

Avinger Inc
Form 424B5
August 12, 2016

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As filed pursuant to Rule 424(b)(5)
Registration No. 333-209368

PROSPECTUS SUPPLEMENT

(to Prospectus dated March 8, 2016)

8,572,000 Shares

Common Stock

Avinger, Inc. is offering 8,572,000 shares of its common stock pursuant to this prospectus supplement and the accompanying prospectus. Our common stock is quoted on the Nasdaq Global Market under the symbol "AVGR." On August 10, 2016, the last reported sale price of our common stock on the Nasdaq Global Market was \$4.62 per share.

Jeffrey M. Soinski and Matthew B. Ferguson, our chief executive officer and chief financial officer, respectively, as well as other employees have agreed to purchase an aggregate of 109,650 shares of our common stock in this offering at the public offering price. The underwriters will receive the same discount from any shares of our common stock purchased by such persons as they will from any other shares of our common stock sold to the public in this offering.

We are an "emerging growth company" as defined under the federal securities laws and, as such, have elected to comply with certain reduced public company reporting requirements.

INVESTING IN OUR SECURITIES INVOLVES SIGNIFICANT RISKS. YOU SHOULD REVIEW CAREFULLY THE "RISK FACTORS" BEGINNING ON PAGE S-10 OF THIS PROSPECTUS SUPPLEMENT AND PAGE 4 OF THE ACCOMPANYING PROSPECTUS, AS WELL AS THE RISK FACTORS DESCRIBED UNDER THE SECTION ENTITLED "RISK FACTORS" CONTAINED IN OUR QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016, BEFORE INVESTING IN OUR SECURITIES.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

PER SHARE TOTAL

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Public Offering Price	\$	3.50	\$	30,002,000
Underwriting Discounts and Commissions ⁽¹⁾	\$	0.245	\$	2,100,140
Proceeds to Avinger, before expenses	\$	3.255	\$	27,901,860

(1) We have agreed to reimburse the underwriters for certain Financial Industry Regulatory Authority, Inc. ("FINRA") related and other expenses. See "Underwriting."

Delivery of the common stock is expected to be made on or about August 16, 2016. We have granted the underwriters a 30-day option to purchase up to an additional 1,285,800 shares of our common stock, less underwriting discounts and commissions, solely to cover overallotments, if any. If the underwriters exercise this option in full, the total underwriting discounts and commissions payable by us will be \$2,415,161 and the total proceeds to us, before expenses, will be \$32,087,139.

Joint Book-Running Managers

Canaccord Genuity

Cowen and Company

Co-Managers

BTIG

Stephens Inc.

The date of this prospectus supplement is August 11, 2016

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and accompanying prospectus relates to the offering of our common stock. Before buying any of the common stock that we are offering, we urge you to carefully read this prospectus supplement, the accompanying prospectus, any free writing prospectus that we have authorized for use in connection with this offering, and the information incorporated by reference as described under the headings "Where You Can Find More Information" and "Information Incorporated by Reference" in this prospectus supplement. These documents contain important information that you should consider when making your investment decision.

This document is comprised of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and also adds to, and updates information contained in, the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, including the documents incorporated by reference into the accompanying prospectus, provides more general information, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to the combined document consisting of this prospectus supplement and the accompanying prospectus. In this prospectus supplement, as permitted by law, we "incorporate by reference" information from other documents that we file with the Securities and Exchange Commission, or the SEC. This means that we can disclose important information to you by referring to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement and the accompanying prospectus and should be read with the same care. When we make future filings with the SEC to update the information contained in documents that have been incorporated by reference, the information included or incorporated by reference in this prospectus supplement is considered to be automatically updated and superseded. In other words, in case of a conflict or inconsistency between information contained in this prospectus supplement and information in the accompanying prospectus or incorporated by reference into this prospectus supplement, you should rely on the information contained in the document that was filed later.

This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 that we filed on February 3, 2016 with the SEC using a "shelf" registration process with respect to up to \$150,000,000 in securities that may be sold thereunder. The shelf registration statement was declared effective by the SEC on March 8, 2016.

Under the shelf registration process, we may offer and sell any combination of securities described in the accompanying prospectus in one or more offerings. The purpose of this prospectus supplement is to provide supplemental information regarding us in connection with this offering of common stock.

You should rely only on the information contained in, or incorporated by reference into, this prospectus supplement, the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering. We have not authorized any other person to provide you with different information. We are not making an offer to sell or soliciting an offer to buy our securities in any jurisdiction in which an offer or solicitation is not authorized or in which the person making that offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents. Our business, financial condition, results of operations, and prospects may have changed since those dates.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary description about us and our business highlights selected information contained elsewhere in this prospectus supplement or the accompanying prospectus, or incorporated in this prospectus supplement or the accompanying prospectus by reference. This summary does not contain all of the information you should consider before buying securities in this offering. You should carefully read this entire prospectus supplement and the accompanying prospectus, including each of the documents incorporated herein or therein by reference, before making an investment decision. Unless the context otherwise requires, the terms "Avinger," "the Company," "we," "us" and "our" in this prospectus supplement and accompanying prospectus refer to Avinger, Inc., and its subsidiaries.

Avinger, Inc.

Overview

We are a commercial-stage medical device company that designs, manufactures and sells image-guided, catheter-based systems that are used by physicians to treat patients with peripheral artery disease, or PAD. Patients with PAD have a build-up of plaque in the arteries that supply blood to areas away from the heart, particularly the pelvis and legs. Our mission is to dramatically improve the treatment of vascular disease through the introduction of products based on our Lumivascular platform, the only intravascular image-guided system available in this market. We manufacture and sell a suite of products in the United States and select European markets. Our current products include our Lightbox imaging console, as well as our Wildcat, Kittycat, and the Ocelot family of catheters, which are designed to allow physicians to penetrate a total blockage in an artery, known as a chronic total occlusion, or CTO, and Pantheris, our image-guided atherectomy device which is designed to allow physicians to precisely remove arterial plaque in PAD patients. In October 2015, we received 510(k) clearance from the U.S. Food and Drug Administration, or FDA, for commercialization of Pantheris, and we received an additional 510(k) clearance for an enhanced version of Pantheris in March 2016 and commenced sales of Pantheris in the U.S. and select European countries promptly thereafter. We believe that Pantheris will significantly enhance our market opportunity within PAD and can expand the overall addressable market for PAD endovascular procedures.

Additional Information about the Company

The following information updates, and should be read in conjunction with, the business information supplied in Part 1, Item 1 of our Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 8, 2016:

Market Opportunity

Current treatments for PAD, including bypass surgery and amputations, can be invasive, costly and may result in high rates of complications, high levels of post-surgery pain, lengthy hospital stays and recovery times, increased mortality and decreased quality of life. In 2016, according to the Sage Group, there were expected to be 200,000 amputations performed in the United States to treat PAD. We also believe that in 2016 150,000 bypass surgery procedures will be performed in the United States to treat PAD. Minimally invasive, or endovascular, treatments include stents, which are permanently implanted in the vessel and have the risk of fractures, angioplasty, which could result in arterial dissections, treatments for chronic total occlusions, which are technique dependent and lack direct reimbursement, and atherectomy devices, which are catheter-based products for the removal of plaque and have the risk of perforating the vessel. These treatments also have limitations in their safety or efficacy profiles and frequently result in recurrence of the disease, also known as restenosis. We

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believe one of the main contributing factors to high restenosis rates for PAD patients treated with endovascular technologies is the amount of vascular injury, or adventitial disruption, that occurs during an intervention. Specifically, these treatments often disrupt the membrane between the outermost layers of the artery, which is referred to as the external elastic lamina. The Millennium Research Group estimates that 620,000 endovascular procedures will be performed in the United States in 2016, representing a \$1.31 billion market. Of those procedures (and multiple techniques can be used in a single procedure), 314,000 are estimated to include stents, representing a \$523 million market, 560,000 are estimated to include angioplasty, representing a \$240 million market, 155,000 are estimated to include treatments for chronic total occlusions, representing an \$82 million market, and 149,000 are estimated to include atherectomy, representing a \$464 million market.

Fluoroscopy

Fluoroscopy is the primary imaging tool currently used during endovascular treatments but delivers limited information to physicians. As described in our Form 10-K for the fiscal year ended December 31, 2015, we believe that decreased radiation exposure for physicians and patients who use our Lumivasular platform, which utilizes radiation-free OCT imaging to provide real-time visualization from the inside of the artery, is one of the primary benefits of our products. When using our Lumivasular platform, physicians may elect to use less fluoroscopy during a procedure as a result of having an additional means of visualization that does not involve radiation. The use of fluoroscopy exposes physicians, hospital staff and patients to radiation, which can lead to cataracts, cancer and abnormal blood cell counts. For example, according to an article published in 2013 in the *American Journal of Cardiology*, there is an increasing prevalence of left sided brain tumors (85% of identified tumors) in physicians conducting these treatments since the left side of the head is typically closest to the radiation source during endovascular procedures, according to a 2001 article in the *European Heart Journal*, there is an exacerbation of reactive oxygen species and blood-borne cancers for those exposed, and according to a 1996 article in the journal *Radiographics*, soft tissue cancers, hair loss and skin mottling are noticeable in the non-dominant hand of physicians as a result of exposure. In addition, according to a 2010 article in the journal *Radiation Research*, there is more than 3.2 times the risk of accelerated cataracts among practitioners of such procedures. As such, endovascular procedures to treat PAD pose substantial health risks to physicians performing these procedures due to high levels of radiation exposure. Both Ocelot and Pantheris require the use of fluoroscopy for positioning the device at the site of the lesion, but they rely primarily on our Lumivasular platform for imaging during the crossing or treatment of the lesion. In a study of 16 CTO procedures at St. John Hospital in Detroit, Michigan, the mean time of fluoroscopy exposure was 5.99 minutes for the diagnostic portion of the procedure (which did not utilize our Lumivasular platform products), 0.24 minutes of exposure for chronic total occlusion crossing purposes (which utilized Ocelot) and 14.88 minutes of exposure per use for therapeutic purposes (which used no Lumivasular platform products). We have not yet conducted studies quantifying the fluoroscopy use during Pantheris procedures, but we believe it will be reduced compared to directional atherectomy procedures using products that do not have integrated intravascular imaging.

VISION (Pantheris)

VISION was our pivotal, non-randomized, prospective, single-arm trial to evaluate the safety and effectiveness of Pantheris across 20 sites within the United States and Europe. Physicians used Pantheris on 130 patients at 20 clinical sites and treated 164 lesions. The mean lesion length was 7.3 centimeters plus or minus a standard deviation of 4.1 centimeters.

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VISION's primary efficacy endpoint required that at least 87% of lesions treated have a residual stenosis of less than 50%, as verified by an independent core laboratory. As previously reported in our Form 10-K for the fiscal year ended December 31, 2015, the VISION trial surpassed its primary efficacy endpoint with residual restenosis of less than 50% achieved in 96.3% of lesions treated. Furthermore, as shown in the figure below, across all 164 lesions treated, the average stenosis before treatment was 79%, and following treatment with Pantheris, residual stenosis was 30%. Following adjunctive treatment, if any, residual stenosis on average was 22%.

Another important endpoint measured in the VISION Trial was target lesion revascularization, or TLR, which occurs when a narrowing of the vessel recurs at the site of the original lesion to the point that retreatment is required. Target lesion revascularization occurred in 8% of patients treated through 6 months of follow-up.

Several statistics on subsets of patients and lesions treated in our VISION trial have also been presented. In the figure on the left below, a trend of improved TLR rates as physicians treated more patients was shown, with TLR occurring in only 2.9% of lesions after 5 lesions had been treated and zero TLRs occurring after 10 lesions had been treated.

The middle figure below indicates that TLRs occurred at an identical rate of 6.5% in CTO lesions (i.e., the vessel was 100% blocked) and in non-CTO lesions (i.e., the vessel was less than 100% blocked).

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The figure on the right below reports that adjunctive stenting was used at a low rate in the VISION trial, with non-CTO lesions receiving a stent in addition to Pantheris treatment only 5% of the time and CTO lesions receiving a stent just 3% of the time.

Commercialization

We have grown our commercial presence since our initial public offering in 2015. Our lumivasular accounts have grown from 63 in the first quarter of 2015, to 69 in the second quarter of 2015, to 82 in the third quarter of 2015, to 95 in the fourth quarter of 2015, to 107 in the first quarter of 2016 and to 126 in the second quarter of 2016. The size of our sales organization has also grown from 35 people in the first quarter of 2015, to 38 in the second quarter of 2015, to 41 in the third quarter of 2015, to 57 in the fourth quarter of 2015, to 62 in the first quarter of 2016 and declined to 59 in the second quarter of 2016.

Corporate Information

We were incorporated in Delaware on March 8, 2007. Our principal executive offices are located at 400 Chesapeake Drive, Redwood City, California 94063, and our telephone number is (650) 241-7900. Our website address is www.avinger.com. The information on, or that may be accessed through, our website is not incorporated by reference into this prospectus supplement or accompanying prospectus and should not be considered a part of this prospectus supplement or accompanying prospectus.

"Avinger," "Pantheris" and "Lumivasular" are trademarks of our company. Our logo and our other trade names, trademarks and service marks appearing in this prospectus supplement and accompanying prospectus are our property. Other trade names, trademarks and service marks appearing in this prospectus and accompanying prospectus are the property of their respective owners. Solely for convenience, our trademarks and tradenames referred to in this prospectus and accompanying prospectus appear without the symbol, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the right of the applicable licensor to these trademarks and tradenames.

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Implications of Being an Emerging Growth Company

We qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of relief from certain reporting requirements and other burdens that are otherwise applicable generally to public companies. As an emerging growth company:

we have availed ourselves of the exemption from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;

we will provide less extensive disclosure about our executive compensation arrangements; and

we will not require shareholder non-binding advisory votes on executive compensation or golden parachute arrangements.

We may use these provisions until the last day of our fiscal year following the fifth anniversary of our initial public offering, or December 31, 2020. However, if certain events occur prior to the end of such five-year period, including if we become a "large accelerated filer," our annual gross revenues exceed \$1.0 billion or we issue more than \$1.0 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company prior to the end of such five-year period. We may choose to take advantage of some but not all of these reduced burdens. To the extent that we take advantage of these reduced burdens, the information that we provide stockholders may be different than you might obtain from other public companies in which you hold equity interests.

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The Offering

Common Stock Offered by Us	8,572,000 shares of our common stock.
Common Stock to be Outstanding Immediately after this Offering	21,408,144 shares.
Over-allotment Option to Purchase Additional Shares	1,285,800 shares.
Use of Proceeds	We intend to use the net proceeds from this offering for general corporate purposes, including working capital, capital expenditures, other corporate expenses and acquisitions of complementary products, technologies or businesses. Use of proceeds may also include the partial repayment of debt under our loan agreement with CRG Partners III L.P, and certain of its affiliated funds, or CRG, in order to cure potential non-compliance with the covenant in the loan agreement requiring that we achieve minimum revenue of \$23.0 million in 2016. See "Use of Proceeds" on page S-14.
Risk Factors	Investing in our common stock involves significant risks. You should read the "Risk Factors" section beginning on page S-10 of this prospectus supplement and in the documents incorporated by reference in this prospectus supplement and accompanying prospectus, including the risk factors described under the section entitled "Risk Factors" contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, for a discussion of factors to consider before deciding to purchase shares of our common stock.
NASDAQ Global Market Symbol	"AVGR."
Indications of Interest	Jeffrey M. Soinski and Matthew B. Ferguson, our chief executive officer and our chief financial officer, respectively, as well as other employees have agreed to purchase an aggregate of 109,650 shares of our common stock in this offering at the public offering price. The underwriters will receive the same discount from any shares of our common stock purchased by such persons as they will from any other shares of our common stock sold to the public in this offering.

The number of shares of our common stock to be outstanding after this offering is based on 12,836,144 shares of our common stock outstanding as of June 30, 2016, and excludes:

3,801,543 shares of common stock issuable upon the exercise of stock options outstanding as of June 30, 2016 with a weighted average exercise price of \$8.25 per share;

2,152,117 shares of common stock issuable upon exercise of outstanding warrants;

267,558 unvested restricted stock units;

1,067,665 shares of common stock reserved for future issuance under our 2015 Equity Incentive Plan, or our 2015 Plan, and any additional shares that become available under our

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2015 Plan pursuant to provisions thereof that automatically increase the share reserve under the plan each year, and

625,052 shares of common stock reserved for future issuance under our 2015 Employee Stock Purchase Plan, or ESPP, and any additional shares that become available under our ESPP pursuant to provisions thereof that automatically increase the share reserve under the plan each year.

Except as otherwise indicated, all information in this prospectus supplement assumes no exercise of by the underwriters of their overallotment option.

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Summary Financial Data

The table below presents financial data for the periods indicated. The summary financial data for the years ended December 31, 2013, 2014 and 2015 are derived from our audited financial statements and related notes for those periods that are incorporated by reference in this prospectus supplement and accompanying prospectus. The summary financial data for the six month ended June 30, 2015 and 2016 have been derived from our unaudited financial statements and related notes that are incorporated by reference in this prospectus supplement and accompanying prospectus. In the opinion of management, such unaudited interim financial data contains all adjustments necessary for the fair statement of our financial position and results of operations as of and for such periods. Historical results are not necessarily indicative of results that may be expected or attained for future periods.

The following information is only a summary. You should read this data in conjunction with our historical financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report filed on Form 10-K, Quarterly Reports filed on Form 10-Q and other information on file with the SEC that is incorporated by reference in this prospectus supplement and the accompanying prospectus. For more details on how you can obtain our SEC reports and other information, you should read the section of this prospectus supplement entitled "Where You Can Find More Information." Our results of operations are for historical periods and are not necessarily indicative of results of operations for future periods.

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Statements of Operations Data:

	Six Months Ended June 30,		Year Ended December 31,		
	2016	2015	2015	2014	2013
	(in thousands, except per share data)				
Revenues	\$ 9,219	\$ 5,135	\$ 10,713	\$ 11,213	\$ 12,964
Cost of revenues	7,005	2,922	6,478	6,513	8,205
Gross profit	2,214	2,213	4,235	4,700	4,759
Operating expenses:					
Research and development	7,914	7,812	15,694	11,224	15,973
Selling, general and administrative	21,622	12,910	29,231	18,503	25,758
Total operating expenses	29,536	20,722	44,925	29,727	41,731
Loss from operations	(27,322)	(18,509)	(40,690)	(25,027)	(36,972)
Interest income (expense), net	(2,345)	(2,655)	(5,127)	(6,014)	(2,923)
Other income (expense), net	5	534	(1,527)	(909)	5
Loss before provision for income taxes	(29,662)	(20,630)	(47,344)	(31,950)	(39,890)
Provision for income taxes		7		14	11
Net loss and comprehensive loss	(29,662)	(20,637)	(47,344)	(31,964)	(39,901)
Adjustment to net loss resulting from convertible preferred stock modification		(2,384)	(2,384)		
Net loss and comprehensive loss attributable to common stockholders	\$ (29,662)	\$ (23,021)	\$ (49,728)	\$ (31,964)	\$ (39,901)
Net loss attributable to common stockholders per share, basic and diluted	\$ (2.34)	\$ (2.23)	\$ (4.38)	\$ (132.63)	\$ (170.52)
Weighted average common shares used to compute net loss per share, basic and diluted	12,702	10,317	11,362	241	234

Balance Sheets Data:

	As of June 30, 2016	As of December 31,	
		2015	2014
	(in thousands)		
Cash and cash equivalents	\$ 22,439	\$ 43,059	\$ 12,316
Working capital	28,123	43,576	9,917
Total assets	38,191	54,104	24,437
Long-term borrowings	40,141	29,565	18,228
Convertible notes and accrued interest			8,609

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Convertible preferred stock			132,260
Accumulated deficit	(225,923)	(196,261)	(146,533)
Total stockholders' equity (deficit)	(8,735)	15,589	(143,868)

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RISK FACTORS

An investment in our securities involves a high degree of risk. Prior to making a decision about investing in our securities, you should carefully consider the specific factors discussed below, the risk factors beginning on page 4 of the accompanying prospectus, as well as the risk factors discussed under the section entitled "Risk Factors" contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act, each of which is incorporated by reference in this prospectus supplement and accompanying prospectus in their entirety, together with all of the other information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference herein and therein, and any related free writing prospectus. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our operations. The occurrence of any of these known or unknown risks might cause you to lose all or part of your investment in the offered securities.

Risks Related to this Offering

The market price of our common stock may be volatile, and the value of your investment could decline significantly.

The trading price for our common stock has been, and we expect it to continue to be, volatile. The price at which our common stock trades depends upon a number of factors, including our historical and anticipated operating results, our ability to meet our own financial projections or those of analysts who follow our company, our financial situation, announcements of technological innovations or new products by us or our competitors, our ability or inability to raise the additional capital we may need and the terms on which we raise it, and general market and economic conditions, some of which are beyond our control. These broad market fluctuations may lower the market price of our common stock and affect the volume of trading in our stock.

We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways with which you may not agree. Accordingly, you will be relying on the judgment of our management with regard to the use of these net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that the proceeds will be invested or otherwise used in a way that does not yield a favorable, or any, return for our company.

You will experience immediate and substantial dilution.

The offering price per share in this offering may exceed the net tangible book value per share of our common stock outstanding prior to this offering. After giving effect to the sale of our common stock in the aggregate amount of \$30.0 million in this offering at an offering price of \$3.50 per share, and after deducting commissions and estimated offering expenses payable by us, you will experience immediate dilution of \$2.63 per share, representing the difference between our as adjusted net tangible book value per share as of June 30, 2016 after giving effect to this offering, on the one hand, and the assumed offering price, on the other. The exercise of outstanding stock options and warrants will result in further dilution of your investment. See the section titled "Dilution" below for a more detailed illustration of the dilution you would incur if you participate in this offering.

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You may experience future dilution as a result of future equity offerings.

To the extent that we raise additional funds through the sale of equity or convertible debt securities, the issuance of such securities will result in dilution to our stockholders. We may sell shares or other securities in any other offering at a price per share that is less than the price per share paid by investors in this offering, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, in future transactions may be higher or lower than the price per share paid by investors in this offering.

Future sales of our common stock in the public market could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. As of June 30, 2016, we had 12,836,144 shares of common stock outstanding, all of which shares, other than shares held by our directors and executive officers which are subject to ninety (90) day lock-up agreements in connection with this offering, were, and continue to be, eligible for sale in the public market, subject in some cases to compliance with the requirements of Rule 144, including the volume limitations and manner of sale requirements. In addition, all of the shares offered under this prospectus supplement and the accompanying prospectus will be freely tradable without restriction or further registration upon issuance.

We have never declared or paid dividends on our capital stock and we do not anticipate paying dividends in the foreseeable future.

Our business requires significant funding, and we currently invest available funds and earnings in product development. Therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently plan to invest all available funds and future earnings in the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be your sole source of potential gain for the foreseeable future.

Our Certificate of Incorporation, Bylaws and Delaware law contain provisions that could discourage a takeover that is beneficial to stockholders.

Provisions of our Certificate of Incorporation, our Bylaws and Delaware law could make it difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, the documents we have filed with the SEC that are incorporated by reference in this prospectus supplement and accompanying prospectus and any free writing prospectus that we have authorized for use in connection with this offering contain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, concerning our business, operations and financial performance and condition. In some cases, you can identify forward-looking statements by terminology such as "anticipate," "assume," "believe," "contemplate," "continue," "could," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "predict," "potential," "positioned," "seek," "should," "target," "will," "would" and other similar expressions that are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology.

These forward-looking statements may include, but are not limited to, statements about:

the outcome of our clinical studies and plans to conduct further clinical studies;

our plans to modify our current products, or develop new products, to address additional indications;

our ability to obtain additional financing through our "at-the-market" program and future public offerings;

the expected timing of 510(k) submissions to FDA, and associated marketing clearances by FDA, for enhanced versions of Pantheris;

the expected growth in our business and our organization;

our expectations regarding government and third-party payor coverage and reimbursement;

our ability to retain and recruit key personnel, including the continued development of a sales and marketing infrastructure;

our ability to obtain and maintain intellectual property protection for our products;

our estimates of our expenses, ongoing losses, future revenue, capital requirements and our needs for, or ability to obtain, additional financing;

our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act or a smaller reporting company under the Securities Act;

our ability to identify and develop new and planned products and acquire new products;

our financial performance;

our ability to remain in compliance with laws and regulations that currently apply or become applicable to our business, both in the United States and internationally; and

developments and projections relating to our competitors or our industry.

We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. These forward-looking statements are based on management's current expectations, estimates, forecasts and projections about our business and the industry in which we operate and management's beliefs and assumptions and are not guarantees of future performance or developments and involve known and unknown risks, uncertainties and other factors that are in some cases beyond

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our control. As a result, any or all of our forward-looking statements in this prospectus supplement, the accompanying prospectus, the documents we have filed with the SEC that are incorporated by reference in this prospectus supplement and accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering may turn out to be inaccurate. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under the heading "Risk Factors" beginning on page S-10 of this prospectus supplement and elsewhere in the accompanying prospectus and those included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and other documents we periodically file with the SEC that are incorporated by reference in this prospectus supplement and accompanying prospectus. We urge you to consider these factors carefully in evaluating the forward-looking statements. We assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus supplement to conform these statements to actual results or to changes in our expectations.

You should read this prospectus supplement, the accompanying prospectus, the documents we have filed with the SEC that are incorporated by reference in this prospectus supplement and accompanying prospectus and any free writing prospectus that we have authorized for use in connection with this offering completely and with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect. We qualify all of the forward-looking statements in the foregoing documents by these cautionary statements.

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USE OF PROCEEDS

We intend to use the net proceeds from this offering for general corporate purposes, including working capital, capital expenditures, other corporate expenses and acquisitions of complementary products, technologies or businesses. Use of proceeds may also include the partial repayment of debt under our loan agreement with CRG in order to cure potential non-compliance with the covenant in the loan agreement requiring that we achieve minimum revenue of \$23.0 million in 2016. We do not have agreements or commitments for any specific acquisitions at this time.

As of June 30, 2016, we had \$40.1 million outstanding under our loan agreement with CRG. Interest is calculated at a fixed rate of 12.5% per annum. Until June 30, 2019, we have the right to make the 12.5% interest payment by making a cash payment for 8.5% per annum of interest and making a payment-in-kind, or PIK, for the remaining amount, for which the 4.0% per annum of interest would be added to the outstanding principal amount of the loan. To date, we have elected the PIK interest option to the extent available and have made a cash payment for the remaining amount. All unpaid principal, and accrued and unpaid interest, is due and payable in full on September 30, 2021. We used the proceeds that we borrowed under the loan agreement with CRG to retire our outstanding principal and accrued interest with PDL Biopharma and to retire the principal and accrued interest underlying our outstanding promissory notes. If we fail to meet the minimum revenue target in any calendar year under the covenant in the loan agreement with CRG, the loan agreement provides us with a cure right if we prepay a portion of the outstanding principal equal to 2.0 times the revenue shortfall.

The timing and amount of our actual expenditures will be based on many factors, including cash flows from operations and the anticipated growth of our business. As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses for the net proceeds to us from this offering. As a result, our management will have broad discretion regarding the timing and application of the net proceeds from this offering. Pending their ultimate use, we intend to invest the net proceeds in short-term, investment-grade, interest-bearing instruments.

Table of Contents**PRICE RANGE OF COMMON STOCK**

Our common stock is listed on the NASDAQ Global Market under the symbol "AVGR." Prior to January 30, 2015, there was no public market for our common stock. In our IPO, our common stock priced at \$13.00 per share on January 29, 2015. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported on The NASDAQ Global Market:

	Low	High
Fiscal Year ending December 31, 2015		
First Quarter (beginning January 30, 2015)	\$ 9.35	\$ 14.42
Second Quarter	\$ 10.20	\$ 13.39
Third Quarter	\$ 12.25	\$ 17.47
Fourth Quarter	\$ 14.35	\$ 25.11
Fiscal Year ending December 31, 2016		
First Quarter	\$ 8.25	\$ 22.46
Second Quarter	\$ 9.47	\$ 14.48
Third Quarter (through August 10, 2016)	\$ 4.22	\$ 12.10

As of August 10, 2016, there were 199 holders of record of our common stock. On August 10, 2016, the last reported sale price of our common stock as reported on The NASDAQ Global Market was \$4.62 per share.

DIVIDEND POLICY

We have never declared or paid any dividends on our capital stock. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, our Loan Agreement with CRG prohibits us from, among other things, paying any dividends or making any other distribution or payment on account of our common stock.

Table of Contents**DILUTION**

If you invest in our common stock, your interest will be diluted to the extent of the difference between the price per share of our common stock you pay in this offering and the as adjusted net tangible book value per share of our common stock immediately after this offering.

Our net tangible book value as of June 30, 2016 was approximately \$(8.7) million, or \$(0.68) per share. Net tangible book value per share is determined by dividing our total tangible assets, less total liabilities, by the number of shares of our common stock outstanding as of June 30, 2016. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the as adjusted net tangible book value per share of our common stock immediately after giving effect to this offering.

After giving effect to the sale of our common stock in the aggregate amount of \$30.0 million in this offering at an offering price of \$3.50 per share, and after deducting commissions and estimated aggregate offering expenses payable by us, our as adjusted net tangible book value as of June 30, 2016 would have been approximately \$18.7 million, or \$0.87 per share. This represents an immediate increase in net tangible book value of \$1.56 per share to existing stockholders and immediate dilution in net tangible book value of \$2.63 per share to new investors purchasing our common stock in this offering.

The following table illustrates this dilution on a per share basis:

Public offering price per share	\$	3.50
Net tangible book value per share as of June 30, 2016	\$	(0.68)
Increase in net tangible book value per share attributable to new investors		1.56
As adjusted net tangible book value per share after this offering	\$	0.87
Dilution per share to investors in this offering	\$	2.63

To the extent that outstanding options or warrants are exercised or outstanding restricted stock units vest, investors purchasing our common stock in this offering will experience further dilution. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

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MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS OF OUR COMMON STOCK

The following is a summary of the material U.S. federal income tax consequences to non-U.S. holders (as defined below) of the ownership and disposition of our common stock, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, and any changes may result in U.S. federal income tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions. This summary assumes that a non-U.S. holder will hold our common stock issued pursuant to this offering as a capital asset (generally, property held for investment) within the meaning of section 1221 of the Code.

This summary also does not address the tax considerations arising under the laws of any state, local or non-U.S. jurisdiction or under U.S. federal non-income tax laws. In addition, this discussion does not address the potential application of the Medicare contribution tax on net investment income or any tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

banks, insurance companies or other financial institutions;

persons subject to the alternative minimum tax;

tax-exempt organizations or accounts;

controlled foreign corporations, passive foreign investment companies or corporations that accumulate earnings to avoid U.S. federal income tax;

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

persons that own, or are deemed to own, more than 5% of our capital stock (except to the extent specifically set forth below);

certain former citizens or long-term residents of the United States;

persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction; or

persons deemed to sell our common stock under the constructive sale provisions of the Code.

In addition, if a partnership (or entity or arrangement classified as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a person treated as a partner for such purposes generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors regarding the ownership and disposition of our common stock.

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You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any state, local, non-U.S. or other taxing jurisdiction or under any applicable tax treaty.

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Non-U.S. Holder Defined

For purposes of this discussion, you are a non-U.S. holder if you are a beneficial owner of our common stock that is not, for U.S. federal income tax purposes, any of the following:

a partnership, or other entity or arrangement treated as a partnership for U.S. federal income tax purposes;

an individual who is a citizen or resident of the United States;

a corporation or other entity taxable as a corporation, created or organized in the United States or under the laws of the United States or any political subdivision thereof;

an estate whose income is subject to U.S. federal income tax regardless of its source; or

a trust (x) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (y) which has made a valid election under applicable Treasury Regulations to be treated as a U.S. person.

Distributions

We have not made any distributions on our common stock and do not intend to make any distributions on our common stock for the foreseeable future. However, if we do make distributions on our common stock, those distributions will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock (determined separately with respect to each share of our common stock), but not below zero, and then will be treated as gain from the sale of that stock.

Any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us in a timely manner an IRS Form W-8BEN, IRS Form W-8BEN-E or other appropriate version of IRS Form W-8, certifying qualification for the reduced rate. If you are eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS in a timely manner. If you hold our common stock through a financial institution or other agent acting on your behalf, you will be required to provide appropriate documentation to the agent, who then will be required to provide the required certification to us or our paying agent, either directly or through other intermediaries. You should consult your tax advisor regarding your entitlement to benefits under any applicable income tax treaty.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business (and, if an income tax treaty applies, that are attributable to a permanent establishment or fixed base maintained by you in the United States), are exempt from such withholding tax. In order to obtain this exemption, you must provide us with an IRS Form W-8ECI or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, generally are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty, subject to certain adjustments.

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Gain on Disposition of Our Common Stock

Subject to the discussion below, including under "Backup Withholding and Information Reporting" and "Foreign Accounts," you generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

the gain is effectively connected with your conduct of a U.S. trade or business (and, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base maintained by you in the United States);

you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or

our common stock constitutes a U.S. real property interest by reason of our status as a "United States real property holding corporation," or USRPHC, for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding your disposition of, or your holding period for, our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we are or become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests to you only if you actually or constructively hold more than 5% of our common stock at any time during the shorter of the five-year period preceding your disposition of, or your holding period for, our common stock.

If you are a non-U.S. holder described in the first bullet above, you will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates, and a corporate non-U.S. holder described in the first bullet above also may be subject to the branch profits tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty. If you are an individual non-U.S. holder described in the second bullet above, you will be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S.-source capital losses for the year, provided you have timely filed U.S. federal income tax returns with respect to such losses. You should consult any applicable income tax or other treaties that may provide for different rules.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report will be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends on or of proceeds from the disposition of our common stock made to you may be subject to additional information reporting and backup withholding at a current rate of 28% unless you establish an exemption, for example, by properly certifying your non-U.S. status on an IRS Form W-8BEN, Form W-8BEN-E or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

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Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Foreign Accounts

The Foreign Account Tax Compliance Act, or FATCA, generally imposes a U.S. federal withholding tax of 30% on dividends on and the gross proceeds of a disposition of our common stock, paid to a "foreign financial institution" (as specially defined under these rules), unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding the U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners) or otherwise establishes an exemption. FATCA also generally imposes a U.S. federal withholding tax of 30% on dividends on and the gross proceeds of a disposition of our common stock paid to a "non-financial foreign entity" (as specially defined under these rules) unless such entity provides the withholding agent with a certification identifying certain substantial direct and indirect U.S. owners of the entity, certifies that there are none or otherwise establishes an exemption. The withholding obligations under FATCA generally apply to payments of dividends on our common stock, and under transition rules, are expected to apply to payments of gross proceeds from a sale or other disposition of our common stock on or after January 1, 2019. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. An intergovernmental agreement between the United States and an applicable foreign country may modify the requirements described in this paragraph. The rules of FATCA are new and complex. We will not pay any additional amounts to holders in respect of any amounts withheld, including pursuant to FATCA. Under certain circumstances, you may be eligible for refunds or credits of such taxes. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our common stock.

Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local and non-U.S. tax consequences of purchasing, holding and disposing of our common stock, including the consequences of any proposed change in applicable laws.

Table of Contents**UNDERWRITING**

We are offering the shares of common stock described in this prospectus supplement through four underwriters. Subject to the terms and conditions set forth in the underwriting agreement between us and Canaccord Genuity Inc. and Cowen and Company, LLC, as representatives of the underwriters, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase from us, at the public offering price of \$3.50 per share less the underwriting discount of \$0.245 per share, the number of shares of common stock listed next to its name in the following table:

Name	Number of shares
Canaccord Genuity Inc.	3,428,800
Cowen and Company, LLC	3,428,800
BTIG, LLC	857,200
Stephens Inc.	857,200
Total	8,572,000

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased, other than the shares covered by the option described below unless and until this option is exercised.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and to contribute to payments the underwriters may be required to make for certain liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The underwriters have advised us that they propose to offer the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus supplement, and to dealers at the public offering price less a selling concession not in excess of \$0.147 per share. The underwriters also may allow, and dealers may reallocate, a concession not in excess of \$0.147 per share to brokers and dealers. After the public offering of the shares, the underwriters may change the offering price and other selling terms.

The underwriting fee is equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting fee is \$0.245 per share. The following table shows the per share and total underwriting discounts to be paid to the

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underwriters assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares.

	Per Share	Total	
		Without Over-allotment Exercise	With Over-allotment Exercise
Public offering price	\$ 3.50	\$ 30,002,000	\$ 34,502,300
Underwriting discounts and commissions paid by us	0.245	2,100,140	2,415,161
Net proceeds, before expenses, to us	\$ 3.255	\$ 27,901,860	32,087,139

The expenses of the offering payable by us in connection with the offering, other than the underwriting discounts and commissions and the expense reimbursement referred to below, are estimated to be approximately \$0.4 million. We are responsible for all of our expenses related to the offering, whether or not it is completed.

In addition to the underwriting discounts and commissions to be paid by us, we have agreed to reimburse the underwriters for (i) the first \$100,000 of certain of their out-of-pocket expenses incurred in connection with the offering, including travel, document production and distribution and database and research expenses and the reasonable fees and disbursements of counsel to the underwriters and (ii) the fees and disbursements of counsel to the underwriters in connection with the review by, and clearance of the offering with, FINRA of the terms of the sale of the shares of common stock in an amount not to exceed \$10,000 in the aggregate.

Option to Purchase Additional Shares

We have granted an option to the underwriters to purchase up to an aggregate of 1,285,800 additional shares of our common stock at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus supplement solely to cover any over-allotments. If any shares are purchased with this over-allotment option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

Lock-Up Agreements

We have agreed that during a period of 90 days from the date of this prospectus, we will not, without the prior written consent of Canaccord Genuity Inc. and Cowen and Company, LLC, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock or file any registration statement under the Securities Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of shares of our common stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of shares of common stock or such other securities, in cash or otherwise, subject to certain exceptions.

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All of our executive officers and directors have agreed that they will not, without the prior written consent of Canaccord Genuity Inc. and Cowen and Company, LLC, offer, sell, contract to sell, pledge or otherwise transfer or dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition of (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by them or any of their affiliates or any person in privity with them or any of their affiliates), directly or indirectly, including the filing (or participation in the filing) of a registration statement with the SEC in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act, and the rules and regulations of the SEC promulgated thereunder with respect to, any shares of our common stock or any securities convertible into, or exercisable or exchangeable for our common stock, or publicly announce an intention to effect any such transaction, for a period from the date of this prospectus supplement until, and including the date that is, 90 days after the date of this prospectus supplement. Each of the lock-up agreements contains certain exceptions, including the establishment of a Rule 10b5-1 trading plan, provided that (i) such plan does not provide for the transfer of shares of common stock during the 90-day period and (ii) no public announcement or filing under the Exchange Act is required or voluntarily made regarding the establishment of such plan. This lock-up provision applies to shares of our common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. Certain of our executive offices and directors may enter into Rule 10b5-1 trading plans.

Canaccord Genuity Inc. and Cowen and Company, LLC may, in their discretion, release any of the securities subject to these lock-up agreements at any time without notice.

Price Stabilization, Short Positions and Penalty Bids

In connection with the offering, the underwriters may purchase and sell our common stock in the open market. These transactions may include over-allotment and stabilizing transactions, passive market making and purchases to cover syndicate short positions created in connection with the offering. Until distribution of the shares of our common stock is completed, SEC rules may limit the underwriters from bidding for and purchasing shares of our common stock. However, the underwriters may engage in transactions that stabilize the price of the shares of our common stock, such as bids or purchases to peg, fix or maintain that price. A "stabilizing transaction" is a bid for or the purchase of common stock on behalf of an underwriter in the open market for the purpose of fixing or maintaining the price of the shares of common stock. Stabilizing transactions may cause the price of shares of our common stock to be higher than the price that might otherwise prevail in the open market.

If an underwriter creates a short position in our common stock in connection with the offering (i.e., if it sells more shares of our common stock than are listed on the cover page of this prospectus supplement), the underwriter may reduce that short position by purchasing shares of our common stock in the open market. A "covering transaction" is the bid for or purchase of common stock on behalf of an underwriter to reduce a short position incurred by the underwriter in connection with the offering. The underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option described above. A short position is more likely to be created if an underwriter is concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase shares in this offering. Similar to other purchase transactions, an underwriter's purchases to cover the short sales may have the effect of raising or maintaining the market price of our shares or preventing or retarding a decline in the

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market price of our shares. As a result, the price of our shares may be higher than the price that might otherwise prevail in the open market.

An underwriter also may impose a penalty bid, whereby the underwriter may reclaim selling concessions allowed to syndicate members or other broker-dealers in respect of the common stock sold in the offering for their account if the underwriter repurchases the shares in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the common stock, which may be higher than the price that might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the shares of our common stock in that it discourages resales of those shares of our common stock.

In connection with the offering, the underwriters may also engage in passive market making transactions in our common stock on The NASDAQ Stock Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of shares of our common stock in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded.

The underwriters have advised us that these transactions may be effected on The NASDAQ Stock Market or otherwise. Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of shares of our common stock. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

This prospectus supplement and the accompanying prospectus may be made available in electronic format on websites or through other online services maintained by the underwriters of the offering, or by their affiliates. Other than this prospectus supplement and the accompanying prospectus in electronic format, the information on such websites and any information contained in any other website maintained by the underwriters or any of their affiliates is not part of this prospectus supplement, the accompanying prospectus or the registration statement of which this prospectus supplement and the accompanying prospectus form a part, has not been approved or endorsed by us or the underwriters in their capacities as underwriters and should not be relied upon by investors.

Disclaimers About Non-U.S. Jurisdictions

United Kingdom

The underwriters:

have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of Financial Services and Markets Act 2000 (as amended) ("FSMA")) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to us; and

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have complied with and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the securities in, from or otherwise involving the United Kingdom.

Switzerland

The securities will not be offered, directly or indirectly, to the public in Switzerland and this prospectus does not constitute a public offering prospectus as that term is understood pursuant to article 652a or 1156 of the Swiss Federal Code of Obligations.

European Economic Area

In relation to each Member State of the European Economic Area (the "EEA") which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer of our shares may not be made to the public in a Relevant Member State other than:

to any legal entity which is a qualified investor as defined in the Prospectus Directive;

to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by us for any such offer, or;

in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of our shares shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this description, the expression an "offer of our shares to the public" in relation to any of our shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the expression may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means European Union Directive 2003/71/EC (as amended by Directive 2010/73/EU and includes any relevant implementing measure in each Relevant Member State.

Neither this prospectus supplement nor the accompanying prospectus is a prospectus for the purposes of the Prospectus Directive. This prospectus supplement and the accompanying prospectus have been prepared on the basis that any offer of our shares in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. We have not authorized and do not authorize the making of any offer of securities through any financial intermediary on our behalf, other than offers made by the underwriters and their respective affiliates, with a view to the final placement of the securities as contemplated in this document. Accordingly, no purchaser of the shares, other than the underwriters, is authorized to make any further offer of shares on our behalf or on behalf of the underwriters.

Canada

The securities may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant

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Obligations. Any resale of the securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the prospectus supplement or the prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Relationship with Avinger, Inc.

In the ordinary course of business, the underwriters and their affiliates have provided, and in the future may provide, various investment banking, financial advisory and other services to us for which they have received, and may receive, customary compensation. In the course of their business, the underwriters and their affiliates may actively trade our securities for their own account or for the accounts of customers, and, accordingly the underwriters and their affiliates may at any time hold long or short positions in such securities.

Listing

Our common stock is listed on the NASDAQ Global Market under the symbol "AVGR."

Transfer Agent

The transfer agent for our common stock is Computershare, N.A., 250 Royall Street, Canton, MA 02021.

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LEGAL MATTERS

The validity of the securities offered by this prospectus supplement and accompanying prospectus will be passed upon by Wilson Sonsini Goodrich & Rosati, P.C., Palo Alto, California. Certain members of, and investment partnerships comprised of members of, and persons associated with, Wilson Sonsini Goodrich & Rosati, P.C., own an aggregate of 4,921 shares of our common stock. Certain legal matters in connection with this offering will be passed upon for the underwriters by Jones Day.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 (including the schedule appearing therein), as set forth in their report which is incorporated herein by reference in this prospectus supplement and elsewhere in the registration statement of which this prospectus supplement and the accompanying prospectus are a part. Our financial statements and schedule are incorporated by reference in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and other reports, proxy statements and other information with the SEC. Our SEC filings are available to the public at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, including any amendments to those reports, and other information that we file with or furnish to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act can also be accessed free of charge on our website, www.avinger.com. We have not incorporated by reference into this prospectus supplement or the accompanying prospectus the information on our website, and you should not consider it to be a part of this prospectus supplement or the accompanying prospectus. These filings will be available as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

We have filed with the SEC a registration statement under the Securities Act of 1933 relating to the offering of these securities. The registration statement, including the exhibits attached thereto, contains additional relevant information about us and the securities. This prospectus supplement and the accompanying prospectus do not contain all of the information set forth in the registration statement. You can obtain a copy of the registration statement, at prescribed rates, from the SEC at the address listed above. The registration statement and the documents referred to below under "Information Incorporated by Reference" are also available on our website, www.avinger.com. We have not incorporated by reference into this prospectus supplement or the accompanying prospectus the information on our website, and you should not consider it to be a part of this prospectus supplement or the accompanying prospectus.

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INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus supplement and the accompanying prospectus certain information we file with it, which means that we can disclose important information by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement and the accompanying prospectus, and information that we file later with the SEC will automatically update and supersede information contained in this prospectus supplement and the accompanying prospectus. We incorporate by reference the documents listed below that we have previously filed with the SEC (excluding any portions of any Form 8-K that are not deemed "filed" pursuant to the General Instructions of Form 8-K):

our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 8, 2016;

our Quarterly Reports on Form 10-Q (i) for the quarter ended March 31, 2016, filed with the SEC on May 9, 2016 and (ii) for the quarter ended June 30, 2016, filed with the SEC on August 5, 2016;

our Current Reports on Form 8-K filed with the SEC on March 9, 2016, May 4, 2016, June 7, 2016 and June 17, 2016; and

the description of our common stock contained in our Registration Statement on Form 8-A as filed with the SEC on January 27, 2015 pursuant to Section 12(b) of the Exchange Act.

We also incorporate by reference into this prospectus supplement and accompanying prospectus additional documents (other than current reports furnished under Item 2.02 or Item 7.01 of Form 8-K and exhibits on such form that are related to such items) that we may file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the completion or termination of the offering. Any statements contained in a previously filed document incorporated by reference into this prospectus supplement and accompanying prospectus is deemed to be modified or superseded for purposes of this prospectus supplement and accompanying prospectus to the extent that a statement contained in this prospectus supplement or accompanying prospectus, or in a subsequently filed document also incorporated by reference herein, modifies or supersedes that statement.

This prospectus supplement and accompanying prospectus may contain information that updates, modifies or is contrary to information in one or more of the documents incorporated by reference in this prospectus supplement and accompanying prospectus. You should rely only on the information incorporated by reference or provided in this prospectus supplement and accompanying prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus supplement or accompanying prospectus is accurate as of any date other than the date of this prospectus supplement or accompanying prospectus, or the date of the documents incorporated by reference in this prospectus supplement and accompanying prospectus.

We will provide to each person to whom this prospectus supplement and accompanying prospectus is delivered, upon written or oral request, at no cost to the requester, a copy of any and all of the information that is incorporated by reference in this prospectus supplement and accompanying prospectus.

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Requests for such documents should be directed to:

Avinger, Inc.
400 Chesapeake Drive
Redwood City, CA 94063
Attention: Secretary

You may also access the documents incorporated by reference in this prospectus supplement and accompanying prospectus through our website at www.avinger.com. Except for the specific incorporated documents listed above, no information available on or through our website shall be deemed to be incorporated in this prospectus supplement and accompanying prospectus or the registration statement of which they forms a part.

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PROSPECTUS

\$150,000,000

Avinger, Inc.

**Common stock
Preferred stock
Depository shares
Warrants
Debt securities
Subscription Rights
Units**

**348,262 Shares of Common Stock
Offered by the Selling Stockholders**

Avinger, Inc., a Delaware corporation ("Avinger"), may offer and sell from time to time, in one or more series or issuances and on terms that we will determine at the time of the offering, any combination of the securities described in this prospectus, up to an aggregate amount of \$150,000,000.

In addition, the selling stockholders may from time to time offer and sell up to 348,262 shares of our common stock. We will not receive any of the proceeds from the sale of our common stock by the selling stockholders.

We will provide specific terms of any offering in a supplement to this prospectus. Any prospectus supplement may also add, update or change information contained in this prospectus. You should carefully read this prospectus and the applicable prospectus supplement as well as the documents incorporated or deemed to be incorporated by reference in this prospectus before you purchase any of the securities offered hereby.

These securities may be offered and sold in the same offering or in separate offerings; to or through underwriters, dealers and agents; or directly to purchasers. The names of any underwriters, dealers or agents involved in the sale of our securities, their compensation and any over-allotment options held by them will be described in the applicable prospectus supplement. See the section titled "Plan of Distribution."

Our common stock is listed on The NASDAQ Global Market under the symbol "AVGR". We will provide information in any applicable prospectus supplement regarding any listing of securities other than shares of our common stock on any securities exchange.

We are an "emerging growth company" as defined under the federal securities laws and, as such, have elected to comply with certain reduced public company reporting requirements.

INVESTING IN OUR SECURITIES INVOLVES SIGNIFICANT RISKS. YOU SHOULD REVIEW CAREFULLY THE "RISK FACTORS" ON PAGE 4 OF THIS PROSPECTUS AND IN THE APPLICABLE

PROSPECTUS SUPPLEMENT BEFORE INVESTING IN OUR SECURITIES.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 8, 2016

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the United States Securities and Exchange Commission, or the SEC, using a "shelf" registration process. Under this shelf process, we may, from time to time, sell any combination of the securities described in this prospectus in one or more offerings up to a total amount of \$150,000,000. In addition, under this shelf process, the selling stockholders named in this prospectus may sell from time to time up to 348,262 shares of Avinger common stock.

This prospectus provides you with a general description of the securities we or the selling stockholders may offer. Each time we or the selling stockholders sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information contained in the prospectus and, accordingly, to the extent inconsistent, information in this prospectus is superseded by the information in the prospectus supplement.

The prospectus supplement to be attached to the front of this prospectus may describe, as applicable: the terms of the securities offered; the initial public offering price; the price paid for the securities; net proceeds; and the other specific terms related to the offering of the securities.

You should only rely on the information contained or incorporated by reference in this prospectus and any prospectus supplement or free writing prospectus relating to a particular offering. No person has been authorized to give any information or make any representations in connection with this offering other than those contained or incorporated by reference in this prospectus, any accompanying prospectus supplement and any related free writing prospectus in connection with the offering described herein and therein, and, if given or made, such information or representations must not be relied upon as having been authorized by us. Neither this prospectus nor any prospectus supplement nor any related free writing prospectus shall constitute an offer to sell or a solicitation of an offer to buy offered securities in any jurisdiction in which it is unlawful for such person to make such an offering or solicitation. This prospectus does not contain all of the information included in the registration statement. For a more complete understanding of the offering of the securities, you should refer to the registration statement, including its exhibits.

You should read the entire prospectus and any prospectus supplement and any related free writing prospectus, as well as the documents incorporated by reference into this prospectus or any prospectus supplement or any related free writing prospectus, before making an investment decision. Neither the delivery of this prospectus or any prospectus supplement or any free writing prospectus nor any sale made hereunder shall under any circumstances imply that the information contained or incorporated by reference herein or in any prospectus supplement or free writing prospectus is correct as of any date subsequent to the date hereof or of such prospectus supplement or free writing prospectus, as applicable. You should assume that the information appearing in this prospectus, any prospectus supplement or any document incorporated by reference is accurate only as of the date of the applicable documents, regardless of the time of delivery of this prospectus or any sale of securities. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary description about us and our business highlights selected information contained elsewhere in this prospectus or incorporated in this prospectus by reference. This summary does not contain all of the information you should consider before buying securities in this offering. You should carefully read this entire prospectus and any applicable prospectus supplement, including each of the documents incorporated herein or therein by reference, before making an investment decision. Unless the context otherwise requires, the terms "Avinger," "the Company," "we," "us" and "our" in this prospectus refer to Avinger, Inc., and its subsidiaries.

Avinger, Inc.

Overview

We are a commercial-stage medical device company that designs, manufactures and sells image-guided, catheter-based systems that are used by physicians to treat patients with peripheral arterial disease, or PAD. Patients with PAD have a build-up of plaque in the arteries that supply blood to the arms and legs. Our mission is to dramatically improve the treatment of vascular disease through the introduction of products based on our lumivascular platform, the only intravascular image-guided system available in this market. We manufacture and sell a suite of products in the United States and select European markets. Our current products include our Lightbox imaging console, as well as our Wildcat, Kittycat, and the Ocelot family of catheters, which are designed to allow physicians to penetrate a total blockage in an artery, known as a chronic total occlusion, or CTO. Pantheris, our image-guided atherectomy device, is designed to allow physicians to precisely remove arterial plaque in PAD patients. In October 2015, we received 510(k) clearance from the U.S. Food and Drug Administration, or FDA, for commercialization of Pantheris. We believe that Pantheris will significantly enhance our market opportunity within PAD and can expand the overall addressable market for PAD endovascular procedures. We intend to commence U.S. sales of Pantheris early in 2016, subject to obtaining FDA approval for an enhanced version of Pantheris.

Corporate Information

We were incorporated in Delaware on March 8, 2007. Our principal executive offices are located at 400 Chesapeake Drive, Redwood City, California 94063, and our telephone number is (650) 241-7900. Our website address is www.avinger.com. The information on, or that may be accessed through, our website is not incorporated by reference into this prospectus and should not be considered a part of this prospectus.

"Avinger" and "Pantheris" are trademarks of our company. Our logo and our other trade names, trademarks and service marks appearing in this prospectus are our property. Other trade names, trademarks and service marks appearing in this prospectus are the property of their respective owners. Solely for convenience, our trademarks and tradenames referred to in this prospectus appear without the symbol, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the right of the applicable licensor to these trademarks and tradenames.

Implications of Being an Emerging Growth Company

We qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of relief from certain

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reporting requirements and other burdens that are otherwise applicable generally to public companies. As an emerging growth company:

we have availed ourselves of the exemption from the requirement to obtain an attestation and report from our auditors on the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;

we will provide less extensive disclosure about our executive compensation arrangements; and

we will not require shareholder non-binding advisory votes on executive compensation or golden parachute arrangements.

We may use these provisions until the last day of our fiscal year following the fifth anniversary of our initial public offering, or December 31, 2020. However, if certain events occur prior to the end of such five-year period, including if we become a "large accelerated filer," our annual gross revenues exceed \$1.0 billion or we issue more than \$1.0 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company prior to the end of such five-year period. We may choose to take advantage of some but not all of these reduced burdens. To the extent that we take advantage of these reduced burdens, the information that we provide stockholders may be different than you might obtain from other public companies in which you hold equity interests.

The Securities We May Offer

We may offer up to \$150,000,000 of common stock, preferred stock, depositary shares, warrants, debt securities, subscription rights and units in one or more offerings and in any combination. In addition, the selling stockholders may sell up to 348,262 shares of our common stock from time to time in one or more offerings. This prospectus provides you with a general description of the securities we and the selling stockholders may offer. A prospectus supplement, which we will provide each time we offer securities, will describe the specific amounts, prices and terms of these securities.

Common Stock

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. Our amended and restated certificate of incorporation does not provide for cumulative voting rights. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of our common stock are entitled to receive dividends out of funds legally available if our board of directors, in its discretion, determines to issue dividends and then only at the times and in the amounts that our board of directors may determine. If we become subject to a liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

Preferred Stock and Depositary Shares

Our board of directors has the authority, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designation, powers, preferences and rights of the shares of each series and any of its qualifications, limitations or restrictions, in each case without further vote or action by our stockholders.

We may also issue fractional shares of preferred stock that will be represented by depositary shares and depositary receipts.

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Each series of preferred stock, depositary shares or depositary receipts, if issued, will be more fully described in the particular prospectus supplement that will accompany this prospectus, including redemption provisions, rights in the event of our liquidation, dissolution or winding-up, voting rights and rights to convert into common stock. We have no present plans to issue any shares of preferred stock, depositary shares or depositary receipts nor are any shares of our preferred stock, depositary shares or depositary receipts presently outstanding.

Warrants

We may issue warrants for the purchase of common stock, preferred stock or debt securities. We may issue warrants independently or together with other securities.

Debt Securities

We may offer secured or unsecured obligations in the form of one or more series of senior or subordinated debt. The senior debt securities and the subordinated debt securities are together referred to in this prospectus as the "debt securities." The subordinated debt securities generally will be entitled to payment only after payment of our senior debt. Senior debt generally includes all debt for money borrowed by us, except debt that is stated in the instrument governing the terms of that debt to be not senior to, or to have the same rank in right of payment as, or to be expressly junior to, the subordinated debt securities. We may issue debt securities that are convertible into shares of our common stock.

The senior and subordinated debt securities will be issued under separate indentures between us and a trustee. We have summarized the general features of the debt securities to be governed by the indentures. These indentures have been filed as exhibits to the registration statement of which this prospectus forms a part. We encourage you to read these indentures. Instructions on how you can get copies of these documents are provided in the section titled "Where You Can Find More Information."

Subscription Rights

We may issue subscription rights to purchase our common stock, preferred stock or debt securities. These subscription rights may be offered independently or together with any other security offered hereby and may or may not be transferable by the stockholder receiving the subscription rights in such offering.

Units

We may issue units comprised of one or more of the other classes of securities issued by us as described in this prospectus in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit.

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RISK FACTORS

An investment in our securities involves a high degree of risk. The prospectus supplement applicable to each offering of our securities will contain a discussion of the risks applicable to an investment in our securities. Prior to making a decision about investing in our securities, you should carefully consider the specific factors discussed in the section titled "Risk Factors" in the applicable prospectus supplement, together with all of the other information contained or incorporated by reference in the prospectus supplement or appearing or incorporated by reference in this prospectus. You should also consider the risks, uncertainties and assumptions discussed under "Part I Item 1A Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, and "Part II Item 1A Risk Factors" in our Quarterly Reports on Form 10-Q, all of which are incorporated herein by reference, and as may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future and any prospectus supplement related to a particular offering. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our operations. The occurrence of any of these known or unknown risks might cause you to lose all or part of your investment in the offered securities.

FORWARD-LOOKING STATEMENTS

This prospectus, each prospectus supplement and the information incorporated by reference in this prospectus and each prospectus supplement contain certain statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "anticipate," "could," "expect," "believe," "goal," "plan," "intend," "estimate," "may," "seek," "potential," "predict," "project," "should," "would," "will," and similar expressions and variations thereof are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Those statements appear in this prospectus, any accompanying prospectus supplement and the documents incorporated herein and therein by reference, particularly in the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," and include statements regarding the intent, belief or current expectations of the company and management that are subject to known and unknown risks, uncertainties and assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed in the section titled "Risk Factors" set forth above.

This prospectus, any prospectus supplement and the information incorporated by reference in this prospectus and any prospectus supplement also contain statements that are based on management's current expectations and beliefs, including estimates and projections about our company, industry, financial condition, results of operations and other matters. These statements are not guarantees of future performance and are subject to numerous risks, uncertainties, and assumptions that are difficult to predict.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements contained herein after we distribute this prospectus, whether as a result of any new information, future events or otherwise.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated. You should read these ratios in connection with our financial statements and accompanying notes, and our annual report on Form 10-K for the year ended December 31, 2014, incorporated by reference in this prospectus.

	Year Ended December 31,			Nine Months Ended September 30, 2015
	2012	2013	2014	
Ratio of earnings to fixed charges	n/a	n/a	n/a	n/a

For purposes of calculating the ratio of earnings to fixed charges, earnings represent net loss before provision for income taxes plus fixed charges. Fixed charges consist of interest expense and an estimate of the interest factor inherent in our operating leases. The portion of total rental expense that represents the interest factor is estimated to be approximately 33%.

We did not record earnings for the periods indicated in the table above. Accordingly, our earnings were insufficient to cover fixed charges for such periods and we are unable to disclose a ratio of earnings to fixed charges for such periods. For the years ended December 31, 2012, 2013 and 2014 and for the nine months ended September 30, 2015, the coverage deficiency necessary for the ratio of earnings to fixed charges equal 1.00 (one-to-one coverage) was \$33.5 million, \$36.6 million, \$25.6 million, and \$29.7 million, respectively, for each of such periods.

Currently, we have no shares of preferred stock outstanding and we have not paid any dividends on preferred stock in the periods presented. Therefore, the ratios of earnings to combined fixed charges and preferred stock dividends are not different from the ratios of earnings to fixed charges.

USE OF PROCEEDS

Unless otherwise indicated in the prospectus supplement, we will use the net proceeds from the sale of securities offered by this prospectus for general corporate purposes, which may include working capital, capital expenditures, other corporate expenses and acquisitions of complementary products, technologies or businesses. We do not have agreements or commitments for any specific acquisitions at this time. The timing and amount of our actual expenditures will be based on many factors, including cash flows from operations and the anticipated growth of our business. As a result, unless otherwise indicated in the prospectus supplement, our management will have broad discretion to allocate the net proceeds of the offerings. Pending their ultimate use, we intend to invest the net proceeds in short-term, investment-grade, interest-bearing instruments.

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

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DESCRIPTION OF CAPITAL STOCK

The following description summarizes the most important terms of our capital stock and does not purport to be complete and is qualified in its entirety by the provisions of our amended and restated certificate of incorporation and amended and restated bylaws, which documents are incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and the applicable provisions of the Delaware General Corporation Law (the "DGCL").

General

Our authorized capital stock consists of one hundred million (100,000,000) shares of common stock, \$0.001 par value per share, and five million (5,000,000) shares of undesignated preferred stock, \$0.001 par value per share.

Common Stock

Outstanding Shares

On September 30, 2015, there were 12,620,682 shares of common stock outstanding, held of record by 274 stockholders. Our board of directors is authorized, without stockholder approval, to issue additional shares of our capital stock.

As of September 30, 2015, there were 2,213,395 shares of common stock subject to outstanding warrants, and 3,056,207 shares of common stock subject to outstanding options.

Dividend Rights

Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. We have never declared or paid cash dividends on any of our capital stock and currently do not anticipate paying any cash dividends after this offering or in the foreseeable future.

Voting Rights

There are 100,000,000 shares of common stock authorized for issuance. Pursuant to our amended and restated certificate of incorporation, each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of stockholders; provided, however, that, except as otherwise required by law, holders of our common stock, as such, shall not be entitled to vote on any amendment to our amended and restated certificate of incorporation that relates solely to the terms of one or more outstanding series of preferred stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to our amended and restated certificate of incorporation. Pursuant to our amended and restated certificate of incorporation and amended and restated bylaws, corporate actions can generally be taken by a majority of our board and/or stockholders holding a majority of our outstanding shares, except as otherwise indicated in the section entitled "Anti-takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws," where certain amendments to our amended and restated certificate of incorporation and amended and restated bylaws require the vote of at least 66²/₃% of our then outstanding voting securities. Additionally, our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a plurality of the votes cast at a meeting of stockholders will be able to elect all of the directors then standing for election.

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Right to Receive Liquidation Distributions

In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

Rights and Preferences

Holders of our common stock have no preemptive, conversion, subscription or other rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that we may designate in the future.

Fully Paid and Nonassessable

All of our outstanding shares of common stock are, and the shares of common stock to be issued pursuant to this offering, when paid for, will be fully paid and nonassessable.

Preferred Stock

Our board of directors has the authority, without further action by our stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of preferred stock by us could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control of our company or other corporate action. No shares of preferred stock are outstanding, and we have no present plan to issue any shares of preferred stock.

Stock Options

As of September 30, 2015, there were 3,056,207 shares of our common stock issuable upon exercise of outstanding stock options, at a weighted-average exercise price of \$6.12 per share.

Warrants

As of September 30, 2015, we had outstanding warrants to purchase an aggregate of 2,213,395 shares of our common stock at an exercise price of \$12.60 per share. These warrants are immediately exercisable and expire upon the earlier of September 2, 2019 or upon the consummation of a change of control.

Exclusive Jurisdiction

Unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for:

any derivative action or proceeding brought on behalf of us;

any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders;

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any action asserting a claim against us arising pursuant to any provision of the DGCL or our amended and restated certificate of incorporation or amended and restated bylaws;

any action asserting a claim against us governed by the internal affairs doctrine.

The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any action, a court could find the choice of forum provisions contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in such action.

Registration Rights Under our Amended and Restated Investors' Rights Agreement

The holders of an aggregate of up to 2,875,110 shares of our common stock, as of January 31, 2016, including shares of common stock issuable upon the exercise of outstanding options and warrants, or their permitted transferees, are entitled to rights with respect to the registration of such shares under the Securities Act. We refer to these shares as "registrable securities." These rights are provided under the terms of our amended and restated investors' rights agreement between us and the holders of registrable securities, and include demand registration rights, "piggyback" registration rights and Form S-3 registration rights.

These registration rights will terminate as to a given holder of registrable securities upon the earliest of (a) five (5) years following the consummation of our initial public offering (b) such time after our initial public offering at which such holder (i) can sell all shares held by it in compliance with Rule 144(b)(1)(i) or (ii) holds one percent (1%) or less of our outstanding Common Stock and all registrable securities held by such holder can be sold in any three (3) month period without registration in compliance with Rule 144 or (c) after the consummation of a Liquidation Event, as that term is defined in our amended and restated certificate of incorporation.

Generally, we are required to pay the registration expenses (other than underwriters' and brokers' discounts and commissions) in connection with the registrations described below, including the reasonable fees and disbursements of one counsel for the selling holder or holders of registrable securities. In an underwritten offering, the underwriters have the right to limit the number of shares registered by the holders of registrable securities for marketing reasons, subject to certain limitations.

Demand Registration Rights

Upon the written request of 50% or more of the then outstanding registrable securities that we file a registration statement under the Securities Act (provided that the anticipated aggregate offering price of such shares is greater than \$25 million), we will be obligated to notify all holders of registrable securities of such request and to use our reasonable best efforts to register the sale of all registrable securities that holders may request to be registered. We are only obligated to file up to two registration statements which are declared or ordered effective in connection with the exercise of these demand registration rights. These demand registration rights are subject to specified conditions and limitations, including the right of the underwriters to limit the number of shares included in any such registration under certain circumstances.

Piggyback Registration Rights

If we propose to register any of our securities under the Securities Act in connection with the public offering of such securities, the holders of registrable securities will be entitled to certain "piggyback" registration rights allowing such holders to include their shares in such registration, subject to certain limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to a registration related to either the sale of securities to our employees pursuant to a stock plan, stock purchase or similar plan or a registration related to a

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corporate reorganization or transaction under Rule 145 of the Securities Act of registrable securities are entitled to notice of the registration and have the right to include their shares in the registration. These registration rights are subject to specified conditions and limitations, including the right of the underwriters to limit the number of shares included in any such registration statement under certain circumstances.

Form S-3 Registration Rights

Upon the written request from the holders of at least 30% of the outstanding shares of registrable securities, holders of registrable securities have the right to demand that we file a registration statement on Form S-3 so long as the aggregate amount of shares to be offered and sold under such registration statement on Form S-3 is at least \$5 million (net of any underwriters' discounts or commissions). We are not required to effect a registration on Form S-3 if we have already effected two registrations on Form S-3 for the holders pursuant to Form S-3 registration rights within the twelve-month period preceding the date of the request. Additionally, we are not required to effect such registration in any jurisdiction in which we would be required to qualify to do business or execute a general consent of process in effecting such registration.

CRG Registration Rights

In September 2015, we entered into a Securities Purchase Agreement with CRG Partner III L.P. and certain of its affiliated funds, collectively referred to as CRG, pursuant to which we sold 348,262 shares of our common stock to CRG for a purchase price of \$14.357 per share. Under the Purchase Agreement, CRG is entitled to certain rights with respect to the registration of such shares under the Securities Act as described below.

Within 30 business days of our becoming eligible to use Form S-3, we must file a registration statement covering the resale of the shares sold to CRG under the Purchase Agreement. Further, we must cause the registration statement to become effective within 30 business days of its filing with the SEC or, if the SEC reviews the registration statement, within 45 business days after it receives notification from the SEC of such review. Our failure to file the registration statement, to have the registration statement declared effective within certain time periods, or to maintain the effectiveness of the registration statement are each considered a registration default and will result in penalty payments payable by us to CRG equal to 1% of the aggregate purchase price paid by CRG under the Purchase Agreement for each 30-day period (or portion thereof) in which there is a registration default. During the time that Avinger must maintain the effectiveness of the registration statement, we must comply with other affirmative covenants.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

The provisions of Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws may have the effect of delaying, deferring or discouraging another person from acquiring control of our company. These provisions, which are summarized below, may have the effect of discouraging takeover bids. They are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

Delaware Law

We are governed by the provisions of Section 203 of the DGCL. In general, Section 203 prohibits a public Delaware corporation from engaging in a "business combination" with an "interested

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stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales or other transactions resulting in a financial benefit to the stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years of the date on which it is sought to be determined whether such person is an "interested stockholder," did own, 15% or more of the corporation's outstanding voting stock. These provisions may have the effect of delaying, deferring or preventing a change in our control.

Amended and Restated Certificate of Incorporation and Amended and Restated Bylaw Provisions

Our amended and restated certificate of incorporation and our amended and restated bylaws include a number of provisions that could deter hostile takeovers or delay or prevent changes in control of our management team, including the following:

Board of directors vacancies. Our amended and restated certificate of incorporation and amended and restated bylaws authorize only our board of directors to fill vacant directorships, including newly created seats. In addition, the number of directors constituting our board of directors is permitted to be set only by a resolution adopted by our board of directors. These provisions prevent a stockholder from increasing the size of our board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors but promotes continuity of management.

Classified board. Our amended and restated certificate of incorporation and amended and restated bylaws provide that our board is classified into three classes of directors. A third party may be discouraged from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time consuming for stockholders to replace a majority of the directors on a classified board of directors.

Stockholder action; special meeting of stockholders. Our amended and restated certificate of incorporation provides that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock is not be able to amend our amended and restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws. Our amended and restated bylaws further provide that special meetings of our stockholders may be called only by our board of directors, the Chairman of our Board of Directors, our Chief Executive Officer or our President, thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.

Advance notice requirements for stockholder proposals and director nominations. Our amended and restated bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our amended and restated bylaws also specify certain requirements regarding the form and content of a stockholder's notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. We expect that these provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

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No cumulative voting. The DGCL provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation does not provide for cumulative voting.

Directors removed only for cause. Our amended and restated certificate of incorporation provides that stockholders may remove directors only for cause.

Amendment of charter provisions. Any amendment of the above provisions in our amended and restated certificate of incorporation would require approval by holders of at least 66²/₃% of the voting power of our then outstanding voting securities.

Issuance of undesignated preferred stock. Our board of directors will have the authority, without further action by the stockholders, to issue up to 5,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by our board of directors. The existence of authorized but unissued shares of preferred stock would enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or other means.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare, N.A. The transfer agent and registrar's address is 250 Royall Street, Canton, MA 02021. Our shares of common stock are issued in uncertificated form only, subject to limited circumstances.

Market Listing

Our common stock is listed on The NASDAQ Global Market under the symbol "AVGR."

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DESCRIPTION OF THE DEPOSITARY SHARES

General

At our option, we may elect to offer fractional shares of preferred stock, rather than full shares of preferred stock. If we do elect to offer fractional shares of preferred stock, we will issue receipts for depositary shares and each of these depositary shares will represent a fraction of a share of a particular series of preferred stock, as specified in the applicable prospectus supplement. Each owner of a depositary share will be entitled, in proportion to the applicable fractional interest in shares of preferred stock underlying that depositary share, to all rights and preferences of the preferred stock underlying that depositary share. These rights may include dividend, voting, redemption and liquidation rights.

The shares of preferred stock underlying the depositary shares will be deposited with a bank or trust company selected by us to act as depositary, under a deposit agreement by and among us, the depositary and the holders of the depositary receipts. The depositary will be the transfer agent, registrar and dividend disbursing agent for the depositary shares.

The depositary shares will be evidenced by depositary receipts issued pursuant to the depositary agreement. Holders of depositary receipts agree to be bound by the deposit agreement, which requires holders to take certain actions such as filing proof of residence and paying certain charges.

The summary of terms of the depositary shares contained in this prospectus is not complete, and is subject to modification in any prospectus supplement for any issuance of depositary shares. You should refer to the forms of the deposit agreement, our amended and restated certificate of incorporation and the certificate of designation that are, or will be, filed with the SEC for the applicable series of preferred stock.

Dividends

The depositary will distribute cash dividends or other cash distributions, if any, received in respect of the series of preferred stock underlying the depositary shares to the record holders of depositary receipts in proportion to the number of depositary shares owned by those holders on the relevant record date. The relevant record date for depositary shares will be the same date as the record date for the preferred stock.

In the event of a distribution other than in cash, the depositary will distribute property received by it to the record holders of depositary receipts that are entitled to receive the distribution, unless the depositary determines that it is not feasible to make the distribution. If this occurs, the depositary, with our approval, may adopt another method for the distribution, including selling the property and distributing the net proceeds to the holders.

Liquidation Preference

If a series of preferred stock underlying the depositary shares has a liquidation preference, in the event of our voluntary or involuntary liquidation, dissolution or winding up, holders of depositary shares will be entitled to receive the fraction of the liquidation preference accorded each share of the applicable series of preferred stock, as set forth in the applicable prospectus supplement.

Redemption

If a series of preferred stock underlying the depositary shares is subject to redemption, the depositary shares will be redeemed from the proceeds received by the depositary resulting from the redemption, in whole or in part, of the preferred stock held by the depositary. Whenever we redeem any preferred stock held by the depositary, the depositary will redeem, as of the same redemption date,

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the number of depositary shares representing the preferred stock so redeemed. The depositary will mail the notice of redemption to the record holders of the depositary receipts promptly upon receiving the notice from us and not fewer than 20 or more than 60 days, unless otherwise provided in the applicable prospectus supplement, prior to the date fixed for redemption of the preferred stock.

Voting

Upon receipt of notice of any meeting at which the holders of preferred stock are entitled to vote, the depositary will mail the information contained in the notice of meeting to the record holders of the depositary receipts underlying the preferred stock. Each record holder of those depositary receipts on the record date will be entitled to instruct the depositary as to the exercise of the voting rights pertaining to the amount of preferred stock underlying that holder's depositary shares. The record date for the depositary will be the same date as the record date for the preferred stock. The depositary will, to the extent practicable, vote the preferred stock underlying the depositary shares in accordance with these instructions. We will agree to take all action that may be deemed necessary by the depositary in order to enable the depositary to vote the preferred stock in accordance with these instructions. The depositary will not vote the preferred stock to the extent that it does not receive specific instructions from the holders of depositary receipts.

Withdrawal of Preferred Stock

Owners of depositary shares will be entitled to receive upon surrender of depositary receipts at the principal office of the depositary and payment of any unpaid amount due to the depositary, the number of whole shares of preferred stock underlying their depositary shares.

Partial shares of preferred stock will not be issued. Holders of preferred stock will not be entitled to deposit the shares under the deposit agreement or to receive depositary receipts evidencing depositary shares for the preferred stock.

Amendment and Termination of the Deposit Agreement

The form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement may be amended by agreement between the depositary and us. However, any amendment which materially and adversely alters the rights of the holders of depositary shares, other than fee changes, will not be effective unless the amendment has been approved by at least a majority of the outstanding depositary shares. The deposit agreement may be terminated by the depositary or us only if:

all outstanding depositary shares have been redeemed; or

there has been a final distribution of the preferred stock in connection with our dissolution and such distribution has been made to all the holders of depositary shares.

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangement. We will also pay charges of the depositary in connection with:

the initial deposit of the preferred stock;

the initial issuance of the depositary shares;

any redemption of the preferred stock; and

all withdrawals of preferred stock by owners of depositary shares.

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Holders of depositary receipts will pay transfer, income and other taxes and governmental charges and other specified charges as provided in the deposit agreement for their accounts. If these charges have not been paid, the depositary may:

	June 30, 2017	September 30, 2016
	(In thousands)	
Assets:		
Net property, plant and equipment	\$—	\$11,905
Accounts receivable	—	93,551
Gas stored underground	—	54,246
Other current assets	—	14,711
Goodwill	—	16,445
Deferred charges and other assets	—	435
Total assets of the disposal group classified as held for sale in the statement of financial position ⁽¹⁾	—	191,293
Cash	—	25,417
Other assets	—	5
Total assets of disposal group in the statement of financial position	\$—	\$216,715
Liabilities:		
Accounts payable and accrued liabilities	\$—	\$72,268
Other current liabilities	—	9,640
Deferred credits and other	—	316
Total liabilities of the disposal group classified as held for sale in the statement of financial position ⁽¹⁾	—	82,224
Intercompany note payable	—	35,000
Tax liabilities	—	15,471
Intercompany payables	—	14,139
Other liabilities	—	3,284
Total liabilities of disposal group in the statement of financial position	\$—	\$150,118

(1) Amounts in the comparative period are classified as current and long term in the statement of financial position.

The following table presents statement of cash flow data related to discontinued operations:

	Nine Months Ended June 30	
	2017	2016
	(In thousands)	
Depreciation and amortization expense	\$185	\$1,743
Capital expenditures	\$—	\$179
Noncash gain (loss) in commodity contract cash flow hedges	\$18,744	\$(33,898)
Acquisition of EnLink Pipeline		

On December 20, 2016, we executed a purchase and sale agreement to acquire the general partnership and limited partnership interests in EnLink North Texas Pipeline, LP (EnLink Pipeline) from EnLink Energy GP, LLC and EnLink Midstream Operating, LP for a cash purchase price of \$85 million, plus working capital of \$1.1 million.

EnLink Pipeline's primary asset was a 140-mile natural gas pipeline located on the north side of the Dallas-Fort Worth Metroplex. The \$85 million purchase price has been allocated, based on fair value using observable market inputs, to the net book value of the acquired pipeline.

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7. Shareholders' Equity

Shelf Registration and At-the-Market Equity Sales Program

On March 28, 2016, we filed a registration statement with the Securities and Exchange Commission (SEC) that originally permitted us to issue, from time to time, up to \$2.5 billion in common stock and/or debt securities. We also filed a prospectus supplement under the registration statement relating to an at-the-market (ATM) equity distribution program under which we may issue and sell, shares of our common stock, up to an aggregate offering price of \$200 million. During the nine months ended June 30, 2017, we sold 1,303,494 shares of common stock under our existing ATM program for \$100 million and received net proceeds of \$98.8 million. At June 30, 2017, approximately \$1.6 billion of securities remained available for issuance under the shelf registration statement and substantially all shares have been issued under our ATM program.

Accumulated Other Comprehensive Income (Loss)

We record deferred gains (losses) in AOCI related to available-for-sale securities, interest rate cash flow hedges and commodity contract cash flow hedges. Deferred gains (losses) for our available-for-sale securities and commodity contract cash flow hedges are recognized in earnings upon settlement, while deferred gains (losses) related to our interest rate agreement cash flow hedges are recognized in earnings as they are amortized. The following tables provide the components of our accumulated other comprehensive income (loss) balances, net of the related tax effects allocated to each component of other comprehensive income (loss):

	Interest Rate Agreement Cash Flow Hedges	Commodity Contracts Cash Flow Hedges	Total	
September 30, 2016	\$4,484	\$(187,524)	\$(4,982)	\$(188,022)
Other comprehensive income before reclassifications	1,485	76,602	9,847	87,934
Amounts reclassified from accumulated other comprehensive income	68	286	(4,865)	(4,511)
Net current-period other comprehensive income	1,553	76,888	4,982	83,423
June 30, 2017	\$6,037	\$(110,636)	\$—	\$(104,599)

	Interest Rate Agreement Cash Flow Hedges	Commodity Contracts Cash Flow Hedges	Total	
September 30, 2015	\$4,949	\$(88,842)	\$(25,437)	\$(109,330)
Other comprehensive loss before reclassifications	(1,417)	(88,345)	(8,612)	(98,374)
Amounts reclassified from accumulated other comprehensive income	(79)	260	29,290	29,471
Net current-period other comprehensive income (loss)	(1,496)	(88,085)	20,678	(68,903)
June 30, 2016	\$3,453	\$(176,927)	\$(4,759)	\$(178,233)

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The following tables detail reclassifications out of AOCI for the three and nine months ended June 30, 2017 and 2016. Amounts in parentheses below indicate decreases to net income in the statement of income:

	Three Months Ended June 30, 2017
	Amount Reclassified from Accumulated Other Comprehensive Income
Accumulated Other Comprehensive Income Components	Affected Line Item in the Other Statement of Income Comprehensive Income (In thousands)
Cash flow hedges	
Interest rate agreements	\$(177) Interest charges
Commodity contracts	— Purchased gas cost
	(177) Total before tax
	64 Tax benefit
Total reclassifications	\$(113) Net of tax
	Three Months Ended June 30, 2016
	Amount Reclassified from Accumulated Other Comprehensive Income
Accumulated Other Comprehensive Income Components	Affected Line Item in the Other Statement of Income Comprehensive Income (In thousands)
Cash flow hedges	
Interest rate agreements	\$(137) Interest charges
Commodity contracts	(12,347) Purchased gas cost ⁽¹⁾
	(12,484) Total before tax
	4,865 Tax benefit
Total reclassifications	\$(7,619) Net of tax
	Nine Months Ended June 30, 2017
	Amount Reclassified from Accumulated Other Comprehensive Income
Accumulated Other Comprehensive Income Components	Affected Line Item in the Other Statement of Income Comprehensive Income (In thousands)
Available-for-sale securities	\$(107) Operation and maintenance expense
	(107) Total before tax
	39 Tax benefit
	\$(68) Net of tax
Cash flow hedges	
Interest rate agreements	\$(450) Interest charges
Commodity contracts	7,976 Purchased gas cost ⁽¹⁾
	7,526 Total before tax
	(2,947) Tax expense
	\$4,579 Net of tax
Total reclassifications	\$4,511 Net of tax

Accumulated Other Comprehensive Income Components	Nine Months Ended June 30, 2016 Amount Reclassified from Accumulated Other Comprehensive Income Affected Line Item in the Statement of Income (In thousands)
Available-for-sale securities	\$124 Operation and maintenance expense 124 Total before tax (45) Tax expense \$79 Net of tax
Cash flow hedges	
Interest rate agreements	\$(410) Interest charges
Commodity contracts	(48,015) Purchased gas cost ⁽¹⁾ (48,425) Total before tax 18,875 Tax benefit \$(29,550) Net of tax
Total reclassifications	\$(29,471) Net of tax

(1) Amounts are presented as part of income from discontinued operations on the condensed consolidated statements of income.

8. Interim Pension and Other Postretirement Benefit Plan Information

The components of our net periodic pension cost for our pension and other postretirement benefit plans for the three and nine months ended June 30, 2017 and 2016 are presented in the following table. Most of these costs are recoverable through our tariff rates; however, a portion of these costs is capitalized into our rate base. The remaining costs are recorded as a component of operation and maintenance expense.

	Three Months Ended June 30			
	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
	(In thousands)			
Components of net periodic pension cost:				
Service cost	\$5,216	\$4,698	\$3,109	\$2,705
Interest cost	6,296	7,095	2,669	3,106
Expected return on assets	(6,993)	(6,881)	(1,796)	(1,566)
Amortization of transition obligation	—	—	—	21
Amortization of prior service credit	(57)	(57)	(411)	(411)
Amortization of actuarial (gain) loss	4,248	3,319	(706)	(541)
Net periodic pension cost	\$8,710	\$8,174	\$2,865	\$3,314

	Nine Months Ended June 30			
	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
	(In thousands)			
Components of net periodic pension cost:				
Service cost	\$15,649	\$14,093	\$9,327	\$8,117
Interest cost	18,890	21,284	8,009	9,318
Expected return on assets	(20,981)	(20,642)	(5,389)	(4,698)
Amortization of transition obligation	—	—	—	62

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Amortization of prior service credit	(173)	(170)	(1,233)	(1,233)
Amortization of actuarial (gain) loss	12,746	9,959	(2,120)	(1,625)
Net periodic pension cost	\$26,131	\$24,524	\$8,594	\$9,941

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The assumptions used to develop our net periodic pension cost for the three and nine months ended June 30, 2017 and 2016 are as follows:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Discount rate	3.73%	4.55%	3.73%	4.55%
Rate of compensation increase	3.50%	3.50%	N/A	N/A
Expected return on plan assets	7.00%	7.00%	4.45%	4.45%

The discount rate used to compute the present value of a plan's liabilities generally is based on rates of high-grade corporate bonds with maturities similar to the average period over which the benefits will be paid. Generally, our funding policy has been to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974. In accordance with the Pension Protection Act of 2006 (PPA), we determined the funded status of our plan as of January 1, 2017. Based on that determination, we are not required to make a minimum contribution to our defined benefit plan during fiscal 2017; however, we made a voluntary contribution of \$5.0 million during the third quarter of fiscal 2017.

We contributed \$9.9 million to our other post-retirement benefit plans during the nine months ended June 30, 2017. We expect to contribute a total of between \$10 million and \$20 million to these plans during fiscal 2017.

9. Commitments and Contingencies

Litigation and Environmental Matters

With respect to the specific litigation and environmental-related matters or claims that were disclosed in Note 11 of our Fiscal 2016 Financial Statements, there were no material changes in the status of such litigation and environmental-related matters or claims during the nine months ended June 30, 2017.

We are a party to various litigation and environmental-related matters or claims that have arisen in the ordinary course of our business. While the results of such litigation and response actions to such environmental-related matters or claims cannot be predicted with certainty, we continue to believe the final outcome of such litigation and matters or claims will not have a material adverse effect on our financial condition, results of operations or cash flows.

Purchase Commitments

Our distribution divisions maintain supply contracts with several vendors that generally cover a period of up to one year. Commitments for estimated base gas volumes are established under these contracts on a monthly basis at contractually negotiated prices. Commitments for incremental daily purchases are made as necessary during the month in accordance with the terms of the individual contract.

Our Mid-Tex Division also maintains a limited number of long-term supply contracts to ensure a reliable source of gas for our customers in its service area, which obligate it to purchase specified volumes at prices indexed to natural gas hubs. At June 30, 2017, we were committed to purchase 53.2 Bcf within one year, 37.6 Bcf within two to three years and 0.4 Bcf beyond three years under indexed contracts.

Regulatory Matters

Various regulatory agencies, including the SEC and the Commodities Futures Trading Commission, continue to adopt regulations implementing many of the provisions of the Dodd-Frank Act of 2010. We continue to enact new procedures and modify existing business practices and contractual arrangements to comply with such regulations. Additional rulemakings are pending which we believe will result in new reporting and disclosure obligations. The costs associated with hedging certain risks inherent in our business may be further increased when these expected additional regulations are adopted.

As of June 30, 2017, formula rate mechanisms were pending regulatory approval in our Louisiana service area, infrastructure mechanisms were pending regulatory approval in our Mississippi and Virginia service areas and rate cases were pending regulatory approval in our Colorado service area and Texas service area related to APT. These regulatory proceedings are discussed in further detail below in Management's Discussion and Analysis — Recent Ratemaking Developments.

10. Financial Instruments

We currently use financial instruments to mitigate commodity price risk and interest rate risk. The objectives and strategies for using financial instruments and the related accounting for these financial instruments are fully described in Notes 2 and 13 of our Fiscal 2016 Financial Statements. During the nine months ended June 30, 2017, except for the change in the scope of our natural gas marketing commodity risk management activities as a result of the sale of AEM, there were no material

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changes in our objectives, strategies and accounting for using financial instruments. Our financial instruments do not contain any credit-risk-related or other contingent features that could cause payments to be accelerated when our financial instruments are in net liability positions. The following summarizes those objectives and strategies.

Regulated Commodity Risk Management Activities

Our purchased gas cost adjustment mechanisms essentially insulate our distribution segment from commodity price risk; however, our customers are exposed to the effects of volatile natural gas prices. We manage this exposure through a combination of physical storage, fixed-price forward contracts and financial instruments, primarily over-the-counter swap and option contracts, in an effort to minimize the impact of natural gas price volatility on our customers during the winter heating season.

We typically seek to hedge between 25 and 50 percent of anticipated heating season gas purchases using financial instruments. For the 2016-2017 heating season (generally October through March), in the jurisdictions where we are permitted to utilize financial instruments, we hedged approximately 27 percent, or 16.2 Bcf of the winter flowing gas requirements. We have not designated these financial instruments as hedges for accounting purposes.

Natural Gas Marketing Commodity Risk Management Activities

Our natural gas marketing segment was exposed to risks associated with changes in the market price of natural gas through the purchase, sale and delivery of natural gas to its customers at competitive prices. Through December 31, 2016, we managed our exposure to such risks through a combination of physical storage and financial instruments, including futures, over-the-counter and exchange-traded options and swap contracts with counterparties. Effective January 1, 2017, as a result of the sale of AEM, these activities were discontinued.

Due to the sale of AEM, we determined that the cash flows associated with our natural gas marketing commodity cash flow hedges were no longer probable of occurring; therefore, we discontinued hedge accounting as of December 31, 2016. As a result, we reclassified the gain in accumulated other comprehensive income associated with the commodity contracts into earnings as a reduction of purchased gas cost and recognized a pre-tax gain of \$10.6 million, which is included in income from discontinued operations on the condensed consolidated statement of income for the three months ended December 31, 2016.

Interest Rate Risk Management Activities

We periodically manage interest rate risk by entering into financial instruments to effectively fix the Treasury yield component of the interest cost associated with anticipated financings.

As of June 30, 2017, we had forward starting interest rate swaps to effectively fix the Treasury yield component associated with the anticipated issuance of \$450 million unsecured senior notes in fiscal 2019 at 3.78%, which we designated as a cash flow hedge at the time the swaps were executed. As of June 30, 2017, we had \$41.5 million of net realized losses in accumulated other comprehensive income (AOCI) associated with the settlement of financial instruments used to fix the Treasury yield component of the interest cost of financing various issuances of long-term debt and senior notes, which will be recognized as a component of interest expense over the life of the associated notes from the date of settlement. The remaining amortization periods for these settled amounts extend through fiscal 2045.

Quantitative Disclosures Related to Financial Instruments

The following tables present detailed information concerning the impact of financial instruments on our condensed consolidated balance sheet and income statements.

As of June 30, 2017, our financial instruments were comprised of both long and short commodity positions. A long position is a contract to purchase the commodity, while a short position is a contract to sell the commodity. As of June 30, 2017, we had 18,833 MMcf of net short commodity contracts outstanding. These

contracts have not been designated as hedges.

Financial Instruments on the Balance Sheet

The following tables present the fair value and balance sheet classification of our financial instruments as of June 30, 2017 and September 30, 2016. The gross amounts of recognized assets and liabilities are netted within our unaudited Condensed Consolidated Balance Sheets to the extent that we have netting arrangements with the counterparties.

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	Balance Sheet Location	Assets	Liabilities
		(In thousands)	
June 30, 2017			
Designated As Hedges:			
Interest rate contracts	Deferred credits and other liabilities	—	(108,860)
Total		—	(108,860)
Not Designated As Hedges:			
Commodity contracts	Other current assets / Other current liabilities	2,960	(230)
Commodity contracts	Deferred charges and other assets / Deferred credits and other liabilities	268	(282)
Total		3,228	(512)
Gross Financial Instruments		3,228	(109,372)
Gross Amounts Offset on Consolidated Balance Sheet:			
Contract netting		—	—
Net Financial Instruments		3,228	(109,372)
Cash collateral		—	—
Net Assets/Liabilities from Risk Management Activities		\$3,228	\$(109,372)

	Balance Sheet Location	Assets	Liabilities
		(In thousands)	
September 30, 2016			
Designated As Hedges:			
Commodity contracts	Other current assets / Other current liabilities	\$6,612	\$(21,903)
Interest rate contracts	Other current assets / Other current liabilities	—	(68,481)
Commodity contracts	Deferred charges and other assets / Deferred credits and other liabilities	2,178	(3,779)
Interest rate contracts	Deferred charges and other assets / Deferred credits and other liabilities	—	(198,008)
Total		8,790	(292,171)
Not Designated As Hedges:			
Commodity contracts	Other current assets / Other current liabilities	21,186	(18,812)
Commodity contracts	Deferred charges and other assets / Deferred credits and other liabilities	14,165	(12,701)
Total		35,351	(31,513)
Gross Financial Instruments		44,141	(323,684)
Gross Amounts Offset on Consolidated Balance Sheet:			
Contract netting		(39,290)	39,290
Net Financial Instruments		4,851	(284,394)
Cash collateral		6,775	43,575
Net Assets/Liabilities from Risk Management Activities		\$11,626	\$(240,819)

Impact of Financial Instruments on the Income Statement

Hedge ineffectiveness for our natural gas marketing segment was recorded as a component of purchased gas cost, which is included in discontinued operations on the condensed consolidated statements of income, and primarily results from differences in the location and timing of the derivative instrument and the hedged item. For the three months ended June 30, 2016, we recognized a gain arising from fair value and cash flow hedge ineffectiveness of \$13.6 million. For the nine months ended June 30, 2017 and 2016, we recognized gains arising from fair value and cash flow hedge ineffectiveness of \$3.4 million and \$18.1 million. Additional information regarding ineffectiveness recognized in the income statement is included in the tables below.

Fair Value Hedges

The impact of our natural gas marketing segment commodity contracts designated as fair value hedges and the related hedged item on the results of discontinued operations on our condensed consolidated income statement for the three and nine months ended June 30, 2017 and 2016 is presented below.

	Three Months Ended June 30 2017	Nine Months Ended June 30 2017	2016
	(In thousands)		
Commodity contracts	\$-(22,146)	\$(9,567)	\$(11,808)
Fair value adjustment for natural gas inventory designated as the hedged item	—35,630	12,858	29,852
Total decrease in purchased gas cost reflected in income from discontinued operations	\$-13,484	\$3,291	\$18,044
The decrease in purchased gas cost reflected in income from discontinued operations is comprised of the following:			
Basis ineffectiveness	\$-(684)	\$(597)	\$(1,490)
Timing ineffectiveness	—14,168	3,888	19,534
	\$-13,484	\$3,291	\$18,044

Basis ineffectiveness arises from natural gas market price differences between the locations of the hedged inventory and the delivery location specified in the hedge instruments. Timing ineffectiveness arises due to changes in the difference between the spot price and the futures price, as well as the difference between the timing of the settlement of the futures and the valuation of the underlying physical commodity.

Cash Flow Hedges

The impact of our interest rate and natural gas marketing segment cash flow hedges on our condensed consolidated income statements for the three and nine months ended June 30, 2017 and 2016 is presented below.

	Three Months Ended June 30 2017	2016	Nine Months Ended June 30 2017	2016
	(In thousands)			
Loss reclassified from AOCI for effective portion of natural gas marketing commodity contracts	\$—	\$(12,347)	\$(2,612)	\$(48,015)
Gain arising from ineffective portion of natural gas marketing commodity contracts	—	66	111	84
Gain on discontinuance of cash flow hedging of natural gas marketing commodity contracts reclassified from AOCI	—	—	10,579	—
Total impact on purchased gas cost reflected in income from discontinued operations	—	(12,281)	8,078	(47,931)
Net loss on settled interest rate agreements reclassified from AOCI into interest expense	(177)	(137)	(450)	(410)
Total Impact from Cash Flow Hedges	\$(177)	\$(12,418)	\$7,628	\$(48,341)

The following table summarizes the gains and losses arising from hedging transactions that were recognized as a component of other comprehensive income (loss), net of taxes, for the three and nine months ended June 30, 2017 and 2016. The amounts included in the table below exclude gains and losses arising from ineffectiveness because those amounts are immediately recognized in the income statement as incurred.

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	2017	2016
	(In thousands)			
Increase (decrease) in fair value:				
Interest rate agreements	\$(18,669)	\$(39,337)	\$76,602	\$(88,345)
Forward commodity contracts	—	10,573	9,847	(8,612)
Recognition of (gains) losses in earnings due to settlements:				
Interest rate agreements	113	87	286	260
Forward commodity contracts	—	7,532	(4,865)	29,290
Total other comprehensive income (loss) from hedging, net of tax ⁽¹⁾	\$(18,556)	\$(21,145)	\$81,870	\$(67,407)

(1) Utilizing an income tax rate ranging from 37 percent to 39 percent based on the effective rates in each taxing jurisdiction.

Deferred gains (losses) recorded in AOCI associated with our interest rate agreements are recognized in earnings as they are amortized over the terms of the underlying debt instruments, while deferred gains (losses) associated with natural gas marketing segment commodity contracts were recognized in earnings upon settlement. The following amounts, net of deferred taxes, represent the expected recognition in earnings of the deferred losses recorded in AOCI associated with our financial instruments, based upon the fair values of these financial instruments as of June 30, 2017. However, the table below does not include the expected recognition in earnings of our outstanding interest rate agreements as those instruments have not yet settled.

	Interest Rate Agreements (In thousands)
Next twelve months	\$ (1,509)
Thereafter	(40,001)
Total ⁽¹⁾	\$ (41,510)

(1) Utilizing an income tax rate of 37 percent.

Financial Instruments Not Designated as Hedges

The impact of the natural gas marketing segment's financial instruments that had not been designated as hedges on our condensed consolidated income statements for the three months ended June 30, 2016 was a decrease in purchased gas cost of \$1.9 million, which is included in discontinued operations on the condensed consolidated statements of income. For the nine months ended June 30, 2017 and 2016 purchased gas cost (increased) decreased by \$6.8 million and \$(2.8) million.

As discussed above, financial instruments used in our distribution segment are not designated as hedges. However, there is no earnings impact on our distribution segment as a result of the use of these financial instruments because the gains and losses arising from the use of these financial instruments are recognized in the consolidated statement of income as a component of purchased gas cost when the related costs are recovered through our rates and recognized in revenue. Accordingly, the impact of these financial instruments is excluded from this presentation.

11. Fair Value Measurements

We report certain assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We record cash and cash equivalents, accounts receivable and accounts payable at carrying value, which substantially approximates fair value due to the short-term nature of these assets and liabilities. For other financial assets and liabilities, we primarily use quoted market prices and other observable market pricing information to minimize the use of unobservable pricing inputs in our measurements when determining fair value. The methods used to determine fair value for our assets and liabilities are fully

described in Note 2 of our Fiscal 2016 Financial Statements. During the nine months ended June 30, 2017, there were no changes in these methods.

Fair value measurements also apply to the valuation of our pension and postretirement plan assets. Current accounting guidance requires employers to annually disclose information about fair value measurements of the assets of a defined benefit pension or other postretirement plan. The fair value of these assets is presented in Note 7 of our Fiscal 2016 Financial Statements.

Quantitative Disclosures

Financial Instruments

The classification of our fair value measurements requires judgment regarding the degree to which market data is observable or corroborated by observable market data. Authoritative accounting literature establishes a fair value hierarchy that prioritizes the inputs used to measure fair value based on observable and unobservable data. The hierarchy categorizes the inputs into three levels, with the highest priority given to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1), with the lowest priority given to unobservable inputs (Level 3). The following tables summarize, by level within the fair value hierarchy, our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2017 and September 30, 2016. Assets and liabilities are categorized in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) ⁽¹⁾	Significant Other Unobservable Inputs (Level 3)	Netting and Cash Collateral	June 30, 2017
(In thousands)					
Assets:					
Financial instruments	\$—	\$ 3,228	\$	—\$	—\$3,228
Available-for-sale securities					
Registered investment companies	39,406	—	—	—	39,406
Bond mutual funds	15,892	—	—	—	15,892
Bonds	—	31,429	—	—	31,429
Money market funds	—	2,884	—	—	2,884
Total available-for-sale securities	55,298	34,313	—	—	89,611
Total assets	\$55,298	\$ 37,541	\$	—\$	—\$92,839
Liabilities:					
Financial instruments	\$—	\$ 109,372	\$	—\$	—\$109,372
Quoted					
	Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2) ⁽¹⁾	Significant Other Unobservable Inputs (Level 3)	Netting and Cash Collateral ⁽²⁾	September 30, 2016
(In thousands)					
Assets:					
Financial instruments	\$—	\$ 44,141	\$	—\$ (32,515)	\$ 11,626
Hedged portion of gas stored underground	52,578	—	—	—	52,578
Available-for-sale securities					
Registered investment companies	38,677	—	—	—	38,677

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Bonds	—	31,394	—	—	31,394
Money market funds	—	2,630	—	—	2,630
Total available-for-sale securities	38,677	34,024	—	—	72,701
Total assets	\$91,255	\$ 78,165	\$	—\$(32,515)	\$ 136,905
Liabilities:					
Financial instruments	\$—	\$ 323,684	\$	—\$(82,865)	\$ 240,819

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Our Level 2 measurements consist of over-the-counter options and swaps which are valued using a market-based approach in which observable market prices are adjusted for criteria specific to each (1) instrument, such as the strike price, notional amount or basis differences, municipal and corporate bonds which are valued based on the most recent available quoted market prices and money market funds which are valued at cost.

This column reflects adjustments to our gross financial instrument assets and liabilities to reflect netting permitted under our master netting agreements and the relevant authoritative accounting literature. As of (2) September 30, 2016, we had \$50.4 million of cash held in margin accounts to collateralize certain financial instruments. Of this amount, \$43.6 million was used to offset current and noncurrent risk management liabilities under master netting arrangements with the remaining \$6.8 million classified as current risk management assets.

Available-for-sale securities are comprised of the following:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(In thousands)			
As of June 30, 2017				
Domestic equity mutual funds	\$25,236	\$ 7,749	\$ (17)	\$32,968
Foreign equity mutual funds	4,581	1,857	—	6,438
Bond mutual funds	15,928	—	(36)	15,892
Bonds	31,407	52	(30)	31,429
Money market funds	2,884	—	—	2,884
	\$80,036	\$ 9,658	\$ (83)	\$89,611
As of September 30, 2016				
Domestic equity mutual funds	\$26,692	\$ 6,419	\$ (590)	\$32,521
Foreign equity mutual funds	4,954	1,202	—	6,156
Bonds	31,296	108	(10)	31,394
Money market funds	2,630	—	—	2,630
	\$65,572	\$ 7,729	\$ (600)	\$72,701

At June 30, 2017 and September 30, 2016, our available-for-sale securities included \$42.3 million and \$41.3 million related to assets held in separate rabbi trusts for our supplemental executive benefit plans. At June 30, 2017, we maintained investments in bonds that have contractual maturity dates ranging from July 2017 through December 2020.

These securities are reported at market value with unrealized gains and losses shown as a component of accumulated other comprehensive income (loss). We regularly evaluate the performance of these investments on a fund by fund basis for impairment, taking into consideration the fund's purpose, volatility and current returns. If a determination is made that a decline in fair value is other than temporary, the related fund is written down to its estimated fair value and the other-than-temporary impairment is recognized in the income statement.

Other Fair Value Measures

Our debt is recorded at carrying value. The fair value of our debt is determined using third party market value quotations, which are considered Level 1 fair value measurements for debt instruments with a recent, observable trade or Level 2 fair value measurements for debt instruments where fair value is determined using the most recent available quoted market price. The following table presents the carrying value and fair value of our debt as of June 30, 2017 and September 30, 2016:

June 30, 2017	September 30, 2016
------------------	-----------------------

(In thousands)

Carrying Amount	\$3,085,000	\$2,460,000
Fair Value	\$3,388,003	\$2,844,990

12. Concentration of Credit Risk

Information regarding our concentration of credit risk is disclosed in Note 16 of our Fiscal 2016 Financial Statements. Except for the sale of AEM, during the nine months ended June 30, 2017, there were no material changes in our concentration of credit risk.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Atmos Energy Corporation

We have reviewed the condensed consolidated balance sheet of Atmos Energy Corporation and subsidiaries as of June 30, 2017 and the related condensed consolidated statements of income and comprehensive income for the three and nine-month periods ended June 30, 2017 and 2016 and the condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2017 and 2016. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Atmos Energy Corporation and subsidiaries as of September 30, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated November 14, 2016 except for the effects of the change in segments described in Note 3 and the discontinued operations described in Note 15, to which the date is April 12, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheets from which it has been derived.

/s/ ERNST & YOUNG LLP

Dallas, Texas

August 2, 2017

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

INTRODUCTION

The following discussion should be read in conjunction with the condensed consolidated financial statements in this Quarterly Report on Form 10-Q and Management's Discussion and Analysis, which appears in Item 7 of Exhibit 99.1 to our Current Report on Form 8-K dated April 12, 2017.

Cautionary Statement for the Purposes of the Safe Harbor under the Private Securities Litigation Reform Act of 1995

The statements contained in this Quarterly Report on Form 10-Q may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Report are forward-looking statements made in good faith by us and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. When used in this Report, or any other of our documents or oral presentations, the words "anticipate", "believe", "estimate", "expect", "forecast", "goal", "intend", "objective", "plan", "projection", "seek", "strategy" or similar words are intended to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements relating to our strategy, operations, markets, services, rates, recovery of costs, availability of gas supply and other factors. These risks and uncertainties include the following: our ability to continue to access the credit and capital markets to satisfy our liquidity requirements; regulatory trends and decisions, including the impact of rate proceedings before various state regulatory commissions; the impact of adverse economic conditions on our customers; the effects of inflation and changes in the availability and price of natural gas; the availability and accessibility of contracted gas supplies, interstate pipeline and/or storage services; market risks beyond our control affecting our risk management activities, including commodity price volatility, counterparty creditworthiness or performance and interest rate risk; the concentration of our distribution, pipeline and storage operations in Texas; increased competition from energy suppliers and alternative forms of energy; adverse weather conditions; the capital-intensive nature of our natural gas distribution, pipeline and storage businesses; increased costs of providing health care benefits, along with pension and postretirement health care benefits and increased funding requirements; the inability to continue to hire, train and retain appropriate personnel; possible increased federal, state and local regulation of the safety of our operations; increased federal regulatory oversight and potential penalties; the impact of environmental regulations on our business; the impact of climate changes or related additional legislation or regulation in the future; the inherent hazards and risks involved in operating our distribution and pipeline and storage businesses; the threat of cyber-attacks or acts of cyber-terrorism that could disrupt our business operations and information technology systems; natural disasters, terrorist activities or other events and other risks and uncertainties discussed herein, all of which are difficult to predict and many of which are beyond our control. Accordingly, while we believe these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. Further, we undertake no obligation to update or revise any of our forward-looking statements whether as a result of new information, future events or otherwise.

OVERVIEW

Atmos Energy and our subsidiaries are engaged primarily in the regulated natural gas distribution and transmission and storage businesses, as well as our natural gas marketing business through December 31, 2016. We distribute natural gas through sales and transportation arrangements to approximately three million residential, commercial, public authority and industrial customers throughout our six distribution divisions, which at June 30, 2017 covered service areas located in eight states. In addition, we transport natural gas for others through our distribution and pipeline systems.

Through December 31, 2016, our natural gas marketing business provided natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers primarily in the Midwest and Southeast. We completed the sale of this business in January 2017.

We manage and review our consolidated operations through the following three reportable segments:

• The distribution segment is primarily comprised of our regulated natural gas distribution and related sales operations in eight states.

The pipeline and storage segment is comprised primarily of the pipeline and storage operations of our Atmos Pipeline-Texas division and our natural gas transmission operations in Louisiana, which were included in our former nonregulated segment.

• The natural gas marketing segment is comprised of our discontinued natural gas marketing business.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Our condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. We based our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. On an ongoing basis, we evaluate our estimates, including those related to risk management and trading activities, the allowance for doubtful accounts, legal and environmental accruals, insurance accruals, pension and postretirement obligations, deferred income taxes and the valuation of goodwill, indefinite-lived intangible assets and other long-lived assets. Actual results may differ from such estimates.

Our critical accounting policies used in the preparation of our consolidated financial statements are described in Item 7 of Exhibit 99.1 to our Current Report on Form 8-K dated April 12, 2017 and include the following:

Regulation

Unbilled revenue

Pension and other postretirement plans

Contingencies

Financial instruments and hedging activities

Fair value measurements

Impairment assessments

Our critical accounting policies are reviewed periodically by the Audit Committee of our Board of Directors. There were no significant changes to these critical accounting policies during the nine months ended June 30, 2017.

Non-GAAP Financial Measure

Our operations are affected by the cost of natural gas. The cost of gas is passed through to our customers without markup and includes commodity price, transportation, storage, injection and withdrawal fees and settlements of financial instruments used to mitigate commodity price risk. These costs are reflected in the income statement as purchased gas cost. Therefore, increases in the cost of gas are offset by a corresponding increase in revenues. Accordingly, we believe Gross Profit, a non-GAAP financial measure defined as operating revenues less purchased gas cost, is a better indicator of our financial performance than operating revenues as it provides a useful and more relevant measure to analyze our financial performance. As such, the following discussion and analysis of our financial performance will reference gross profit rather than operating revenues and purchased gas cost individually.

RESULTS OF OPERATIONS

Executive Summary

Atmos Energy strives to operate its businesses safely and reliably while delivering superior shareholder value. In recent years, we have implemented rate designs that reduce or eliminate regulatory lag and separate the recovery of our approved rate from customer usage patterns. Additionally, we have significantly increased investments in the safety and reliability of our natural gas distribution and transmission infrastructure. This increased level of investment and timely recovery of these investments through our regulatory mechanisms has resulted in increased earnings and operating cash flows in recent years.

The pursuit of our strategy was the primary driver for our decision to sell our nonregulated natural gas marketing business and to fully exit that business. The sale was announced in October 2016 and closed in January 2017 with the receipt of \$140.3 million in cash proceeds, including working capital. We recorded a net gain of \$0.03 per diluted share on the sale in the second quarter of fiscal 2017. The proceeds received from the transaction were used to fund infrastructure additions and enhancements in our remaining businesses. As a

result of the sale, the results of operations for the divested business have been presented as discontinued operations in the tables below:

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	Three Months Ended June 30		
	2017	2016	Change
	(In thousands, except per share data)		
Distribution operations	\$36,514	\$30,361	\$6,153
Pipeline and storage operations	34,294	35,782	(1,488)
Net income from continuing operations	70,808	66,143	4,665
Net income from discontinued operations	—	5,050	(5,050)
Net income	\$70,808	\$71,193	\$(385)
Diluted EPS from continuing operations	\$0.67	\$0.64	\$0.03
Diluted EPS from discontinued operations	—	0.05	(0.05)
Consolidated diluted EPS	\$0.67	\$0.69	\$(0.02)

	Nine Months Ended June 30		
	2017	2016	Change
	(In thousands, except per share data)		
Distribution operations	\$253,023	\$219,377	\$33,646
Pipeline and storage operations	93,835	91,315	2,520
Net income from continuing operations	346,858	310,692	36,166
Net income from discontinued operations	13,710	5,172	8,538
Net income	\$360,568	\$315,864	\$44,704
Diluted EPS from continuing operations	\$3.27	\$3.01	\$0.26
Diluted EPS from discontinued operations	0.13	0.05	0.08
Consolidated diluted EPS	\$3.40	\$3.06	\$0.34

Net income from continuing operations increased 12 percent, compared to the prior-year period, despite weather that was 30 percent warmer than normal and 12 percent warmer than the prior-year period, primarily due to positive rate outcomes and customer growth in our distribution business. During the nine months ended June 30, 2017, our distribution segment completed 17 regulatory proceedings, resulting in an increase in annual operating income of \$85.0 million and had four ratemaking efforts in progress at June 30, 2017 seeking \$17.1 million of additional annual operating income. Additionally, on January 6, 2017, our Atmos Pipeline - Texas Division filed its statement of intent seeking \$63.6 million, as adjusted in its rebuttal case, in additional annual operating income. On August 1, 2017, a final order was issued resulting in a \$13 million increase in annual operating income. Our discontinued natural gas marketing results for the nine months ended June 30, 2017 primarily include a pre-tax gain of \$10.6 million recognized in the first fiscal quarter related to the discontinuance of cash flow hedging for our natural gas marketing commodity contracts and a \$2.7 million net gain on sale recognized in January 2017 upon completion of the sale.

Capital expenditures for the first nine months of fiscal 2017 were \$812.1 million. Approximately 82 percent was invested to improve the safety and reliability of our distribution and transportation systems, with a significant portion of this investment incurred under regulatory mechanisms that reduce lag to six months or less. We expect our capital expenditures to range between \$1.1 billion and \$1.25 billion for fiscal 2017. We funded our capital expenditure program primarily through operating cash flows of \$745.6 million. Additionally, we issued approximately \$885 million of long-term debt and \$100 million of common stock during the nine month period ending June 30, 2017. The net proceeds from these issuances was primarily used to repay maturing long-term debt and to reduce short-term debt.

In addition, we acquired EnLink Pipeline in the first fiscal quarter of 2017 for an all-cash price of \$86.1 million, inclusive of working capital. The acquisition of EnLink Pipeline increases the capacity on our APT intrastate pipeline to serve transportation customers in North Texas, which continues to experience significant population growth.

As a result of our sustained financial performance, cash flows and capital structure, our Board of Directors increased the quarterly dividend by 7.1 percent for fiscal 2017.

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Distribution Segment

The distribution segment is primarily comprised of our regulated natural gas distribution and related sales operations in eight states. The primary factors that impact the results of this segment are our ability to earn our authorized rates of return, the cost of natural gas, competitive factors in the energy industry and economic conditions in our service areas.

Our ability to earn our authorized rates of return is based primarily on our ability to improve the rate design in our various ratemaking jurisdictions by reducing or eliminating regulatory lag and, ultimately, separating the recovery of our approved margins from customer usage patterns. Improving rate design is a long-term process and is further complicated by the fact that we operate in multiple rate jurisdictions.

Seasonal weather patterns can also affect our distribution operations. However, the effect of weather that is above or below normal is substantially offset through weather normalization adjustments, known as WNA, which has been approved by state regulatory commissions for approximately 97 percent of our residential and commercial meters in the following states for the following time periods:

Kansas, West Texas	October — May
Tennessee	October — April
Kentucky, Mississippi, Mid-Tex	November — April
Louisiana	December — March
Virginia	January — December

Our distribution operations are also affected by the cost of natural gas. The cost of gas is passed through to our customers without markup. Therefore, increases in the cost of gas are offset by a corresponding increase in revenues. Gross profit in our Texas and Mississippi service areas includes franchise fees and gross receipts taxes, which are calculated as a percentage of revenue (inclusive of gas costs). Therefore, the amount of these taxes included in revenues is influenced by the cost of gas and the level of gas sales volumes. We record the associated tax expense as a component of taxes, other than income. Although changes in these revenue-related taxes arising from changes in gas costs affect gross profit, over time the impact is offset within operating income.

As discussed above, the cost of gas typically does not have a direct impact on our gross profit. However, higher gas costs mean higher bills for our customers, which may adversely impact our accounts receivable collections, resulting in higher bad debt expense and may require us to increase borrowings under our credit facilities resulting in higher interest expense. In addition, higher gas costs, as well as competitive factors in the industry and general economic conditions may cause customers to conserve or, in the case of industrial consumers, to use alternative energy sources. However, gas cost risk has been mitigated in recent years through improvements in rate design that allow us to collect from our customers the gas cost portion of our bad debt expense on approximately 75 percent of our residential and commercial margins.

Three Months Ended June 30, 2017 compared with Three Months Ended June 30, 2016
Financial and operational highlights for our distribution segment for the three months ended June 30, 2017 and 2016 are presented below.

	Three Months Ended June 30		
	2017	2016	Change
	(In thousands, unless otherwise noted)		
Operating revenues	\$494,060	\$424,905	\$69,155
Purchased gas cost	197,767	147,569	50,198
Gross profit	296,293	277,336	18,957
Operating expenses	219,241	213,674	5,567
Operating income	77,052	63,662	13,390
Miscellaneous income (expense)	(62)	1,243	(1,305)
Interest charges	18,394	18,677	(283)
Income before income taxes	58,596	46,228	12,368
Income tax expense	22,082	15,867	6,215
Net income	\$36,514	\$30,361	\$6,153
Consolidated distribution sales volumes — MMcf	42,974	39,040	3,934
Consolidated distribution transportation volumes — MMcf	33,307	30,416	2,891
Total consolidated distribution throughput — MMcf	76,281	69,456	6,825
Consolidated distribution average cost of gas per Mcf sold	\$4.60	\$3.78	\$0.82

Income for our distribution segment increased 20 percent, primarily due to a \$19.0 million increase in gross profit, partially offset with a \$5.6 million increase in operating expenses. The quarter-over-quarter increase in gross profit primarily reflects:

- a \$13.7 million net increase in rate adjustments, primarily in our Mid-Tex, West Texas, Louisiana and Mississippi Divisions.

- Customer growth, primarily in our Mid-Tex Division, which contributed an incremental \$1.1 million.

- a \$1.8 million net increase in residential and commercial consumption, primarily in our Mid-Tex Division.

The increase in operating expenses, which includes operation and maintenance expense, provision for doubtful accounts, depreciation and amortization expense and taxes, other than income, was primarily due to higher depreciation and property tax expense associated with increased capital investments, as well as higher administrative expenses.

The following table shows our operating income by distribution division, in order of total rate base, for the three months ended June 30, 2017 and 2016. The presentation of our distribution operating income is included for financial reporting purposes and may not be appropriate for ratemaking purposes.

	Three Months Ended June 30		
	2017	2016	Change
	(In thousands)		
Mid-Tex	\$37,055	\$33,562	\$3,493
Kentucky/Mid-States	13,073	7,126	5,947
Louisiana	11,051	10,051	1,000
West Texas	6,639	5,659	980
Mississippi	3,437	3,916	(479)
Colorado-Kansas	3,842	3,111	731
Other	1,955	237	1,718
Total	\$77,052	\$63,662	\$13,390

Nine Months Ended June 30, 2017 compared with Nine Months Ended June 30, 2016

Financial and operational highlights for our distribution segment for the nine months ended June 30, 2017 and 2016 are presented below.

	Nine Months Ended June 30		
	2017	2016	Change
	(In thousands, unless otherwise noted)		
Operating revenues	\$2,211,257	\$1,936,475	\$274,782
Purchased gas cost	1,106,209	912,231	193,978
Gross profit	1,105,048	1,024,244	80,804
Operating expenses	646,299	622,100	24,199
Operating income	458,749	402,144	56,605
Miscellaneous income	334	804	(470)
Interest charges	56,437	57,481	(1,044)
Income before income taxes	402,646	345,467	57,179
Income tax expense	149,623	126,090	23,533
Net income	\$253,023	\$219,377	\$33,646
Consolidated regulated distribution sales volumes — MMcf	215,158	227,664	(12,506)
Consolidated regulated distribution transportation volumes — MMcf	109,397	103,304	6,093
Total consolidated regulated distribution throughput — MMcf	324,555	330,968	(6,413)
Consolidated regulated distribution average cost of gas per Mcf sold	\$5.14	\$4.01	\$1.13

Income for our distribution segment increased 15 percent, primarily due to an \$80.8 million increase in gross profit, partially offset with a \$24.2 million increase in operating expenses. The year-over-year increase in gross profit primarily reflects:

- a \$59.0 million net increase in rate adjustments, primarily in our Mid-Tex, Louisiana and Mississippi Divisions.

- Customer growth, primarily in our Mid-Tex and Tennessee service areas, which contributed an incremental \$5.4 million.

- a \$3.8 million increase in revenue-related taxes in our Mid-Tex and West Texas Divisions, offset by a corresponding \$3.5 million increase in the related tax expense.

- a \$4.2 million increase in transportation primarily in our Kentucky/Mid-States, Mid-Tex and West Texas Divisions.

- a \$2.1 million net increase in residential consumption, primarily in our Mid-Tex Division.

The increase in operating expenses, which includes operation and maintenance expense, provision for doubtful accounts, depreciation and amortization expense and taxes, other than income, was primarily due to an increase in employee-related costs, higher levels of line locate and pipeline integrity activities, primarily in our Mid-Tex Division, and higher depreciation and property tax expense associated with increased capital investments.

The following table shows our operating income by distribution division, in order of total rate base, for the nine months ended June 30, 2017 and 2016. The presentation of our distribution operating income is included for financial reporting purposes and may not be appropriate for ratemaking purposes.

	Nine Months Ended June 30		
	2017	2016	Change
	(In thousands)		
Mid-Tex	\$200,607	\$181,858	\$18,749
Kentucky/Mid-States	69,821	56,911	12,910
Louisiana	61,276	50,754	10,522
West Texas	42,590	38,793	3,797
Mississippi	41,197	40,369	828
Colorado-Kansas	33,878	31,189	2,689
Other	9,380	2,270	7,110
Total	\$458,749	\$402,144	\$56,605

Recent Ratemaking Developments

The amounts described in the following sections represent the operating income that was requested or received in each rate filing, which may not necessarily reflect the stated amount referenced in the final order, as certain operating costs may have changed as a result of a commission's or other governmental authority's final ruling. During the first nine months of fiscal 2017, we completed 17 regulatory proceedings, resulting in an \$85.0 million increase in annual operating income as summarized below.

	Annual Increase in Operating Income (In thousands)
Rate Action	
Annual formula rate mechanisms	\$ 84,190
Rate case filings	6
Other rate activity	784
	\$ 84,980

Additionally, the following ratemaking efforts seeking \$17.1 million in annual operating income were in progress as of June 30, 2017:

Division	Rate Action	Jurisdiction	Operating Income Requested (In thousands)
Louisiana	Formula Rate Mechanism	LGS ⁽¹⁾	6,237
Mississippi	Infrastructure Mechanism	Mississippi	7,600
Colorado-Kansas	Rate Case	Colorado	2,916
Kentucky/Mid-States	Infrastructure Mechanism	Virginia	308
			\$ 17,061

(1)The proposed increase for LGS customers was implemented on July 1, 2017, subject to refund.

Annual Formula Rate Mechanisms

As an instrument to reduce regulatory lag, formula rate mechanisms allow us to refresh our rates on an annual basis without filing a formal rate case. However, these filings still involve discovery by the appropriate regulatory authorities prior to the final determination of rates under these mechanisms. We currently have formula rate mechanisms in our Louisiana, Mississippi and Tennessee operations and in substantially all of our Texas divisions. Additionally, we have specific infrastructure programs in substantially all of our distribution divisions with tariffs in place to permit the investment associated with these programs to have

their surcharge rate adjusted annually to recover approved capital costs incurred in a prior test-year

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period. The following table summarizes our annual formula rate mechanisms by state:

Annual Formula Rate Mechanisms

State	Infrastructure Programs	Formula Rate Mechanisms
Colorado	System Safety and Integrity Rider (SSIR)	—
Kansas	Gas System Reliability Surcharge (GSRS)	—
Kentucky	Pipeline Replacement Program (PRP)	—
Louisiana	(1)	Rate Stabilization Clause (RSC)
Mississippi	System Integrity Rider (SIR)	Stable Rate Filing (SRF), Supplemental Growth Filing (SGR)
Tennessee	—	Annual Rate Mechanism (ARM)
Texas	Gas Reliability Infrastructure Program (GRIP), (1)	Dallas Annual Rate Review (DARR), Rate Review Mechanism (RRM)
Virginia	Steps to Advance Virginia Energy (SAVE)	—

(1) Infrastructure mechanisms in Texas and Louisiana allow for the deferral of all expenses associated with capital expenditures incurred pursuant to these rules, which primarily consists of interest, depreciation and other taxes (Texas only), until the next rate proceeding (rate case or annual rate filing), at which time investment and costs would be recoverable through base rates.

The following annual formula rate mechanisms were approved during the nine months ended June 30, 2017:

Division	Jurisdiction	Test Year Ended	Increase in Annual Operating Income	Effective Date
			(In thousands)	
2017 Filings:				
Mid-Tex	Mid-Tex DARR ⁽¹⁾	09/30/2016	\$9,672	06/01/2017
Mid-Tex	Mid-Tex Cities RRM	12/31/2016	36,239	06/01/2017
Kentucky/Mid-States	Tennessee ARM	05/31/2016	6,740	06/01/2017
Mid-Tex	Mid-Tex Environs	12/31/2016	1,568	05/23/2017
West Texas	West Texas Environs	12/31/2016	872	05/23/2017
West Texas	West Texas ALDC	12/31/2016	4,682	04/25/2017
Louisiana	TransLa ⁽²⁾	09/30/2016	4,392	04/01/2017
West Texas	West Texas Cities RRM	09/30/2016	4,255	03/15/2017
Colorado-Kansas	Kansas	09/30/2016	801	02/09/2017
Mississippi	Mississippi SRF	10/31/2017	4,390	01/12/2017
Mississippi	Mississippi SIR	10/31/2017	3,334	01/01/2017
Mississippi	Mississippi SGR	10/31/2017	1,292	01/01/2017
Colorado-Kansas	Colorado SSIR	12/31/2017	1,350	01/01/2017
Kentucky/Mid-States	Kentucky PRP	09/30/2017	4,981	10/14/2016
Kentucky/Mid-States	Virginia SAVE	09/30/2017	(378)	10/01/2016
Total 2017 Filings			\$84,190	

(1)

The Company and the City of Dallas were unable to arrive at a mutually agreeable settlement; therefore the DARR rates were implemented, subject to refund, pending the outcome of an appeal filed with the Texas Railroad Commission.

(2) The Trans Louisiana RSC rates were implemented subject to refund on April 1, 2017.

Rate Case Filings

A rate case is a formal request from Atmos Energy to a regulatory authority to increase rates that are charged to our customers. Rate cases may also be initiated when the regulatory authorities request us to justify our rates. This process is referred to as a “show cause” action. Adequate rates are intended to provide for recovery of the Company’s costs as well as a fair rate of return and ensure that we continue to deliver reliable, reasonably priced natural gas service safely to our customers.

The following table summarizes the rate cases that were completed during the nine months ended June 30, 2017:

Division	State	Increase in Annual Operating Income	Effective Date
(In thousands)			
2017 Rate Case Filings:			
Kentucky/Mid-States ⁽¹⁾	Virginia	\$ 6	12/27/2016
Total 2017 Rate Case Filings		\$ 6	

The Virginia State Corporation Commission issued a final order approving a re-basing of the Company's (1)SAVE rates into base rates and a decrease to depreciation expense. The Company had implemented rates on April 1, 2016, subject to refund, of \$0.5 million.

Other Ratemaking Activity

The following table summarizes other ratemaking activity during the nine months ended June 30, 2017:

Division	Jurisdiction	Rate Activity	Additional Annual Operating Income	Effective Date
(In thousands)				
2017 Other Rate Activity:				
Colorado-Kansas	Kansas	Ad-Valorem ⁽¹⁾	\$ 784	2/1/2017
Total 2017 Other Rate Activity			\$ 784	

The Ad Valorem filing relates to a collection of property taxes in excess of the amount included in our (1)Kansas service area's base rates.

Pipeline and Storage Segment

Our pipeline and storage segment consists of the pipeline and storage operations of our Atmos Pipeline–Texas Division (APT) and our natural gas transmission operations in Louisiana, which were previously included in our former nonregulated segment. APT is one of the largest intrastate pipeline operations in Texas with a heavy concentration in the established natural gas producing areas of central, northern, eastern and western Texas, extending into or near the major producing areas of the Barnett Shale, the Texas Gulf Coast and the Delaware and Midland Basins of West Texas. APT provides transportation and storage services to our Mid-Tex Division, other third-party local distribution companies, industrial and electric generation customers, as well as marketers and producers. As part of its pipeline operations, APT manages five underground storage facilities in Texas.

Our natural gas transmission operations in Louisiana are comprised of a proprietary 21-mile pipeline located in New Orleans, Louisiana that is primarily used to aggregate gas supply for our distribution division in Louisiana under a long-term contract and on a more limited basis, to third parties. The demand fee charged to our Louisiana distribution division for these services is subject to regulatory approval by the Louisiana Public Service Commission. We also manage two asset management plans which have been approved by applicable state regulatory commissions. Generally, these asset management plans require us to share with our distribution customers a significant portion of the cost savings earned from these arrangements.

Our pipeline and storage segment is impacted by seasonal weather patterns, competitive factors in the energy industry and economic conditions in our Texas and Louisiana service areas. Natural gas prices do not directly impact the results of this segment as revenues are derived from the transportation and storage of natural gas. However, natural gas prices and demand for natural gas could influence the level of drilling activity in the markets that we serve, which may influence the level of throughput we may be able to transport on our

pipeline. Further, natural gas price differences between the various hubs that we serve in Texas could influence the volumes of gas transported for shippers through our Texas pipeline system and the rates for such transportation.

The results of APT are also significantly impacted by the natural gas requirements of its local distribution company customers. Additionally, its operations may be impacted by the timing of when costs and expenses are incurred and when these costs and expenses are recovered through its tariffs.

APT annually uses GRIP to recover capital costs incurred in the prior calendar year. However, GRIP also requires a utility to file a statement of intent at least once every five years to review its costs and expenses, including capital costs filed for recovery under GRIP. However, APT is precluded from submitting a GRIP filing until a final order has been issued on the

statement of intent. Accordingly, APT has not yet submitted its annual GRIP filing for calendar year 2016. On January 6, 2017, APT filed its statement of intent seeking \$63.6 million, as adjusted in its rebuttal case, in additional annual operating income. On August 1, 2017, a final order was issued resulting in a \$13 million increase in annual operating income.

On December 21, 2016, the Louisiana Public Service Commission approved an annual increase of five percent to the demand fee charged by our natural gas transmission pipeline for each of the next 10 years, effective October 1, 2017. This agreement will replace the existing agreement that expires in September 2017.

Three Months Ended June 30, 2017 compared with Three Months Ended June 30, 2016

Financial and operational highlights for our pipeline and storage segment for the three months ended June 30, 2017 and 2016 are presented below.

	Three Months Ended June 30		
	2017	2016	Change
	(In thousands, unless otherwise noted)		
Mid-Tex / Affiliate transportation revenue	\$84,594	\$85,262	\$(668)
Third-party transportation revenue	27,369	23,877	3,492
Other revenue	5,320	4,716	604
Total operating revenues	117,283	113,855	3,428
Total purchased gas cost	1,251	(438)	1,689
Gross profit	116,032	114,293	1,739
Operating expenses	52,420	49,559	2,861
Operating income	63,612	64,734	(1,122)
Miscellaneous expense	(227)	(125)	(102)
Interest charges	10,104	9,002	1,102
Income before income taxes	53,281	55,607	(2,326)
Income tax expense	18,987	19,825	(838)
Net income	\$34,294	\$35,782	\$(1,488)
Gross pipeline transportation volumes — MMcf	192,543	158,758	33,785
Consolidated pipeline transportation volumes — MMcf	59,023	128,881	30,142

Net income for our pipeline and storage segment decreased four percent, primarily due to a \$2.9 million increase in operating expenses, offset by a \$1.7 million increase in gross profit. The increase in gross profit is primarily the result of higher through system revenue of \$1.3 million, largely related to incremental throughput on the EnLink Pipeline, which was acquired in the first quarter of fiscal 2017, and higher basis spreads due to increased production in the Permian Basin. As noted above, as a result of the annual rate case, we did not file our annual GRIP filing during the second quarter of fiscal 2017, which influenced this segment's performance quarter-over-quarter.

Operating expenses, which includes operation and maintenance expense, provision for doubtful accounts, depreciation and amortization expense and taxes, other than income, increased \$2.9 million, primarily due to higher depreciation expense and property taxes associated with increased capital investments and the acquisition of EnLink Pipeline.

Nine Months Ended June 30, 2017 compared with Nine Months Ended June 30, 2016
Financial and operational highlights for our pipeline and storage segment for the nine months ended June 30, 2017 and 2016 are presented below.

	Nine Months Ended June 30		
	2017	2016	Change
	(In thousands, unless otherwise noted)		
Mid-Tex / Affiliate transportation revenue	\$251,354	\$229,916	\$21,438
Third-party transportation revenue	72,414	66,393	6,021
Other revenue	15,439	18,115	(2,676)
Total operating revenues	339,207	314,424	24,783
Total purchased gas cost	2,331	(72)	2,403
Gross profit	336,876	314,496	22,380
Operating expenses	159,871	143,859	16,012
Operating income	177,005	170,637	6,368
Miscellaneous expense	(784)	(894)	110
Interest charges	30,035	27,294	2,741
Income before income taxes	146,186	142,449	3,737
Income tax expense	52,351	51,134	1,217
Net income	\$93,835	\$91,315	\$2,520
Gross pipeline transportation volumes — MMcf	574,556	526,532	48,024
Consolidated pipeline transportation volumes — MMcf	425,150	373,080	52,070

Net income for our pipeline and storage segment increased three percent, primarily due to a \$22.4 million increase in gross profit, offset by a \$16.0 million increase in operating expenses. The increase in gross profit primarily reflects a \$22.1 million increase in rates from the GRIP filings approved in fiscal 2016.

Operating expenses, which includes operation and maintenance expense, provision for doubtful accounts, depreciation and amortization expense and taxes, other than income, increased \$16.0 million, primarily due to increased levels of pipeline maintenance and integrity activities and higher depreciation expense and property taxes associated with increased capital investments and the acquisition of EnLink Pipeline.

Natural Gas Marketing Segment

Through December 31, 2016, we were engaged in an unregulated natural gas marketing business, which was conducted by Atmos Energy Marketing (AEM). AEM's primary business was to aggregate and purchase gas supply, arrange transportation and storage logistics and ultimately deliver gas to customers at competitive prices. Additionally, AEM utilized proprietary and customer-owned transportation and storage assets to provide various services its customers requested. AEM served most of its customers under contracts generally having one to two year terms. As a result, AEM's margins arose from the types of commercial transactions it had structured with its customers and its ability to identify the lowest cost alternative among the natural gas supplies, transportation and markets to which it had access to serve those customers.

As more fully described in Note 6, effective January 1, 2017, we sold all of the equity interests of AEM to CenterPoint Energy Services, Inc. (CES), a subsidiary of CenterPoint Energy Inc. As a result of the sale, Atmos Energy has fully exited the nonregulated natural gas marketing business. Accordingly, these operations have been reported as discontinued operations.

Three Months Ended June 30, 2017 compared with Three Months Ended June 30, 2016

Financial and operating highlights for our natural gas marketing segment for the three months ended June 30, 2017 and 2016 are presented below.

	Three Months Ended June 30	
	2017	2016
	Change	
	(In thousands, unless otherwise noted)	
Operating revenues	\$200,213	\$(200,213)
Purchased gas cost	—184,398	(184,398)
Gross profit	—15,815	(15,815)
Operating income	—7,047	(7,047)
Operating income	—8,768	(8,768)
Miscellaneous income	—56	(56)
Interest charges	—360	(360)
Income before income taxes	—8,464	(8,464)
Income tax expense	—3,414	(3,414)
Net income from discontinued operations	\$—5,050	\$(5,050)
Gross natural gas marketing delivered gas sales volumes — MMcf	—84,415	(84,415)
Consolidated natural gas marketing delivered gas sales volumes — MMcf	—72,742	(72,742)
Net physical position (Bcf)	—29.4	(29.4)

Nine Months Ended June 30, 2017 compared with Nine Months Ended June 30, 2016

Financial and operating highlights for our natural gas marketing segment for the nine months ended June 30, 2017 and 2016 are presented below.

	Nine Months Ended June 30		
	2017	2016	Change
	(In thousands, unless otherwise noted)		
Operating revenues	\$303,474	\$728,989	\$(425,515)
Purchased gas cost	277,554	698,445	(420,891)
Gross profit	25,920	30,544	(4,624)
Operating expenses	7,874	19,940	(12,066)
Operating income	18,046	10,604	7,442
Miscellaneous income	30	171	(141)
Interest charges	241	2,108	(1,867)
Income before income taxes	17,835	8,667	9,168
Income tax expense	6,841	3,495	3,346
Income from discontinued operations	10,994	5,172	5,822
Gain on sale of discontinued operations, net of tax	2,716	—	2,716
Net income from discontinued operations	\$13,710	\$5,172	\$8,538
Gross nonregulated delivered gas sales volumes — MMcf	90,223	280,588	(190,365)
Consolidated nonregulated delivered gas sales volumes — MMcf	78,646	245,702	(167,056)
Net physical position (Bcf)	—	29.4	(29.4)

The \$8.5 million year-over-year increase in net income from discontinued operations primarily reflects the recognition of a net \$6.6 million noncash gain from unwinding hedge accounting for certain of the natural gas

marketing business's financial positions in connection with the sale of AEM. Additionally, we recognized a \$2.7 million net gain on sale upon completion of the sale of AEM to CES in January 2017.

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Liquidity and Capital Resources

The liquidity required to fund our working capital, capital expenditures and other cash needs is provided from a variety of sources, including internally generated funds and borrowings under our commercial paper program and bank credit facilities. Additionally, we have various uncommitted trade credit lines with our gas suppliers that we utilize to purchase natural gas on a monthly basis. Finally, from time to time, we raise funds from the public debt and equity capital markets to fund our liquidity needs.

We regularly evaluate our funding strategy and capital structure to ensure that we (i) have sufficient liquidity for our short-term and long-term needs in a cost-effective manner and (ii) maintain a balanced capital structure with a debt-to-capitalization ratio in a target range of 45 to 55 percent. We also evaluate the levels of committed borrowing capacity that we require. We currently have over \$1.5 billion of capacity under our short-term facilities.

We plan to continue to fund our growth through the use of operating cash flows and debt and equity securities, while maintaining a balanced capital structure. To support our capital market activities, we have a registration statement on file with the SEC that permits us to issue a total of \$2.5 billion in common stock and/or debt securities. Under the shelf registration statement, we have filed a prospectus supplement for an at-the-market (ATM) equity distribution program under which we may issue and sell, shares of our common stock, up to an aggregate offering price of \$200 million.

During the first nine months of fiscal 2017, we issued 1,303,494 shares under our ATM program and received net proceeds of \$98.8 million. Substantially all shares have now been issued under this program. Additionally, on June 8, 2017, we completed a public offering of \$500 million of 3.00% senior unsecured notes due 2027 and \$250 million of 4.125% senior unsecured notes due 2044. The net proceeds of approximately \$753 million were used to repay our \$250 million 6.35% senior unsecured notes at maturity on June 15, 2017 and for general corporate purposes, including the repayment of working capital borrowings pursuant to our commercial paper program. At June 30, 2017, approximately \$1.6 billion of securities remain available for issuance under the shelf registration statement.

The following table presents our capitalization inclusive of short-term debt and the current portion of long-term debt as of June 30, 2017, September 30, 2016 and June 30, 2016:

	June 30, 2017		September 30, 2016		June 30, 2016	
	(In thousands, except percentages)					
Short-term debt	\$258,573	3.6 %	\$829,811	12.3 %	\$670,466	10.2 %
Long-term debt	3,066,734	42.4 %	2,438,779	36.2 %	2,438,699	37.1 %
Shareholders' equity	3,901,710	54.0 %	3,463,059	51.5 %	3,466,724	52.7 %
Total	\$7,227,017	100.0 %	\$6,731,649	100.0 %	\$6,575,889	100.0 %

Cash Flows

Our internally generated funds may change in the future due to a number of factors, some of which we cannot control. These include regulatory changes, prices for our products and services, demand for such products and services, margin requirements resulting from significant changes in commodity prices, operational risks and other factors.

Cash flows from operating, investing and financing activities for the nine months ended June 30, 2017 and 2016 are presented below.

	Nine Months Ended June 30		
	2017	2016	Change
	(In thousands)		
Total cash provided by (used in)			
Operating activities	\$745,561	\$629,946	\$115,615
Investing activities	(747,355)	(783,399)	36,044
Financing activities	24,037	191,006	(166,969)
Change in cash and cash equivalents	22,243	37,553	(15,310)
Cash and cash equivalents at beginning of period	47,534	28,653	18,881
Cash and cash equivalents at end of period	\$69,777	\$66,206	\$3,571

Cash flows from operating activities

Period-over-period changes in our operating cash flows are primarily attributable to changes in net income and working capital changes, particularly within our distribution segment resulting from changes in the price of natural gas and the timing of customer collections, payments for natural gas purchases and deferred gas cost recoveries.

For the nine months ended June 30, 2017, we generated cash flow of \$745.6 million from operating activities compared with \$629.9 million for the nine months ended June 30, 2016. The \$115.6 million increase in operating cash flows reflects the positive cash effects of successful rate case outcomes achieved in fiscal 2016 and changes in working capital, primarily the recovery of deferred purchased gas costs.

Cash flows from investing activities

In executing our regulatory strategy, we target our capital spending on regulatory mechanisms that permit us to earn an adequate return timely on our investment without compromising the safety or reliability of our system. Substantially all of our regulated jurisdictions have rate tariffs that provide the opportunity to include in their rate base approved capital costs on a periodic basis without being required to file a rate case.

In recent years, a substantial portion of our cash resources has been used to fund our ongoing construction program, which enables us to enhance the safety and reliability of the systems used to provide natural gas distribution services to our existing customer base, expand our natural gas distribution services into new markets, enhance the integrity of our pipelines and, more recently, expand our intrastate pipeline network. Over the last three fiscal years, approximately 80 percent of our capital spending has been committed to improving the safety and reliability of our system. We anticipate our annual capital spending will be in the range of \$1 billion to \$1.4 billion through fiscal 2020.

For the nine months ended June 30, 2017, cash used for investing activities was \$747.4 million compared to \$783.4 million in the prior-year period. Capital spending increased by \$22.5 million, or 2.8 percent, as a result of planned increases in our distribution segment to repair and replace vintage pipe, partially offset by a decrease in spending in our pipeline and storage segment as a result of the substantial completion of an APT project to improve the reliability of gas service to its local distribution company customers. Cash flows from investing activities also include proceeds of \$140.3 million received from the sale of AEM, a portion of the proceeds received from the completion of a State of Texas use tax audit and the \$86.1 million used to purchase Enlink Pipeline in the first fiscal quarter of 2017.

Cash flows from financing activities

For the nine months ended June 30, 2017, our financing activities generated \$24.0 million of cash compared with \$191.0 million generated in the prior-year period. The \$167.0 million decrease in cash provided by

financing activities is primarily due to the reduction in our short-term debt, partially offset by an increase in our long-term debt.

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The following table summarizes our share issuances for the nine months ended June 30, 2017 and 2016:

	Nine Months Ended	
	June 30	
	2017	2016
Shares issued:		
Direct Stock Purchase Plan	90,789	107,736
1998 Long-Term Incentive Plan	529,060	597,470
Retirement Savings Plan and Trust	205,972	282,578
At-the-Market (ATM) Equity Distribution Program	1,303,494	1,360,756
Total shares issued	2,129,315	2,348,540

The year-over-year decrease in the number of shares issued primarily reflects a decrease in shares issued under the Retirement Savings Plan and Trust and the 1998 Long-Term Incentive Plan.

Credit Facilities

Our short-term borrowing requirements are affected primarily by the seasonal nature of the natural gas business and the level of our capital expenditures. Changes in the price of natural gas, the amount of natural gas we need to supply to meet our customers' needs and our capital spending activities could significantly affect our borrowing requirements. However, our short-term borrowings typically reach their highest levels in the winter months.

We finance our short-term borrowing requirements through a combination of a \$1.5 billion commercial paper program and three committed revolving credit facilities with third-party lenders that provide a total of approximately \$1.5 billion of working capital funding. As of June 30, 2017, the amount available to us under our credit facilities, net of commercial paper and outstanding letters of credit, was \$1.3 billion.

Credit Ratings

Our credit ratings directly affect our ability to obtain short-term and long-term financing, in addition to the cost of such financing. In determining our credit ratings, the rating agencies consider a number of quantitative factors, including debt to total capitalization, operating cash flow relative to outstanding debt, operating cash flow coverage of interest and pension liabilities and funding status. In addition, the rating agencies consider qualitative factors such as consistency of our earnings over time, the quality of our management and business strategy, the risks associated with our businesses and the regulatory structures that govern our rates in the states where we operate.

Our debt is rated by two rating agencies: Standard & Poor's Corporation (S&P) and Moody's Investors Service (Moody's). As of June 30, 2017, both rating agencies maintained a stable outlook. Our current debt ratings are all considered investment grade and are as follows:

	S&P	Moody's
Senior unsecured long-term debt	A	A2
Short-term debt	A-1	P-1

A significant degradation in our operating performance or a significant reduction in our liquidity caused by more limited access to the private and public credit markets as a result of deteriorating global or national financial and credit conditions could trigger a negative change in our ratings outlook or even a reduction in our credit ratings by the three credit rating agencies. This would mean more limited access to the private and public credit markets and an increase in the costs of such borrowings.

A credit rating is not a recommendation to buy, sell or hold securities. The highest investment grade credit rating is AAA for S&P and Aaa for Moody's. The lowest investment grade credit rating is BBB- for S&P and Baa3 for Moody's. Our credit ratings may be revised or withdrawn at any time by the rating agencies, and each rating should be evaluated independently of any other rating. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be lowered, or withdrawn entirely, by a

rating agency if, in its judgment, circumstances so warrant.

Debt Covenants

We were in compliance with all of our debt covenants as of June 30, 2017. Our debt covenants are described in greater detail in Note 5 to the unaudited condensed consolidated financial statements.

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Contractual Obligations and Commercial Commitments

Except as noted in Note 9 to the unaudited condensed consolidated financial statements, there were no significant changes in our contractual obligations and commercial commitments during the nine months ended June 30, 2017.

Risk Management Activities

In our distribution and pipeline and storage segments, we use a combination of physical storage, fixed physical contracts and fixed financial contracts to reduce our exposure to unusually large winter-period gas price increases. Additionally, we manage interest rate risk by entering into financial instruments to effectively fix the Treasury yield component of the interest cost associated with anticipated financings. Through December 31, 2016, we managed our exposure to the risk of natural gas price changes in our natural gas marketing segment by locking in our gross profit margin through a combination of storage and financial instruments, including futures, over-the-counter and exchange-traded options and swap contracts with counterparties.

The following table shows the components of the change in fair value of our financial instruments for the three and nine months ended June 30, 2017 and 2016:

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	2017	2016
	(In thousands)			
Fair value of contracts at beginning of period	\$(114,004)	\$(203,949)	\$(279,543)	\$(153,981)
Contracts realized/settled	37,172	1,196	48,928	1,185
Fair value of new contracts	557	2,377	(1,040)	2,434
Other changes in value	(29,869)	(62,709)	125,511	(112,723)
Fair value of contracts at end of period	(106,144)	(263,085)	(106,144)	(263,085)
Netting of cash collateral	—	39,067	—	39,067
Cash collateral and fair value of contracts at period end	\$(106,144)	\$(224,018)	\$(106,144)	\$(224,018)

The fair value of our financial instruments at June 30, 2017 is presented below by time period and fair value source:

Source of Fair Value	Fair Value of Contracts at June 30, 2017				
	Maturity in Years				
	Less Than 1	1-3	4-5	Greater Than 5	Total Fair Value
	(In thousands)				
Prices actively quoted	\$2,730	\$(108,874)	\$ —	—	—\$(106,144)
Prices based on models and other valuation methods	—	—	—	—	—
Total Fair Value	\$2,730	\$(108,874)	\$ —	—	—\$(106,144)

Pension and Postretirement Benefits Obligations

For the nine months ended June 30, 2017 and 2016, our total net periodic pension and other benefits costs were \$34.7 million and \$34.5 million. A substantial portion of those costs relating to our natural gas distribution operations are recoverable through our gas distribution rates; however, a portion of these costs is capitalized into our distribution rate base. The remaining costs are recorded as a component of operation and maintenance expense.

Our fiscal 2017 costs were determined using a September 30, 2016 measurement date. As of September 30, 2016, interest and corporate bond rates were lower than the rates as of September 30, 2015. Therefore, we decreased the discount rate used to measure our fiscal 2017 net periodic cost from 4.55 percent to 3.73 percent. We maintained the expected return on plan assets of 7.00 percent in the determination of our fiscal 2017 net periodic pension cost based upon expected market returns for our targeted asset allocation. As a

result of the net impact of changes in these and other assumptions, we expect our fiscal 2017 net periodic pension cost to be generally consistent with fiscal 2016.

The amount with which we fund our defined benefit plan is determined in accordance with the Pension Protection Act of 2006 (PPA) and is influenced by the funded position of the plan when the funding requirements are determined on January 1 of each year. Based upon the determination as of January 1, 2017, we are not required to make a minimum contribution to our defined benefit plan during fiscal 2017. However, in June 2017, we made a voluntary contribution of \$5.0 million.

For the nine months ended June 30, 2017 we contributed \$9.9 million to our postretirement medical plans. We anticipate contributing a total of between \$10 million and \$20 million to our postretirement plans during fiscal 2017.

The projected pension liability, future funding requirements and the amount of pension expense or income recognized for the plans are subject to change, depending upon the actuarial value of plan assets in the plans and the determination of future benefit obligations as of each subsequent actuarial calculation date. These amounts will be determined by actual investment returns, changes in interest rates, values of assets in the plans and changes in the demographic composition of the participants in the plans.

OPERATING STATISTICS AND OTHER INFORMATION

The following tables present certain operating statistics for our distribution and pipeline and storage segments for the three and nine-month periods ended June 30, 2017 and 2016.

Distribution Sales and Statistical Data

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016	2017	2016
METERS IN SERVICE, end of period				
Residential	2,935,136	2,903,099	2,935,136	2,903,099
Commercial	268,734	266,435	268,734	266,435
Industrial	1,682	1,815	1,682	1,815
Public authority and other	8,301	8,377	8,301	8,377
Total meters	3,213,853	3,179,726	3,213,853	3,179,726
INVENTORY STORAGE BALANCE — Bcf				
	50.4	51.3	50.4	51.3
SALES VOLUMES — MMcf				
Gas sales volumes				
Residential	17,137	16,407	115,568	125,334
Commercial	15,960	14,718	71,435	73,990
Industrial	8,719	6,728	22,859	22,618
Public authority and other	1,158	1,187	5,296	5,722
Total gas sales volumes	42,974	39,040	215,158	227,664
Transportation volumes	35,020	33,367	116,227	112,477
Total throughput	77,994	72,407	331,385	340,141
OPERATING REVENUES (000's)¹⁾				
Gas sales revenues				
Residential	\$294,000	\$260,634	\$1,385,444	\$1,240,184
Commercial	136,611	113,075	588,273	507,580
Industrial	28,150	19,766	106,167	74,167
Public authority and other	8,591	7,309	38,307	34,402
Total gas sales revenues	467,352	400,784	2,118,191	1,856,333
Transportation revenues	20,439	18,097	67,227	60,202
Other gas revenues	6,269	6,024	25,839	19,940
Total operating revenues	\$494,060	\$424,905	\$2,211,257	\$1,936,475
Average cost of gas per Mcf sold	\$4.60	\$3.78	\$5.14	\$4.01

See footnote following these tables.

Pipeline and Storage Operations Sales and Statistical Data

	Three Months		Nine Months	
	Ended June 30		Ended June 30	
	2017	2016	2017	2016
CUSTOMERS, end of period				
Industrial	92	90	92	90
Other	239	214	239	214
Total	331	304	331	304
INVENTORY STORAGE BALANCE — Bcf	1.1	2.4	1.1	2.4
PIPELINE TRANSPORTATION VOLUMES — MMcf	192,543	158,758	574,556	526,532
OPERATING REVENUES (000's) ⁽¹⁾	\$117,283	\$113,855	\$339,207	\$314,424

Note to preceding tables:

- (1) Sales volumes and revenues reflect segment operations, including intercompany sales and transportation amounts.

RECENT ACCOUNTING DEVELOPMENTS

Recent accounting developments and their impact on our financial position, results of operations and cash flows are described in Note 2 to the unaudited condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information regarding our quantitative and qualitative disclosures about market risk are disclosed in Item 7A of Exhibit 99.1 to our Current Report on Form 8-K dated April 12, 2017. During the nine months ended June 30, 2017, except for the effects of the sale of AEM on our market risk, there were no material changes in our quantitative and qualitative disclosures about market risk.

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act). Based on this evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2017 to provide reasonable assurance that information required to be disclosed by us, including our consolidated entities, in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, including a reasonable level of assurance that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

We did not make any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of the fiscal year ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

During the nine months ended June 30, 2017, there were no material changes in the status of the litigation and other matters that were disclosed in Note 11 of our Fiscal 2016 Financial Statements. We continue to believe that the final outcome of such litigation and other matters or claims will not have a material adverse effect on our financial condition, results of operations or cash flows.

Item 6. Exhibits

A list of exhibits required by Item 601 of Regulation S-K and filed as part of this report is set forth in the Exhibits Index, which immediately precedes such exhibits.

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SIGNATURE

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

ATMOS ENERGY CORPORATION

(Registrant)

By: /s/ CHRISTOPHER T. FORSYTHE

Christopher T. Forsythe

Senior Vice President and Chief Financial Officer

(Duly authorized signatory)

Date: August 2, 2017

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EXHIBITS INDEX

Item 6

Exhibit Number	Description	Page Number or Incorporation by Reference to
2.1	Membership Interest Purchase Agreement by and between Atmos Energy Holdings, Inc. as Seller and CenterPoint Energy Services, Inc. as Buyer, dated as of October 29, 2016	Exhibit 2.1 to Form 8-K dated October 29, 2016 (File No. 1-10042)
10	Equity Distribution Agreement, dated as of March 28, 2016, among Atmos Energy Corporation, Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC.	Exhibit 1.1 to Form 8-K dated March 28, 2016 (File No. 1-10042)
12	Computation of ratio of earnings to fixed charges	
15	Letter regarding unaudited interim financial information	
31	Rule 13a-14(a)/15d-14(a) Certifications	
32	Section 1350 Certifications*	
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	
101.DEF	XBRL Taxonomy Extension Definition Linkbase	
101.LAB	XBRL Taxonomy Extension Labels Linkbase	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	

These certifications, which were made pursuant to 18 U.S.C. Section 1350 by the Company's Chief Executive Officer and Chief Financial Officer, furnished as Exhibit 32 to this Quarterly Report on Form *10-Q, will not be deemed to be filed with the Commission or incorporated by reference into any filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates such certifications by reference.