisions, as modified, will be subject to interpretation by various courts and other governmental authorities, thus creating potentially complex compliance issues for us, as well as our clients and strategic partners. In addition, we are unable to predict what changes to the HIPAA Privacy Standards and Security Standards might be made in the future or how those changes could affect our business. Any new legislation or regulation in the area of privacy and security of personal information, including personal health information, could also adversely affect our business operations.

***Regulations requiring the use of "standard transactions" for healthcare services issued under HIPAA may negatively impact 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 above laws, including anti-kickback, false claims and anti-inducement laws, we could face substantial penalties and our business, 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 financed 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 they do 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.

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 law 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 new reporting and disclosure requirements on device and drug manufacturers for any "transfer of value" made or distributed to prescribers and other healthcare providers. Device and drug manufacturers will also be required to report and disclose 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 $150,000 per year (and up to an aggregate of $1 million per year for "knowing failures"), for all payments, transfers of value or ownership or investment interests not reported in an annual submission. As of August 1, 2013, manufacturers are required to collect data, and were required to submit their first data reports to the Centers for Medicare & Medicaid Services by March 31, 2014 and by the 90th day of each calendar year thereafter.

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 many 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 noncompliance, we could be subject to civil money penalties of up to $10,000 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.

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 or our operations could harm our ability to operate our business and our financial results. 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.***

As of September 30, 2014 we sold our products in 44 countries outside the United States through 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 systems and our Inogen At Home 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 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, 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.

**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 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 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; 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 September 30, 2014, we had five pending U.S. patent applications, 27 issued U.S. patents and one issued Canadian patent 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. U.S. patents and patent applications may be subject to interference proceedings, and U.S. patents may be subject to re-examination, *inter partes* review, post-grant review, and derivation proceedings in the U.S. Patent and Trademark Office. 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, re-examination, *inter partes* review, 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 adequate protection or any competitive advantages. 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 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. From time to time, we have commenced litigation to enforce our intellectual property rights. For example, we have pursued litigation against Inova Labs Inc. for infringement of two of our patents seeking damages, injunctive relief, costs, and attorneys' fees. An adverse decision in this action or in any other legal action could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact 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 Inc., 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 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.

Determining whether a product infringes a patent involves complex legal and factual issues, and the outcome of a patent litigation action is 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 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 vary by jurisdiction and some companies opt not to publish their patent applications, 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. 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 as 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 products or patents in litigation or other proceedings, including patent re-examinations, or *inter partes* reviews. As a result, we may become involved in unwanted litigation that could be costly, result in diversion of management's attention, require us to pay damages 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 and intellectual property rights of others. In the event that we become subject to a patent infringement or other intellectual property lawsuit and if the other party's patents or other intellectual property were upheld as valid and enforceable and we were found to infringe the other party's patents 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 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.

We have registered the trademarks Inogen; Inogen One; Inogen One G2; 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; and the Inogen design with the United States Patent and Trademark Office. We have applied with the United States Patent and Trademark Office to register the trademark Inogen at Home. We have registered the trademark Inogen in Australia, Canada, China, Mexico, and in Europe (European Community registration). We have registered the trademark Inogen One in Australia, Canada, China, Mexico, and in Europe (European Community registration). We have registered the trademark Satellite Conserver in Canada and China. We have registered the trademark Inogen at Home in Europe (European Community registration).

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

Many of our employees were previously employed at other medical device companies focused on the development of oxygen therapy products, including our competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we 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.***

On February 20, 2014 we completed our initial public offering. As a public company, and increasingly after we are no longer an "emerging growth company," we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act and rules 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, 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. 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 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), will require 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. As an "emerging growth company" we expect to avail ourselves of the exemption from the requirement that our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting under Section 404(b). However, we may no longer avail ourselves of this exemption when we are no longer an "emerging growth company." When our independent registered public accounting firm is required to undertake an assessment of our internal control over financial reporting, the cost of our compliance with Section 404(b) will correspondingly increase. 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.

***If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.***

No material weaknesses in internal control over financial reporting were identified in connection with the audit of our financial statements for the year ended December 31, 2013. However, our management and independent registered public accounting firm did not perform an evaluation of our internal control over financial reporting during any period in accordance with the provisions of the Sarbanes-Oxley Act. Had we and our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, control deficiencies amounting to significant deficiencies or material weaknesses may have been identified. We cannot be certain as to when we will be able to implement the requirements of Section 404 of the Sarbanes-Oxley Act. If we fail to implement the requirements of Section 404 in a timely manner, we might be subject to sanctions or investigation by regulatory agencies such as the SEC. In addition, failure to comply with Section 404 or the report by us of a significant deficiency or material weakness may cause investors to lose confidence in our financial statements, and the trading price of our common stock may decline. If we fail to remedy any significant deficiency or material weakness, our financial statements may be inaccurate, our access to the capital markets may be restricted and the trading price of our ordinary shares may suffer.

***We are an "emerging growth company" and the reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors.***

We are an "emerging growth company," as defined in the 2012 Jumpstart Our Business Startups (JOBS) Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced financial disclosure obligations, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute payments not previously approved. We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company upon the earliest to occur of: the last day of the fiscal year in which we have more than $1.0 billion in annual revenue; the date we qualify as a large accelerated filer, with at least $700 million of equity securities held by non-affiliates; the issuance, in any three-year period, by us of more than $1.0 billion in non-convertible debt securities; and the last day of the fiscal year ending after the fifth anniversary of our initial public offering. We may choose to take advantage of some but not all of these reduced reporting burdens. If we take advantage of any of these reduced reporting burdens in future filings, the information that we provide our security holders may be different than you might get from other public companies in which you hold equity interests. In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards, delaying the adoption of these accounting standards until they would apply to private companies. We have elected to avail ourselves of this exemption and, as a result, our financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be reduced or more volatile.

**Risks related to our common stock**

***We expect that our stock price will fluctuate significantly, and you may have difficulty selling your shares.***

Prior to our initial public offering, there was no public market for shares of our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the NASDAQ Global Select Market or otherwise or how liquid that market might become. 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;
- expiration of lock-up agreements;
- 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; 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. A certain degree of stock price volatility can be attributed to being a newly public company. 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. If any of our stockholders were to bring a lawsuit against us, the defense and disposition of the lawsuit could be costly and divert the time and attention of our management and harm our operating results.

***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.***

If our existing stockholders sell substantial amounts of their common stock in the public market, or are perceived by the public market as intending to sell, the trading price of our common stock could decline. As of September 30, 2014, we had outstanding a total of 18,436,802 shares of common stock, of which approximately 6,800,000 shares are freely tradable without restriction in the public market and, which amount excludes approximately 2,050,000 shares held by directors and executive officers and are subject to volume limitations under Rule 144 and the Securities Act of 1933, as amended, and various vesting agreements. Certain of our existing stockholders have demand and piggyback rights to require us to register with the SEC up to approximately 9,500,000 shares of our common stock, excluding the shares of our common that were sold in our recently completed secondary offering. If we register any of these shares of common stock, those stockholders would be able to sell those shares freely in the public market. In addition, after our initial public offering, we filed a registration statement under the Securities Act to register shares of our common stock that we may issue under our equity plans and, as of September 30, 2014, 2,678,328 shares of our common stock (which amount includes options to purchase 144,253 shares of common stock which were exercised for cash and sold by Raymond Huggenberger in connection with the closing of our secondary offering) are issuable upon exercise of outstanding options that will become eligible for sale in the public market to the extent permitted by the vesting provisions thereunder.

In addition, in the future we may issue additional shares of our common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisition or otherwise.

If any of these additional shares described are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

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

As of September 30, 2014, 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 62.1% of the outstanding shares of our common stock, assuming no exercise of the underwriters' option to purchase additional shares in the Company's subsequent offering which closed on November 4, 2014. 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 effected 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 continue to retain broad discretion in the use of the net proceeds from our initial public offering and may not use them effectively.***

We continue to retain broad discretion in the application of the net proceeds from our initial public offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. We might not be able to yield a significant return, if any, on any investment of these net proceeds from the initial public offering. Stockholders will not have the opportunity to influence our management's decisions on how to use the net proceeds, and our failure to apply these funds effectively could have a material adverse effect on our business and cause the price of our common stock to decline.

***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, have contractual restrictions against paying cash dividends and currently intend to retain our future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

**Item 2. Recent Sales of Unregistered Securities**

***Unregistered Sales of Equity Securities***

Between July 1, 2014 and September 30, 2014, we sold securities in transactions that were not registered under the Securities Act as set forth below.

- On September 4, 2014, we issued 15,987 shares of common stock upon the cashless exercise of six outstanding warrants to purchase a total of 16,206 shares of common stock based on a weighted average exercise price of $0.30 per share.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and each transaction was deemed to be exempt from the registration requirements of the Securities Act, in reliance on (i) Section 4(2) of the Securities Act (or Regulation D promulgated thereunder) as transactions not involving a public offering or (ii) Regulation S promulgated under the Securities Act as transactions made outside of the United States. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about us. The sales of these securities were made without any general solicitation or advertising.

***Issuer Purchases of Equity Securities***

We did not repurchase any shares of our common stock during the three or nine months ended September 30, 2014.

***Use of Proceeds from Initial Public Offering of Common Stock***

On February 20, 2014, we sold 3,529,411 shares in our IPO at a price to the public of $16.00 per share. Additionally, the selling stockholders sold 981,902 shares of common stock (882,352 upon the IPO, and 99,550 of which were sold pursuant to a 30-day option granted to the underwriters). The offering closed on February 20, 2014, as a result of which we received net proceeds of approximately $52.5 million after underwriting discounts of approximately $3.9 million, but before offering expenses of approximately $2.8 million. We did not receive any proceeds from the shares sold by the selling stockholders. J.P. Morgan acted as sole book-running manager for the offering, Leerink Partners acted as lead manager, and William Blair and Stifel acted as co-managers. No payments for such expenses were made directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on Use of Proceeds from Initial Public Offering of Common Stock.

**ITEM 6. EXHIBITS.**

| Exhibit Number | Description |
|---|---|
| 31.1 | 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 |
| 31.2 | 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 |
| 32.1(1) | 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 |
| 32.2(1) | 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 |
| 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) 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 Form 10-Q, irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

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

INOGEN, INC.

Dated: November 12, 2014

By: /s/ Raymond Huggenberger
Raymond Huggenberger
President and Chief Executive Officer
*(Principal Executive Officer)*

Dated: November 12, 2014

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

**Exhibit 31.1**

**CERTIFICATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Raymond Huggenberger, 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)) 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. 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
    c. 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: November 12, 2014

By: /s/ Raymond Huggenberger
Raymond Huggenberger
President and Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED 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)) 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. 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
    c. 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: November 12, 2014

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

**Exhibit 32.1**

**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, Raymond Huggenberger, 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 September 30, 2014 (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.

November 12, 2014

By: /s/ Raymond Huggenberger
Raymond Huggenberger
President, Chief Executive Officer and Director

**Exhibit 32.2**

**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 September 30, 2014 (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.

November 12, 2014

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