Inogen Inc
Form 10-Q
November 06, 2018

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, 2018

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

As of October 31, 2018, the registrant had 21,522,602 shares of common stock, par value $0.001, outstanding.

TABLE OF CONTENTS

INOGEN, INC.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Inogen, Inc.

Consolidated Balance Sheets

(amounts in thousands)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 176,282	$ 142,953
Marketable securities	47,574	30,991
Accounts receivable, net	34,250	31,444
Inventories, net	30,621	18,842
Deferred cost of revenue	401	361
Income tax receivable	2,356	1,313
Prepaid expenses and other current assets	8,066	2,584
Total current assets	299,550	228,488
Property and equipment		
Rental equipment, net	44,515	49,349
Manufacturing equipment and tooling	7,669	6,858
Computer equipment and software	6,434	5,484
Furniture and equipment	1,385	746
Leasehold improvements	2,888	1,598
Land and building	125	125
Construction in process	3,660	408
Total property and equipment	66,676	64,568
Less accumulated depreciation	(43,661)	(44,465)
Property and equipment, net	23,015	20,103
Goodwill	2,288	2,363
Intangible assets, net	4,103	4,717
Deferred tax asset - noncurrent	26,282	18,636
Other assets	1,874	765
Total assets	$ 357,112	$ 275,072

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Consolidated Balance Sheets (continued)

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

	September 30, 2018 (unaudited)	December 31, 2017
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable and accrued expenses	$ 26,769	$ 20,626
Accrued payroll	11,904	6,877
Warranty reserve - current	3,539	2,505
Deferred revenue - current	3,549	3,533
Income tax payable	369	345
Total current liabilities	46,130	33,886
Long-term liabilities		
Warranty reserve - noncurrent	5,703	3,666
Deferred revenue - noncurrent	12,781	9,402
Deferred tax liability - noncurrent	338	348
Other noncurrent liabilities	896	729
Total liabilities	65,848	48,031
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock, $0.001 par value per share; 200,000,000 authorized; 21,503,012 and 20,976,350 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	21	21
Additional paid-in capital	240,101	218,109
Retained earnings	50,439	8,639
Accumulated other comprehensive income	703	272
Total stockholders' equity	291,264	227,041
Total liabilities and stockholders' equity	$ 357,112	$ 275,072

See accompanying condensed notes to the consolidated financial statements.

4

Inogen, Inc.

Consolidated Statements of Comprehensive Income

(unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue				
Sales revenue	$89,712	$63,137	$255,283	$167,141
Rental revenue	5,579	5,893	16,297	18,510
Total revenue	95,291	69,030	271,580	185,651
Cost of revenue				
Cost of sales revenue	42,810	31,401	124,726	81,307
Cost of rental revenue, including depreciation of $1,689 and $2,366 for the three months ended and $5,820 and $7,577 for the nine months ended, respectively	3,668	4,459	11,844	13,863
Total cost of revenue	46,478	35,860	136,570	95,170
Gross profit				
Gross profit-sales revenue	46,902	31,736	130,557	85,834
Gross profit-rental revenue	1,911	1,434	4,453	4,647
Total gross profit	48,813	33,170	135,010	90,481
Operating expense				
Research and development	2,096	1,375	5,287	3,944
Sales and marketing	26,339	13,095	67,376	35,569
General and administrative	9,982	10,368	29,230	28,568
Total operating expense	38,417	24,838	101,893	68,081
Income from operations	10,396	8,332	33,117	22,400
Other income (expense)				
Interest income	895	221	2,111	468
Other income (expense)	8	264	(596)	994
Total other income, net	903	485	1,515	1,462
Income before provision (benefit) for income taxes	11,299	8,817	34,632	23,862
Provision (benefit) for income taxes	(5,133)	1,479	(7,168)	2,254
Net income	16,432	7,338	41,800	21,608
Other comprehensive income (loss), net of tax				
Change in foreign currency translation adjustment	(47)	115	137	312
Change in net unrealized gains (losses) on foreign currency hedging	102	(196)	577	(442)
Less: reclassification adjustment for net (gains) losses included in net income	(354)	305	(286)	297
	(252)	109	291	(145)

Total net change in unrealized gains (losses) on foreign currency hedging				
Change in net unrealized gains (losses) on available-for-sale investments	3	13	3	71
Total other comprehensive income (loss), net of tax	(296)	237	431	238
Comprehensive income	$16,136	$7,575	$42,231	$21,846
Basic net income per share attributable to common stockholders (Note 5)	$0.77	$0.35	$1.97	$1.05
Diluted net income per share attributable to common stockholders (Note 5)	$0.73	$0.33	$1.86	$0.99
Weighted-average number of shares used in calculating net income per share attributable to common stockholders:				
Basic common shares	21,324,256	20,753,789	21,175,286	20,622,848
Diluted common shares	22,659,052	21,998,660	22,512,125	21,832,544

See accompanying condensed notes to the consolidated financial statements.

5

Inogen, Inc.

Consolidated Statements of Stockholders’ Equity

(amounts in thousands, except share amounts)

	Three months ended September 30, 2018 and September 30, 2017					
	Common stock		Additional paid-in	Retained	Accumulated other comprehensive income	Total stockholders'
	Shares	Amount	capital	earnings	(loss)	equity
Balance, June 30, 2017	20,709,797	$ 21	$ 205,883	$ 1,907	$ (34)	$ 207,777
Stock-based compensation	41,574	—	2,523	—	—	2,523
Employee stock purchases	12,718	—	798	—	—	798
Stock options exercised	87,607	—	2,613	—	—	2,613
Net income	—	—	—	7,338	—	7,338
Other comprehensive income	—	—	—	—	237	237
Balance, September 30, 2017 (unaudited)	20,851,696	$ 21	$ 211,817	$ 9,245	$ 203	$ 221,286
Balance, June 30, 2018	21,321,543	$ 21	$ 231,879	$ 34,007	$ 999	$ 266,906
Stock-based compensation	—	—	3,216	—	—	3,216
Employee stock purchases	13,519	—	1,360	—	—	1,360
Restricted stock awards issued	3,557	—	—	—	—	—
Vesting of restricted stock units	8,707	—	—	—	—	—
Shares withheld related to net restricted stock settlement	(3,022)	—	(801)	—	—	(801)
Stock options exercised	158,708	—	4,447	—	—	4,447
Net income	—	—	—	16,432	—	16,432
Other comprehensive income	—	—	—	—	(296)	(296)
Balance, September 30, 2018 (unaudited)	21,503,012	$ 21	$ 240,101	$ 50,439	$ 703	$ 291,264

	Nine months ended September 30, 2018 and September 30, 2017					
	Common stock		Additional paid-in	Retained earnings (accumulated	Accumulated other comprehensive income	Total stockholders'
	Shares	Amount	capital	deficit)	(loss)	equity
Balance, December 31, 2016	20,389,860	$ 20	$ 194,466	$ (12,363)	$ (35)	$ 182,088
Stock-based compensation	41,574	—	6,630	—	—	6,630
Employee stock purchases	24,523	—	1,379	—	—	1,379
Stock options exercised	395,739	1	9,342	—	—	9,343
Net income	—	—	—	21,608	—	21,608
Other comprehensive income	—	—	—	—	238	238
Balance, September 30, 2017 (unaudited)	20,851,696	$ 21	$ 211,817	$ 9,245	$ 203	$ 221,286
Balance, December 31, 2017	20,976,350	$ 21	$ 218,109	$ 8,639	$ 272	$ 227,041

Stock-based compensation	—	—	9,783	—	—	9,783
Employee stock purchases	25,532	—	2,348	—	—	2,348
Restricted stock awards issued	56,609	—	—	—	—	—
Vesting of restricted stock units	15,372	—	—	—	—	—
Shares withheld related to net restricted stock settlement	(5,575)	—	(1,103)	—	—	(1,103)
Stock options exercised	434,724	—	10,964	—	—	10,964
Net income	—	—	—	41,800	—	41,800
Other comprehensive income	—	—	—	—	431	431
Balance, September 30, 2018 (unaudited)	21,503,012	$ 21	$ 240,101	$ 50,439	$ 703	$ 291,264

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Consolidated Statements of Cash Flows

(unaudited)

(amounts in thousands)

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	$41,800	$21,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,521	9,257
Loss on rental units and other fixed assets	848	934
Gain on sale of former rental assets	(409)	(62)
Provision for sales returns and doubtful accounts	14,089	10,319
Provision for rental revenue adjustments	2,157	3,828
Provision for inventory obsolescence and other inventory losses	319	222
Stock-based compensation expense	9,783	6,630
Deferred income taxes	(7,646)	2,035
Changes in operating assets and liabilities:		
Accounts receivable	(19,233)	(16,826)
Inventories	(12,828)	(3,481)
Deferred cost of revenue	(40)	40
Income tax receivable	(1,047)	(1,155)
Prepaid expenses and other current assets	(5,483)	(1,421)
Other noncurrent assets	(1,082)	—
Accounts payable and accrued expenses	6,191	9,103
Accrued payroll	5,033	717
Warranty reserve	3,071	2,085
Deferred revenue	3,395	2,987
Income tax payable	34	131
Other noncurrent liabilities	167	535
Net cash provided by operating activities	47,640	47,486
Cash flows from investing activities		
Purchases of available-for-sale investments	(50,285)	(35,367)
Maturities of available-for-sale investments	33,705	23,076
Investment in intangible assets	(350)	(15)
Investment in property and equipment	(7,240)	(2,083)
Production and purchase of rental equipment	(3,475)	(2,682)
Proceeds from sale of former assets	680	129
Payment for acquisition, net of cash acquired	—	(4,447)
Net cash used in investing activities	(26,965)	(21,389)

(continued on next page)

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Consolidated Statements of Cash Flows (continued)

(unaudited)

(amounts in thousands)

	Nine months ended September 30,	
	2018	2017
Cash flows from financing activities		
Proceeds from stock options exercised	10,964	9,343
Proceeds from employee stock purchases	2,348	1,379
Payment of employment taxes related to release of restricted stock	(1,103)	—
Net cash provided by financing activities	12,209	10,722
Effect of exchange rates on cash	445	23
Net increase in cash and cash equivalents	33,329	36,842
Cash and cash equivalents, beginning of period	142,953	92,851
Cash and cash equivalents, end of period	$176,282	$129,693
Supplemental disclosures of cash flow information		
Cash paid during the period for income taxes, net of refunds received	$1,631	$1,164
Supplemental disclosure of non-cash transactions		
Property and equipment in accounts payable and accrued liabilities	$161	$104

See accompanying condensed notes to the consolidated financial statements.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements

(unaudited)

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

1. Business overview

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

Portable oxygen concentrators represented the fastest-growing segment of the Medicare oxygen therapy market between 2012 and 2017. The Company estimates based on 2017 Medicare data that the number of patients using portable oxygen concentrators represents approximately 10.8% of the total addressable oxygen market in the United States, although the Medicare data does not account for private insurance and cash-pay patients in the market. Based on 2016 industry data, the Company believes it was the leading worldwide manufacturer of portable oxygen concentrators. The Company was the first oxygen therapy manufacturer to employ a direct-to-consumer marketing strategy, meaning the Company advertises directly to patients, processes their physician paperwork, and provides clinical support as needed. While other manufacturers have also begun direct-to-consumer marketing campaigns to drive patient sales, the Company believes it is the only manufacturer of portable oxygen concentrators that employs a direct-to-consumer rental strategy in the United States, meaning the Company bills Medicare or insurance on their behalf. To pursue a direct-to-consumer rental strategy, the Company's manufacturing competitors would need to meet national accreditation and state-by-state licensing requirements and secure Medicare billing privileges, as well as compete with the home medical equipment providers who many of the Company's manufacturing competitors sell to across their entire homecare business.

Since adopting the Company's direct-to-consumer strategy in 2009, the Company has directly sold or rented more than 519,000 of its Inogen oxygen concentrators as of September 30, 2018.

The Company incorporated Inogen Europe Holding B.V., a Dutch limited liability company, on April 13, 2017. The Company owns all outstanding stock of Inogen Europe Holding B.V., which became a wholly owned subsidiary of the Company. On May 4, 2017, the Company, through its wholly owned subsidiary, Inogen Europe Holding B.V., acquired all issued and outstanding capital stock of MedSupport Systems B.V. (MedSupport).

2. Basis of presentation and summary of significant accounting policies

The accompanying consolidated financial statements are unaudited. The consolidated balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements of the Company. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for interim financial information, and in management's opinion, includes all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company's financial position, its results of operations, stockholders' equity and cash flows for the interim periods presented. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 27, 2018. There have been no significant changes in the Company's accounting policies from those disclosed in its Annual Report on Form 10-K filed with the SEC on February 27, 2018.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

Basis of consolidation

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

Use of estimates

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

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 consolidated statements of comprehensive income, consists of repair services and freight revenue for product shipments.

Sales revenue

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

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

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

The revenue is allocated to the distinct lifetime warranty performance obligation based on a relative SSP method. The Company has vendor-specific objective evidence of the selling price for its equipment. To determine the selling price of the lifetime warranty, the Company uses its best estimate of the SSP for the distinct performance obligation as the lifetime warranty is neither separately priced nor is the selling price available through third-party evidence. To calculate the selling price associated with the lifetime warranties, management considered the profit margins of the overall business, the average estimated cost of lifetime warranties and the price of extended warranties. Revenue from the distinct lifetime warranty is deferred after the delivery of the equipment for three years and recognized on a straight-line basis during the fourth and fifth year, which is the estimated usage period of the contract based on the average patient life expectancy.

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

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

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

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

Contract liabilities primarily consist of deferred revenue related to lifetime warranties on direct-to-consumer sales revenue when cash payments are received in advance of services performed under the contract. The contract with the customer states the final terms of the sale, including the description, quantity, and price of each product or service purchase. The increase in deferred revenue related to lifetime warranties for the nine months ended September 30, 2018 was primarily driven by $4,914 of payments received in advance of satisfying the distinct performance obligation, partially offset by $992 of revenues recognized that were included in the deferred revenue balance as of December 31, 2017. Lifetime warranties on direct-to-consumer sales revenue of $14,742 and $10,820 as of September 30, 2018 and December 31, 2017, respectively, are classified within deferred revenue – current and noncurrent deferred revenue in the consolidated balance sheet.

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

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

	Three months ended September 30,		Nine months ended September 30,	
Revenue by region and category	2018	2017	2018	2017
Business-to-business domestic sales	$30,263	$22,919	$91,222	$61,534
Business-to-business international sales	21,142	17,186	58,807	43,528

Direct-to-consumer domestic sales	38,307	23,032	105,254	62,079
Total sales revenue	$89,712	$63,137	$255,283	$167,141

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 third-party 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.

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

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application, claim denial or account review. The Company adjusts revenue for historical trends on revenue adjustments due to timely filings, deaths, hospice, and other types of analyzable adjustments on a monthly basis. Accounts receivable are reduced by an allowance for doubtful accounts which provides for those accounts from which payment is not expected to be received although product was delivered, and revenue was earned. The determination that an account is uncollectible, and the ultimate write-off of that account occurs once collection is considered to be not probable, and it is written-off and charged to the allowance at that time. Amounts billed but not earned due to the timing of the billing cycle are deferred and recognized in rental revenue on a straight-line basis over the monthly billing period. For example, if the first day of the billing period does not fall on the first of the month, then a portion of the monthly billing period will fall in the subsequent month and the related revenue and cost would be deferred based on the service days in the following month.

Rental revenue is recognized as upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services, less estimated adjustments. Revenue not billed at the end of the period is reviewed for the probability of collection and accrued if collection is probable. Rental revenue is not guaranteed, and payment will cease if the patient no longer needs oxygen or returns the equipment. Rental revenue is recognized at estimated allowable amounts that reflect the full consideration the Company expects to receive in exchange for the equipment; transfers to secondary insurances or patient responsibility have no net effect on revenue. Rental revenue is earned for that entire month if the patient is on service on the first day of the 30-day period commencing on the recurring date of service for a particular claim, regardless if there is a change in condition or death after that date.

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

Recently issued accounting pronouncements not yet adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). The new guidance will require organizations that lease assets—referred to as “lessees”—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than twelve months. This will increase the reported assets and liabilities – in some cases very significantly. ASU No. 2016-02 will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption will be permitted for all entities. In January 2018, the FASB issued ASU No. 2018-01, Land Easement Practice Expedient for Transition to Topic 842, which is an amendment to ASU No. 2016-02 that offers a practical expedient for accounting for land easements. This practice expedient allows an entity the option of not evaluating existing land easements under ASC 842. New or modified land easements will still require evaluation under ASC 842 on a prospective basis beginning on the date of adoption.

The Company anticipates adopting the standard using the modified retrospective transition method at the adoption date of January 1, 2019 that would not require restatement of its comparative periods presented. As permitted under the transition guidance, the Company will carry forward the assessment of whether the Company's contracts contain or are leases, classification of the Company's leases and remaining lease terms. While the Company continues to evaluate the effect of adopting this guidance on the consolidated financial statements and related disclosures, the Company expects its operating leases, as disclosed in Note 8 – Commitments and contingencies, will be subject to the new standard. The Company intends to recognize right-of-use assets and operating lease liabilities on the consolidated balance sheets upon adoption, which will increase the Company's total assets and liabilities.

In June 2016, the FASB issued ASU No. 2016-13, Accounting for Credit Losses (Topic 326). The new standard requires the use of an "expected loss" model on certain types of financial instruments. The standard also amends the impairment model for available-for-sale debt securities and requires estimated credit losses to be recorded as allowances instead of reductions to amortized cost of the securities. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years, with early adoption permitted. The Company is evaluating the new guidance but does not expect it to have a material impact on the Company's consolidated financial statement presentation or results.

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

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging, which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results, in order to better align an entity's risk management activities and financial reporting for hedging relationships. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. ASU No. 2017-12 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. The Company intends to adopt the standard on January 1, 2019 and is still evaluating the impact that this guidance will have on the Company's consolidated financial statement presentation or results.

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

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

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

In August 2018, the FASB issued ASU No. 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The new guidance clarifies the accounting for implementation costs in cloud computing arrangements. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company plans to adopt the standard in the fourth quarter of 2018 and does not expect it to have a material impact on the Company's consolidated financial statement presentation or results.

Recently adopted accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In March 2016, the FASB issued ASU No. 2016-08, Revenue with Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which is an amendment to ASU No. 2014-09 that improved the operability and understandability of implementation guidance of principal versus agent considerations by clarifying the determination of principal versus agent. The Company completed its adoption plan including assessment of the Company's revenue streams and analysis of all outstanding contracts by application of the five-step model to those contracts and revenue streams. The Company adopted the standard on January 1, 2018, using the modified retrospective method. The Company finalized its analysis and the adoption of this standard did not have a material impact on the consolidated financial statements and internal controls over financial reporting.

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business. The new guidance revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. The Company adopted this standard on January 1, 2018. The adoption of this ASU did not have a material effect on the Company's consolidated financial statement presentation or results.

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

Business segments

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

3. Fair value of financial instruments

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

Fair value accounting

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

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

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

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

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

	As of September 30, 2018				
	Adjusted cost	Gross unrealized gains/(losses)	Fair value	Cash and cash equivalents	Marketable securities
Cash	$25,257	$ —	$25,257	$ 25,257	$ —
Level 1:					
Money market accounts	151,025	—	151,025	151,025	—
Level 2:					
Corporate bonds	16,106	(15)	16,091	—	16,091
U.S. Treasury securities	31,486	(3)	31,483	—	31,483
Total	$223,874	$ (18)	$223,856	$ 176,282	$ 47,574

	As of December 31, 2017				
	Adjusted cost	Gross unrealized losses	Fair value	Cash and cash equivalents	Marketable securities
Cash	$46,237	$ —	$46,237	$ 46,237	$ —
Level 1:					
Money market accounts	93,430	—	93,430	93,430	—
Level 2:					
Certificates of deposit	11,010	(4)	11,006	490	10,516
Corporate bonds	20,789	(21)	20,768	2,796	17,972
Agency mortgage-backed securities	2,005	(1)	2,004	—	2,004
U.S. Treasury securities	499	—	499	—	499
Total	$173,970	$ (26)	$173,944	$ 142,953	$ 30,991

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

	September 30, 2018
Due within one year	$ 47,574

Derivative instruments and hedging activities

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

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

The Company records the assets or liabilities associated with derivative instruments and hedging activities at fair value based on Level 2 inputs in other current assets or other current liabilities, respectively, in the consolidated balance sheet. The Company had a related receivable of $386 and a payable of $66 as of September 30, 2018 and December 31, 2017, respectively. The Company classifies the foreign currency derivative instruments within Level 2 in the fair value hierarchy as the valuation inputs are based on quoted prices and market observable data of whether it is designated and qualifies for hedge accounting.

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

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

Accumulated other comprehensive income

The components of accumulated other comprehensive income were as follows:

	Foreign currency translation adjustments	Unrealized gains (losses) on available-for-sale investments	Unrealized gains (losses) on cash flow hedges	Accumulated other comprehensive income
Balance as of December 31, 2017	$ 363	$ (17)	$ (74)	$ 272
Other comprehensive gain	137	3	291	431
Balance as of September 30, 2018	$ 500	$ (14)	$ 217	$ 703

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

4. Balance sheet components

Cash, cash equivalents and marketable securities

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

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

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

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

Cash and cash equivalents	September 30, 2018	December 31, 2017
Cash	$ 25,257	$ 46,237
Money market accounts	151,025	93,430
Certificates of deposit	—	490
Corporate bonds	—	2,796
Total cash and cash equivalents	$ 176,282	$ 142,953
Marketable securities		
Certificates of deposit	—	$ 10,516
Corporate bonds	16,091	17,972
Agency mortgage-backed securities	—	2,004
U.S. Treasury securities	31,483	499
Total marketable securities	$ 47,574	$ 30,991

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

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

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

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

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

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

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

As of September 30, 2018 and December 31, 2017, included in accounts receivable on the consolidated balance sheets were earned but unbilled receivables of $937 and $1,470, respectively. These balances reflect gross unbilled receivables prior to any allowances for adjustments and write-offs. The Company consistently applies its allowance estimation methodology from period-to-period. The Company's best estimate is made on an accrual basis and adjusted in future periods as required. Any adjustments to the prior period estimates are included in the current period. As additional information becomes known, the Company adjusts its assumptions accordingly to change its estimate of the allowance.

Gross accounts receivable balance concentrations by major category as of September 30, 2018 and December 31, 2017 were as follows:

Gross accounts receivable	September 30, 2018	December 31, 2017
Rental (1)	$ 4,616	$ 6,236
Business-to-business & other receivables (2)	33,041	28,474
Total gross accounts receivable	$ 37,657	$ 34,710

Net accounts receivable (gross accounts receivable, net of allowances) balance concentrations by major category as of September 30, 2018 and December 31, 2017 were as follows:

Net accounts receivable	September 30, 2018	December 31, 2017
Rental (1)	$ 2,782	$ 4,212
Business-to-business & other receivables (2)	31,468	27,232
Total net accounts receivable	$ 34,250	$ 31,444

(1) Rental includes Medicare, Medicaid/other government, private insurance and patient pay.

(2) Business-to-business receivables included one customer with a gross accounts receivable balance of $13,207 and $10,394 as of September 30, 2018 and December 31, 2017, respectively. This customer received extended payment terms through a direct financing plan offered. The Company also has a credit insurance policy in place, which allocated up to $18,000 in coverage as of September 30, 2018 and allocated up to $12,000 in coverage as of December 31, 2017 for this customer with a $400 deductible

and 10% retention.

The following tables set forth the accounts receivable allowances as of September 30, 2018 and December 31, 2017:

Allowances - accounts receivable	September 30, 2018	December 31, 2017
Doubtful accounts	$ 1,205	$ 1,415
Rental revenue adjustments	869	947
Sales returns	1,333	904
Total allowances - accounts receivable	$ 3,407	$ 3,266

Concentration of credit risk

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

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

Concentration of customers and vendors

The Company primarily sells its products to traditional home medical equipment providers, distributors, and resellers in the United States and in foreign countries on a credit basis. The Company also sells its products direct-to-consumers on a primarily prepayment basis. One single customer represented more than 10% of the Company's total revenue for the nine months ended September 30, 2018 and September 30, 2017. One customer with an accounts receivable balance of $13,207 represented more than 10% of the Company's net accounts receivable balance as of September 30, 2018, and two customers with accounts receivable balances of $10,394 and $6,459, respectively, each represented more than 10% of the Company's net accounts receivable balance as of December 31, 2017.

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, 2018, the Company's three major vendors accounted for 19.8%, 12.6%, and 9.6%, respectively, of total raw material purchases. For the nine months ended September 30, 2017, the Company's three major vendors accounted for 19.9%, 13.9% and 9.7%, respectively, of total raw material purchases.

A portion of revenue is earned from sales outside the United States. Approximately 77.2% and 77.2% of the non-U.S. revenue for the three months ended September 30, 2018 and September 30, 2017, respectively, were invoiced in Euros. Approximately, 76.7% and 75.2% of the non-U.S. revenue for the nine months ended September 30, 2018 and September 30, 2017, respectively, were invoiced in Euros. A breakdown of the Company's revenue from U.S. and non-U.S. sources for the three and nine months ended September 30, 2018 and September 30, 2017 is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
U.S. revenue	$74,149	$51,844	$212,773	$142,123
Non-U.S. revenue	21,142	17,186	58,807	43,528
Total revenue	$95,291	$69,030	$271,580	$185,651

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using a standard cost method, including material, labor and manufacturing overhead, whereby the standard costs are updated at least quarterly to reflect approximate actual costs using the first-in, first-out (FIFO) method. The Company records adjustments at least quarterly to inventory for potentially excess, obsolete, slow-moving or impaired items. The Company recorded noncurrent inventory related to inventories that are expected to be realized or consumed after one year of $672 and $644 as of September 30, 2018 and December 31, 2017, respectively. Noncurrent inventories are primarily related to raw materials purchased in bulk to support long-term expected repairs to reduce costs and are classified in other assets. Inventories that are considered current consist of the following:

	September 30, 2018	December 31, 2017
Raw materials and work-in-progress	$ 26,777	$ 16,324
Finished goods	4,490	2,917
Less: reserves	(646)	(399)
Inventories	$ 30,621	$ 18,842

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

Property and equipment

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

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

Expenditures for additions, improvements and replacements are capitalized and depreciated to a salvage value of $0. Repair and maintenance costs on rental equipment are included in cost of rental revenue on the consolidated statements of comprehensive income. Repair and maintenance expense, which includes labor, parts and freight, for rental equipment was $545 and $463 for the three months ended September 30, 2018 and September 30, 2017, respectively, and $1,734 and $1,808 for the nine months ended September 30, 2018 and September 30, 2017, respectively.

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

Depreciation and amortization expense related to rental equipment and other property and equipment are summarized below for the three and nine months ended September 30, 2018 and September 30, 2017, respectively.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Rental equipment	$1,689	$2,366	$5,820	$7,577
Other property and equipment	691	469	1,772	1,427
Total depreciation and amortization	$2,380	$2,835	$7,592	$9,004

Property and equipment and rental equipment with associated accumulated depreciation are summarized below for September 30, 2018 and December 31, 2017, respectively.

Property and equipment	September 30, 2018	December 31, 2017
Rental equipment, net of allowances of $639 and $754, respectively	$ 44,515	$ 49,349
Other property and equipment	22,161	15,219
Property and equipment	66,676	64,568
Accumulated depreciation		
Rental equipment	32,605	34,754
Other property and equipment	11,056	9,711
Accumulated depreciation	43,661	44,465
Property and equipment, net		
Rental equipment, net of allowances of $639 and $754, respectively	11,910	14,595
Other property and equipment	11,105	5,508
Property and equipment, net	$ 23,015	$ 20,103

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

Long-lived assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with ASC 360 — Property, Plant, and Equipment. In accordance with ASC 360, long-lived assets to be held are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying value of long-lived assets to determine whether or not impairment to such value has occurred. No impairments were recorded during the three months or nine months ended September 30, 2018 and September 30, 2017.

Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2018 were as follows:

Balance as of December 31, 2017	$2,363
Translation adjustment	(75)
Balance as of September 30, 2018	$2,288

Intangible assets

There were no impairments recorded related to the Company's intangible assets during the three months or nine months ended September 30, 2018 and September 30, 2017. Amortization expense for intangible assets for the three months ended September 30, 2018 and September 30, 2017 was $332 and $101, respectively, and for the nine months ended September 30, 2018 and September 30, 2017 was $929 and $253, respectively.

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

September 30, 2018	Average estimated useful lives (in years)	Gross carrying amount	Accumulated amortization	Net amount
Licenses	10	$ 185	$ 151	$ 34
Patents and websites	5	4,173	1,476	2,697
Customer relationships	4	1,392	493	899
Non-compete agreement	2.3	232	123	109
Commercials	2-3	653	289	364
Total		$ 6,635	$ 2,532	$ 4,103

December 31, 2017	Average estimated useful lives (in years)	Gross carrying amount	Accumulated amortization	Net amount
Licenses	10	$ 185	$ 137	$ 48
Patents and websites	5	4,173	959	3,214
Customer relationships	4	1,437	240	1,197
Non-compete agreement	3	240	52	188
Commercials	2-3	303	233	70
Total		$ 6,338	$ 1,621	$ 4,717

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

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

	September 30, 2018
Remaining 3 months of 2018	$ 337
2019	1,240
2020	1,136
2021	846
2022	544
Thereafter	—
	$ 4,103

Current liabilities

Accounts payable and accrued expenses as of September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
Accounts payable	$ 13,134	$ 9,541
Accrued inventory (in-transit and unvouchered receipts) and trade payables	10,124	7,252
Accrued purchasing card liability	2,095	2,381
Accrued franchise, sales and use taxes	523	479
Other accrued expenses	893	973
Accounts payable and accrued expenses	$ 26,769	$ 20,626

Accrued payroll as of September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
Accrued bonuses	$ 5,141	$ 3,086
Accrued wages and other payroll related items	4,597	1,746
Accrued vacation	1,861	1,338

Accrued employee stock purchase plan deductions	305	707
Accrued payroll	$ 11,904	$ 6,877

5. Earnings per share

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

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

Inogen, Inc.

Condensed Notes to the Consolidated Financial Statements (continued)

(unaudited)

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

The computation of EPS is as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Numerator—basic and diluted:				
Net income	$16,432	$7,338	$41,800	$21,608
Denominator:				
Weighted-average common shares - basic common stock [1]	21,324,256	20,753,789	21,175,286	20,622,848
Weighted-average common shares - diluted common stock	22,659,052	21,998,660	22,512,125	21,832,544