Avinger Inc
Form 10-K/A
April 26, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2017

or

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

Commission File Number: 001-36817

AVINGER, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-8873453**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

400 Chesapeake Drive

Redwood City, California 94063

(Address of principal executive offices and zip code)

(650) 241-7900

(Telephone number, including area code)

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

Title of Each Class:	**Name of Each Exchange on which Registered**
Common Stock, par value $0.001 per share	The Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x
	Emerging growth company x

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of a share of the registrant s common stock on June 30, 2017 as reported by the Nasdaq Global Market on such date, was approximately $10.7 million. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

As of March 28, 2018, the number of outstanding shares of the registrant s common stock, par value $0.001 per share, was 4,384,224.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Form 10-K is hereby incorporated by reference to the definitive proxy statement for the registrant s 2018 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant s fiscal year ended December 31, 2017.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this Amendment) to the Annual Report on Form 10-K of Avinger, Inc. (the Company) for the fiscal year ended December 31, 2017, initially filed with the Securities and Exchange Commission (the SEC) on March 30, 2018 (the Original Filing), is being filed to correct certain errors in the reports of the independent registered public accounting firms in the Original Filing.

This Amendment No. 1 is being filed solely to correct the reports of the independent registered public accounting firms as follows:

(a) with respect to the opinion of Ernst & Young LLP, to (i) change the reference to the Note discussing the Reverse Stock Split from Note 18 to Note 16 and (ii) change the date of the report with respect to the Reverse Stock Split from February 8, 2018 to February 9, 2018; and

(b) with respect to the opinion of Moss Adams LLP, to revise the reference to the financial statement schedule included in the Index at Item 15(a) and to move the going concern uncertainty explanatory paragraph after the opinion section.

In addition, pursuant to the rules of the SEC, Item 8. Financial Statements and Supplementary Data is being filed in its entirety in this Amendment, however, the only change in Item 8 from the Original Filing has been to correct the reports of the independent registered public accounting firms. Further, the exhibit list in Item 15 of Part IV of the Original Filing has been amended to contain current dated certifications from the Company s Chief Executive Officer and Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002. The certifications of the Company s Chief Executive Officer and Chief Financial Officer are attached as exhibits to this Amendment.

Except for the foregoing amended information, this Amendment does not alter or update any other information contained in the Original Filing. Therefore, this Amendment should be read together with other documents the Company has filed with the SEC subsequent to the Original Filing. Information in such reports and documents updates and supersedes certain information contained in the Original Filing.

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AVINGER, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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Avinger, Pantheris, and Lumivascular are trademarks of our company. Our logo and our other trade names, trademarks and service marks appearing in this Amended Annual Report on Form 10-K/A are our property. Other trade names, trademarks and service marks appearing in this Annual Report on Form 10-K are the property of their respective owners. Solely for convenience, our trademarks and trade names referred to in this Amended Annual Report on Form 10-K/A 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 trade names.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item appears in a separate section of this Annual Report on Form 10-K immediately following Part IV and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following Financial Statements are filed as part of this Annual Report on Form 10-K:

(a)(2) Financial Statement Schedules

All other schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto. Financial statement schedules relating to the allowance for doubtful accounts receivable and for sales returns follows (in thousands):

Description	Balance at Beginning of Year	Charged to costs and expenses	Write offs	Balance at End of Year
Allowance for doubtful accounts receivable:				
Fiscal year ended 2016	$ 20	$ 3	$ 2	$ 21
Fiscal year ended 2017	$ 21	$ 125	$	$ 146

	Balance at Beginning of Year	Charged to costs and expenses	Write offs	Balance at End of Year
Allowance for sales returns:				
Fiscal year ended 2016	$ 59	$ 114	$ 130	$ 43
Fiscal year ended 2017	$ 43	$ 87	$ 75	$ 55

(a)(3) Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

Exhibit Number	**Exhibit Title**
3.1 (1)	Amended and Restated Certificate of Incorporation of the registrant.
3.2 (1)	Bylaws of the registrant.
3.3(2)	Certificate of Amendment to the Amended and Restated Certificate of Incorporation.
3.4(3)	Avinger, Inc. Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock
3.5(4)	Avinger, Inc. Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock
4.1 (5)	Specimen Common Stock certificate of the registrant.
4.2(4)	Specimen Series 1/2 warrant of the registrant.
10.1 (6)	Form of Indemnification Agreement for directors and executive officers.
10.2 (7)	2009 Stock Plan and Form of Option Agreement thereunder.

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10.3 (7)	2014 Preferred Stock Plan.
10.4 (6)	2015 Equity Incentive Plan.
10.5 (6)	Form of Restricted Stock Unit Award Agreement.
10.6 (6)	Form of Stock Option Agreement.
10.7 (6)	2015 Employee Stock Purchase Plan.
10.8 (6)	Executive Incentive Compensation Plan.
10.9 (7)	Amended and Restated Investors Rights Agreement dated September 2, 2014 by and among the registrant and certain stockholders.
10.10 (7)	Lease Agreement, dated July 30, 2010, by and between the registrant and HCP LS Redwood City, LLC for office space located at 400 and 600 Chesapeake Drive, Redwood City, California.
10.11 (7)	First Amendment to Lease Agreement dated September 30, 2011 by and between registrant and HCP LS Redwood City, LLC.
10.12 (8)	Second Amendment to Lease Agreement dated March 4, 2016 by and between the registrant and HCP LS Redwood City, LLC.
10.13 (7)	Credit Agreement dated April 18, 2013 by and between the registrant and PDL Biopharma.
10.14 (7)	Security Agreement dated April 18, 2013 by and between the registrant and PDL BioPharma.
10.15 (7)	Employment Letter dated November 5, 2014 by and between the registrant and John B. Simpson.
10.16 (7)	Employment Letter dated April 2, 2014 by and between the registrant and John D. Simpson.
10.17 (7)	Employment Letter dated December 29, 2010 by and between the registrant and Matthew B. Ferguson.
10.18 (7)	Employment Letter dated December 17, 2014 by and between the registrant and Jeffrey M. Soinski.
10.19 (7)	Change of Control and Severance Agreement dated March 1, 2012 by and between the registrant and John B. Simpson.
10.20 (7)	Change of Control and Severance Agreement dated March 1, 2012 by and between the registrant and Matthew B. Ferguson.
10.21 (14)	Change of Control and Severance Agreement dated March 29, 2018 by and between the registrant and Jeffrey M. Soinski.
10.22 (3)	Registration Rights Agreement, dated as of February , 2018, by and among the registrant, CRG Partners III L.P. and certain of its affiliated funds, as purchasers.
10.23 (7)	Note and Warrant Purchase Agreement dated October 29, 2013 by and between the registrant and holders of convertible promissory notes.
10.24 (7)	Amendment No. 1 to the Note and Warrant Purchase Agreement dated May 6, 2014 by and between the registrant and holders of convertible promissory notes.
10.25 (8)	Term Loan Agreement, dated as of September 22, 2015, by and among the registrant, certain of its subsidiaries from time to time party thereto as guarantors and CRG Partners III L.P. and certain of its affiliated funds, as lenders.
10.26 (8)	Securities Purchase Agreement, dated as of September 22, 2015, by and among the registrant, CRG Partners III L.P. and certain of its affiliated funds, as purchasers.
10.27(9)	Sales Agreement dated as of February 3, 2016, between the Registrant and Cowen and Company, LLC.
10.28(10)	Purchase Agreement, dated as of November 3, 2017, by and between the registrant and Lincoln Park Capital Fund, LLC.
10.29(10)	Registration Rights Agreement, dated as of November 3, 2017, by and between the registrant and Lincoln Park Capital Fund, LLC.
10.30(11)	Separation Agreement and Release, dated as of December 6, 2017, by and between the registrant and John B. Simpson.
10.31(12)	Waiver and Consent, dated as of December 14, 2017, by and among the registrant and the lenders party thereto.
10.32(13)	Waiver and Consent, dated as of January 24, 2018, by and among the registrant and the lenders party thereto.
10.33(3)	Amendment No. 2 to Term Loan Agreement, dated as of February , 2018, by and among the registrant and the lenders party thereto.

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10.34(3)	Series A Preferred Stock Purchase Agreement, dated as of February , 2018, by and among the registrant, CRG Partners III L.P. and certain of its affiliated funds, as purchasers.
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on signature page).
31.1	Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS(14)	XBRL Instance Document
101.SCH(14)	XBRL Taxonomy Extension Schema Document
101.CAL(14)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(14)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB(14)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(14)	XBRL Taxonomy Extension Presentation Linkbase Document

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(1) Previously filed as an Exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 6, 2015, and incorporated by reference herein.

(2) Previously filed as an Exhibit to the registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 2, 2018.

(3) Previously filed as an Exhibit to Amendment No. 2 to the registrant s Registration Statement on Form S-1 (File No. 333-222517) filed with the Securities and Exchange Commission on February 12, 2018, and incorporated by reference herein.

(4) Previously filed as an Exhibit to Amendment No. 3 to the registrant s Registration Statement on Form S-1 (File No. 333-222517) filed with the Securities and Exchange Commission on February 13, 2018, and incorporated by reference herein.

(5) Previously filed as an Exhibit to Amendment No. 2 to the registrant s Registration Statement on Form S-1 (File No. 333-201322) filed with the Securities and Exchange Commission on January 28, 2015, and incorporated by reference herein.

(6) Previously filed as an Exhibit to Amendment No. 1 to the registrant s Registration Statement on Form S-1 (File No. 333-201322) filed with the Securities and Exchange Commission on January 20, 2015, and incorporated by reference herein.

(7) Previously filed as an Exhibit to the registrant s Registration Statement on Form S-1 (File No. 333-201322), filed with the Securities and Exchange Commission on December 30, 2014, and incorporated by reference herein.

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(8) Previously filed as an Exhibit to the registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 12, 2015, and incorporated by reference herein.
(9) Previously filed as an Exhibit to the registrant s Registration Statement on Form S-3 (File No. 333-209368), filed with the Securities and Exchange Commission on February 3, 2016, and incorporated by reference herein.
(10) Previously filed as an Exhibit to the registrant s Registration Statement on Form S-1 (File No. 333-221368), filed with the Securities and Exchange Commission on February 6, 2017, and incorporated by reference herein.
(11) Previously filed as an Exhibit to the registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 11, 2017, and incorporated by reference herein.
(12) Previously filed as an Exhibit to the registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2017, and incorporated by reference herein.
(13) Previously filed as an Exhibit to the registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2018, and incorporated by reference herein.
(14) Previously filed as an Exhibit to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2018.

ITEM 16. FORM 10-K SUMMARY

None.

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AVINGER, INC.

INDEX TO FINANCIAL STATEMENTS

As of December 31, 2017 and 2016, and the

Years Ended December 31, 2017 and 2016

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of

Avinger, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheet of Avinger, Inc. (the Company) as of December 31, 2017, the related statements of operations and comprehensive loss, stockholders equity (deficit), and cash flows for the year then ended, and the related notes and schedule (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and its need for additional capital raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Moss Adams LLP

San Francisco, California

March 30, 2018

We have served as the Company s auditor since 2017.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Avinger, Inc.

We have audited the accompanying balance sheet of Avinger, Inc. as of December 31, 2016, and the related statements of operations and comprehensive loss, stockholders equity (deficit), and cash flows for the year ended December 31, 2016. Our audit also included the financial statement schedule included in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avinger, Inc. at December 31, 2016, and the results of its operations and its cash flows for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

San Francisco, California

March 14, 2017,

except for the Reverse Stock Split paragraph in Note 16, as to which the date is

February 9, 2018

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AVINGER, INC.

BALANCE SHEETS

(In thousands, except share and per share data)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 5,389	$ 36,096
Accounts receivable, net of allowance for doubtful accounts of $146 and $21 at December 31, 2017 and 2016, respectively	1,127	3,570
Inventories	4,295	8,462
Prepaid expenses and other current assets	640	662
Total current assets	11,451	48,790
Property and equipment, net	2,950	4,555
Other assets	687	212
Total assets	$ 15,088	$ 53,557
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 1,273	$ 1,607
Accrued compensation	863	2,807
Accrued expenses and other current liabilities	3,597	3,067
Borrowings	44,744	41,289
Total current liabilities	50,477	48,770
Other long-term liabilities	301	546
Total liabilities	50,778	49,316
Commitments and contingencies (Note 9)		
Stockholders equity (deficit):		
Preferred stock issuable in series, par value of $0.001		
Shares authorized: 5,000,000 at December 31, 2017 and 2016		
Shares issued and outstanding: none at December 31, 2017 and 2016		
Common stock, par value of $0.001		
Shares authorized: 100,000,000 at December 31, 2017 and 2016		
Shares issued and outstanding: 833,597 and 594,321 at December 31, 2017 and 2016, respectively	1	1
Additional paid-in capital	265,636	256,629
Accumulated deficit	(301,327)	(252,389)
Total stockholders equity (deficit)	(35,690)	4,241
Total liabilities and stockholders equity (deficit)	$ 15,088	$ 53,557

See accompanying notes.

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AVINGER, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except per share data)

	Year Ended December 31,	
	2017	**2016**
Revenues	$ 9,934	$ 19,214
Cost of revenues	13,002	14,445
Gross profit (loss)	(3,068)	4,769
Operating expenses:		
Research and development	11,319	15,536
Selling, general and administrative	25,120	39,950
Restructuring charges	1,285	
Litigation settlement	1,760	
Total operating expenses	39,484	55,486
Loss from operations	(42,552)	(50,717)
Interest income	108	125
Interest expense	(6,299)	(5,524)
Other income (expense), net	11	(12)
Net loss and comprehensive loss	(48,732)	(56,128)
Net loss per share, basic and diluted	$ (74.74)	$ (135.57)
Weighted average common shares used to compute net loss per share, basic and diluted	652	414

See accompanying notes.

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AVINGER, INC.

STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity (Deficit)
	Shares	Amount			
Balance at December 31, 2015	**316,020**	**$**	**$ 211,850**	**$ (196,261)**	**$ 15,589**
Issuance of common stock	4,098		805		805
Employee stock-based compensation			7,392		7,392
Exercise of common stock warrants	384				
Issuance of common stock in public offerings, net of underwriting discount, commissions and issuance costs	273,819	1	36,582		36,583
Net and comprehensive loss				(56,128)	(56,128)
Balance at December 31, 2016	**594,321**	**1**	**$ 256,629**	**(252,389)**	**4,241**
Issuance of common stock	4,758		246		246
Employee stock-based compensation			4,966		4,966
Adjustment for change in accounting treatment of stock-based compensation regarding forfeitures on a modified retrospective basis			206	(206)	
Issuance of common stock in public offerings, net of underwriting discount, commissions and issuance costs	234,518		3,589		3,589
Net and comprehensive loss				(48,732)	(48,732)
Balance at December 31, 2017	**833,597**	**$ 1**	**$ 265,636**	**$ (301,327)**	**$ (35,690)**

See accompanying notes.

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AVINGER, INC.

STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2017	2016
Cash flows from operating activities		
Net loss	$ (48,732)	$ (56,128)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,476	1,506
Amortization of debt issuance costs and debt discount	218	222
Stock-based compensation	4,966	7,392
Noncash interest expense and other charges	3,252	1,812
Loss on disposal of property and equipment	18	
Provision for litigation settlement	1,760	
Provision for doubtful accounts receivable	125	3
Provision for excess and obsolete inventories	5,500	797
Changes in operating assets and liabilities:		
Accounts receivable	2,318	(1,512)
Inventories	(1,181)	(6,099)
Prepaid expenses and other current assets	22	(130)
Other assets	(475)	13
Accounts payable	(334)	470
Accrued compensation	(1,945)	(275)
Accrued expenses and other current liabilities	(1,205)	(191)
Other long-term liabilities and accrued interest	(259)	(949)
Net cash used in operating activities	(34,476)	(53,069)
Cash flows from investing activities		
Purchase of property and equipment	(45)	(971)
Proceeds from sale of property and equipment	4	
Net cash used in investing activities	(41)	(971)
Cash flows from financing activities		
Principal paydown of capital lease obligations	(25)	(27)
Proceeds from borrowings, net of issuance costs		9,716
Proceeds from public offerings, net of issuance costs	3,589	36,583
Proceeds from the issuance of common stock	246	805
Net cash provided by financing activities	3,810	47,077
Net change in cash and cash equivalents	(30,707)	(6,963)
Cash and cash equivalents, beginning of period	36,096	43,059
Cash and cash equivalents, end of period	$ 5,389	$ 36,096
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 3,942	$ 4,354
Noncash investing and financing activities:		
Accounts payable for purchases of property and equipment		24
[redacted]		
Transfer between inventory and property and equipment	153	2,245

See accompanying notes.

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AVINGER, INC.

Notes to Financial Statements

1. Organization

Organization, Nature of Business

Avinger, Inc. (the Company), a Delaware corporation, was founded in March 2007 by cardiologist and medical device entrepreneur Dr. John B. Simpson. The Company designs, manufactures and sells image-guided, catheter-based systems that are used by physicians to treat patients with peripheral artery disease (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. The Company manufactures and sells a suite of products in the United States (U.S.) and in select international markets. The Company has developed its Lumivascular platform, which integrates optical coherence tomography (OCT) visualization with interventional catheters and is the industry s only system that provides real-time intravascular imaging during the treatment portion of PAD procedures. The Company s Lumivascular platform consists of a capital component, Lightbox, as well as a variety of disposable catheter products. The Company s current products include its non-imaging catheters, Wildcat and Kittycat, as well as its Lumivascular platform products, Ocelot, Ocelot PIXL and Ocelot MVRX, all of which are designed to allow physicians to penetrate a total blockage in an artery, known as a chronic total occlusion (CTO). In March 2016, the Company also received 510(k) clearance from the U.S. Food and Drug Administration (FDA) for commercialization of Pantheris, the Company s image-guided atherectomy system, designed to allow physicians to precisely remove arterial plaque in PAD patients. The Company commenced sales of Pantheris in the U.S. and select international markets promptly thereafter. The Company is located in Redwood City, California.

Liquidity Matters

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40) effective December 31, 2016, which requires the Company to make certain disclosures if it concludes that there is substantial doubt about the entity s ability to continue as a going concern within one year from the date of the issuance of these financial statements. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. In the course of its activities, the Company has incurred losses and negative cash flows from operations since its inception. As of December 31, 2017, the Company had an accumulated deficit of $301.3 million. The Company expects to incur losses for the foreseeable future. The Company believes that its cash and cash equivalents of $5,389,000 at December 31, 2017 and expected revenues and funds from the public offering will be sufficient to allow the Company to fund its current operations until approximately October 31, 2018. The Company will seek additional sources of funding in the form of debt financing or equity issuances, however, there can be no assurance that the Company will be successful in acquiring additional funding at levels sufficient to fund its operations. These conditions raise substantial doubt about the Company s ability to continue as a going concern. If the Company is unable to raise additional capital in sufficient amounts or on terms acceptable to it, the Company may have to significantly reduce its operations or delay, scale back or discontinue the development of one or more of its products. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company s ultimate success will largely depend on its continued development of innovative medical technologies, its ability to successfully commercialize its products and its ability to raise significant additional funding. Additionally, due to the substantial doubt about the Company s ability to continue operating as a going concern and the material adverse change clause in the Loan Agreement with CRG, the entire amount of borrowings at December 31, 2017 and 2016 has been classified as current in these financial statements. CRG has not invoked the material adverse change clause. On November 3, 2017, the Company entered into the Lincoln Park Purchase Agreement with Lincoln Park, pursuant to which Lincoln Park is obligated to purchase, at the Company s request, up to $15,000,000 of the Company s common stock over a 30-month period, subject to certain limitations set forth in the Lincoln Park Purchase Agreement. As a fee for Lincoln Park s commitment to purchase such shares, the Company issued 23,584 shares of common stock to Lincoln Park on November 3, 2017. As obligated under a registration rights agreement entered into with Lincoln Park in connection with the Purchase Agreement, we filed a registration statement on Form S-1 on November 6, 2017 for up to 248,750 of such shares, which registration statement was declared effective by the SEC on November 17, 2017.

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Public Offerings

In January 2015, the Company issued and sold 125,000 shares of its common stock in its initial public offering (IPO) at a public offering price of $520.00 per share, for net proceeds of approximately $56,897,000 after deducting underwriting discounts and commissions of approximately $4,550,000 and expenses of approximately $3,553,000. Upon the closing of the IPO, all shares of convertible preferred stock then outstanding converted into an aggregate of 174,028 shares of common stock resulting in the reclassification of $137,626,000 from outside of stockholders equity to additional paid-in capital.

On February 3, 2016, the Company filed a universal shelf registration statement to offer up to $150,000,000 of its securities and entered into an at-the-market program pursuant to a Sales Agreement with Cowen and Company (Cowen), through which it may, from time to time, issue and sell shares of common stock having an aggregate offering value of up to $50,000,000. The shelf registration statement also covers the resale of the shares sold to CRG in September 2015. The registration statement was declared effective by the SEC on March 8, 2016. During the year ended December 31, 2017, the Company sold 189,684 shares of common stock through the at-the-market program at an average price of $17.68 per common share and raised net proceeds of $3,187,000, after payment of $101,000 in commissions and fees to Cowen. During the year ended December 31, 2016, the Company sold 27,374 shares, respectively, of common stock through the at-the-market program at an average price of $194.74 per common share and raised net proceeds of $5,171,000, after payment of $160,000 in commissions and fees to Cowen. Due to the SEC s baby shelf rules, which prohibit companies with a public float of less than $75 million from issuing securities under a shelf registration statement in excess of one-third of such company s public float in a twelve-month period, the Company is unable to issue more shares in its at-the-market program at this time. In August 2016, the Company issued and sold 246,445 shares of its common stock in its follow-on public offering, which includes the exercise in full by the underwriters of their option to purchase 32,145 shares of common stock, at a public offering price of $140.00 per share. Net proceeds from the follow-on public offering were approximately $31,549,000 after deducting underwriting discounts and commissions of approximately $2,415,000 and expenses of approximately $538,000.

2. Summary of Significant Accounting Policies

Basis of Presentation

On January 14, 2015, the Company s Board of Directors approved an amendment to the Company s amended and restated certificate of incorporation to effect a 1-for-45 reverse stock split of the Company s common stock and convertible preferred stock. The par value of the common stock and convertible preferred stock was not adjusted as a result of the reverse stock split. All common stock, convertible preferred stock, stock options and warrants, and per share amounts in the financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split. The reverse stock split was effected on January 28, 2015.

On January 30, 2018, the Company s Board of Directors approved an amendment to the Company s amended and restated certificate of incorporation to effect a 1-for-40 reverse stock split of the Company s common stock and convertible preferred stock. The par value of the common stock and convertible preferred stock was not adjusted as a result of the reverse stock split. All common stock, convertible preferred stock, stock options and warrants, and per share amounts in the financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split. The reverse stock split was effected on January 30, 2018.

The financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC).

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Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Management uses significant judgment when making estimates related to its common stock valuation and related stock-based compensation, the valuation of the common stock warrants, the valuation of compound embedded derivatives, provisions for doubtful accounts receivable and excess and obsolete inventories, clinical trial accruals, and its reserves for sales returns and warranty costs. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on the Company s knowledge of current events and actions it may undertake in the future, actual results may ultimately materially differ from these estimates and assumptions.

Fair Value of Financial Instruments

The Company has evaluated the estimated fair value of its financial instruments as of December 31, 2017 and 2016. Financial instruments consist of cash and cash equivalents, accounts receivable and payable, and other current liabilities and borrowings. The carrying amounts of cash and cash equivalents, accounts receivable and payable, and other current liabilities approximate their respective fair values because of the short-term nature of those instruments. Based upon the borrowing terms and conditions currently available to the Company, the carrying values of the borrowings approximate their fair value.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents are considered available-for-sale marketable securities and are recorded at fair value, based on quoted market prices. As of December 31, 2017 and 2016, the Company s cash equivalents are entirely comprised of investments in money market funds. Any related unrealized gains and losses are recorded in other comprehensive income (loss) and included as a separate component of stockholders equity (deficit). There were no unrealized gains and losses as of December 31, 2017 and 2016. Any realized gains and losses and interest and dividends on available-for-sale securities are included in interest income or expense and computed using the specific identification cost method.

Concentration of Credit Risk, and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable to the extent of the amounts recorded on the balance sheets.

The Company s policy is to invest in cash and cash equivalents, consisting of money market funds. These financial instruments are held in Company accounts at one financial institution. The counterparties to the agreements relating to the Company s investments consist of financial institutions of high credit standing.

The Company provides for uncollectible amounts when specific credit problems arise. Management s estimates for uncollectible amounts have been adequate, and management believes that all significant credit risks have been identified at December 31, 2017 and 2016.

The Company s accounts receivable are due from a variety of health care organizations in the United States and select international markets. At December 31, 2017 and 2016, no customer represented 10% or more of the Company s accounts receivable. For the years ended December 31, 2017 and 2016, there were no customers that represented 10% or more of revenues. Disruption of sales orders or a deterioration of financial condition of its customers would have a negative impact on the Company s financial position and results of operations.

The Company manufactures its commercial products in-house, including Pantheris and the Ocelot family of catheters. Certain of the Company s product components and sub-assemblies continue to be manufactured by sole suppliers. Disruption in component or sub-assembly supply from these manufacturers or from in-house production would have a negative impact on the Company s financial position and results of operations.

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The Company is subject to certain risks, including that its devices may not be approved or cleared for marketing by governmental authorities or be successfully marketed. There can be no assurance that the Company s products will achieve widespread adoption in the marketplace, nor can there be any assurance that existing devices or any future devices can be developed or manufactured at an acceptable cost and with appropriate performance characteristics. The Company is also subject to risks common to companies in the medical device industry, including, but not limited to, new technological innovations, dependence upon third-party payors to provide adequate coverage and reimbursement, dependence on key personnel and suppliers, protection of proprietary technology, product liability claims, and compliance with government regulations.

Existing or future devices developed by the Company may require approvals or clearances from the FDA or international regulatory agencies. In addition, in order to continue the Company s operations, compliance with various federal and state laws is required. If the Company were denied or delayed in receiving such approvals or clearances, it may be necessary to adjust operations to align with the Company s currently approved portfolio. If clearance for the products in the current portfolio were withdrawn by the FDA, this may have a material adverse impact on the Company.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. The Company determines the allowance for doubtful accounts based upon an aging of accounts receivable, historical experience, and management judgment. Accounts receivable balances are reviewed individually for collectability. To date, the Company has not experienced significant credit-related losses.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method for all inventories. The Company s policy is to write down inventory that has expired or become obsolete, inventory that has a cost basis in excess of its expected net realizable value, and inventory in excess of expected requirements. The estimate of excess quantities is subjective and primarily dependent on the estimates of future demand for a particular product. If the estimate of future demand is too high, the Company may have to increase the reserve for excess inventory for that product and record a charge to the cost of revenues. Inventory used in clinical trials is expensed at the time of production and recorded as research and development expense.

Property and Equipment

Property and equipment are recorded at cost. Repairs and maintenance costs are expensed as incurred. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets of three to five years. Depreciation expense includes the amortization of assets acquired under capital leases and equipment located at customer sites. Equipment held by customers is comprised of the Lightboxes located at customer sites under a lease or placement agreement and are recorded at cost. Upon execution of a lease or placement agreement, the related equipment is reclassified from inventory to the property and equipment account. Depreciation expense for equipment held by customers is recorded as a component of cost of revenues. Leasehold improvements and assets recorded under capital leases are amortized using the straight-line method over the shorter of the lease term or estimated useful economic life of the asset.

Deferred Offering Costs

Deferred offering costs, which primarily consist of direct incremental legal and accounting fees relating to an offering of equity securities, were capitalized. The deferred offering costs will be offset against proceeds from the public offering upon the effectiveness of the public offerings in fiscal 2018. As of December 31, 2017 and 2016, there were $464,000 and zero deferred offering costs capitalized in other assets on the balance sheet.

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Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. If indicators of impairment exist, an impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. The Company has not recorded any impairment of long-lived assets since inception through December 31, 2017.

Revenue Recognition

The Company s revenues are derived from (1) sale of its Lightbox (2) sale of disposables, which consist of catheters and accessories, and (3) sale of customer service contracts. The Company sells its products directly to hospitals and medical centers as well as through distributors. The Company recognizes revenue in accordance with ASC 605-10, Revenue Recognition, when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collection of the fee is probable and delivery has occurred. For all sales, the Company uses either a signed agreement or a binding purchase order as evidence of an arrangement.

The Company s revenue recognition policies generally result in revenue recognition at the following points:

1. Lightbox sales: The Company sells its products directly to hospitals and medical centers. Provided all other criteria for revenue recognition have been met, the Company recognizes revenue for Lightbox sales directly to end customers when delivery and acceptance occurs, which is defined as receipt by the Company of an executed form by the customer acknowledging that the training and installation process is complete.

2. Sales of disposables: Disposable revenues consist of sales of the Company s catheters and accessories and are recognized when the product has shipped, risk of loss and title has passed to the customer and collectability is reasonably assured.

3. Service revenue: Service revenue is recognized ratably over the term of the service period. To date service revenue has been insignificant.

The Company offers its customers the ability to purchase or lease its Lightbox. In addition, the Company provides a Lightbox under a limited commercial evaluation program to allow certain strategic accounts to install and utilize the Lightbox for a limited trial period of three to six months. When a Lightbox is placed under a lease agreement or under a commercial evaluation program, the Company retains title to the equipment and it remains capitalized on its balance sheet under property and equipment. Depreciation expense on these placed Lightboxes is recorded to cost of revenues on a straight-line basis. The costs to maintain these placed Lightboxes are charged to cost of revenues as incurred.

The Company evaluates its lease and commercial evaluation program agreements and accounts for these contracts under the guidance in ASC 840, Leases and ASC 605-25, Revenue Recognition Multiple Element Arrangements . The guidance requires arrangement consideration to be allocated between a lease deliverable and a non-lease deliverable based upon the relative selling-price of the deliverables, using a specific hierarchy. The hierarchy is as follows: vendor-specific objective evidence of fair value of the respective elements, third-party evidence of selling price, or best estimate of selling price (BESP). The Company allocates arrangement consideration using BESP.

The Company assessed whether the embedded lease is an operating lease or sales-type lease. Based on the Company s assessment of the guidance and given that any payments under the lease agreements are dependent upon contingent future sales, it was determined that collectability of the minimum lease payments is not reasonably predictable. Accordingly, the Company concluded the embedded lease did not meet the criteria of a sales-type lease and accounts for it as an operating lease. The Company recognizes revenue allocated to the lease as the contingent disposable product purchases are delivered and are included in revenues within the statement of operations and comprehensive loss.

For sales through distributors, the Company recognizes revenue when title to the product and the risk of loss transfers from the Company to the distributor. The distributors are responsible for all marketing, sales, training and warranty in their respective territories. The standard terms and conditions contained in the Company s distribution agreements do not provide price protection or stock rotation rights to any of its distributors. In addition, its distributor agreements do not allow the distributor to return or exchange products, and the distributor is obligated to pay the Company upon invoice regardless of its ability to resell the product.

The Company estimates reductions in revenue for potential returns of products by customers. In making such estimates, management analyzes historical returns, current economic trends and changes in customer demand and acceptance of its products. The Company expenses shipping and handling costs as incurred and includes them in the cost of revenues. In those cases where the Company bills shipping and handling costs to customers, it will classify the amounts billed as a component of revenue.

Cost of Revenues

Cost of revenues consists primarily of manufacturing overhead costs, material costs and direct labor. A significant portion of the Company s cost of revenues currently consists of manufacturing overhead costs. These overhead costs include the cost of quality assurance, material procurement, inventory control, facilities, equipment and operations supervision and management. Cost of revenues also includes depreciation expense for the Lightboxes under lease agreements and certain direct costs such as shipping costs.

Product Warranty Costs

The Company typically offers a one-year warranty for parts and labor on its products commencing upon the transfer of title and risk of loss to the customer. The Company accrues for the estimated cost of product warranties upon invoicing its customers, based on historical results. Warranty costs are reflected in the statement of operations and comprehensive loss as a cost of revenues. The warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from these estimates, revisions to the estimated warranty liability would be required. Periodically the Company assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Warranty provisions and claims are summarized as follows (in thousands):

	Year Ended December 31,			
	2017		2016	
Balance beginning of year	$	509	$	70
Warranty provision		306		1,048
Usage/Release		(425)		(609)
Balance end of year	$	390	$	509

Research and Development

The Company expenses research and development costs as incurred. Research and development expenses include personnel and personnel-related costs, costs associated with pre-clinical and clinical development activities, and costs for prototype products that are manufactured prior to market approval for that prototype product; internal and external costs associated with the Company s regulatory compliance and quality assurance functions, including the costs of outside consultants and contractors that assist in the process of submitting and maintaining regulatory filings, and overhead costs, including allocated facility and related expenses.

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Clinical Trials

The Company accrues and expenses costs for its clinical trial activities performed by third parties, including clinical research organizations and other service providers, based upon estimates of the work completed over the life of the individual study in accordance with associated agreements. The Company determines these estimates through discussion with internal personnel and outside service providers as to progress or stage of completion of trials or services pursuant to contracts with clinical research organizations and other service providers and the agreed-upon fee to be paid for such services.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs include design and production costs, including website development, physician and patient testimonial videos, written media campaigns, and other items. Advertising costs of approximately $101,000 and $526,000 were expensed during the years ended December 31, 2017 and 2016, respectively.

Common Stock Valuation and Stock-Based Compensation

Stock-based compensation for the Company includes amortization related to all stock options, restricted stock units (RSUs) and shares issued under the employee stock purchase plan, based on the grant-date estimated fair value. The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model and recognized as expense on a straight-line basis over the vesting period of the award. The Company measures the fair value of RSUs using the closing stock price of a share of the Company s common stock on the grant date and is recognized as expense on a straight-line basis over the vesting period of the award. Because noncash stock-based compensation expense is based on awards ultimately expected to vest, it is reduced by an estimate for future forfeitures. The Company estimates a forfeiture rate for its stock options and RSUs based on an analysis of its actual forfeiture experience and other factors. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates.

Prior to the Company s IPO in January 2015, the fair value of the Company s common stock was determined by its Board of Directors with assistance from management and third-party valuation specialists. Management s approach to estimate the fair value of the Company s common stock is consistent with the methods outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held Company Equity Securities Issued as Compensation. Management considered several factors to estimate enterprise value, including significant milestones that would generally contribute to increases in the value of the Company s common stock. Following the closing of the Company s IPO, the fair value of its common stock is determined based on the closing price of its common stock on The Nasdaq Capital Market.

Foreign Currency

The Company records net gains and losses resulting from foreign exchange transactions as a component of foreign currency exchange losses in other income (expense), net. During the years ended December 31, 2017 and 2016, the Company recorded $11,000 and $12,000 of foreign currency exchange net losses, respectively.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Company s policy is to record interest and penalties on uncertain tax positions as income tax expense when they occur. During the years ended December 31, 2017 and 2016, the Company did not recognize accrued interest or penalties related to unrecognized tax benefits.

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Net Loss per Share

Basic net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period, without consideration for potential dilutive common shares. Diluted net loss per share attributable to common stockholders is computed by dividing the net loss by the weighted average number of shares of common stock and dilutive potential shares of common stock outstanding during the period. Any common stock shares subject to repurchase are excluded from the calculations as the continued vesting of such shares is contingent upon the holders continued service to the Company. As of December 31, 2017 and 2016, there we no shares subject to repurchase. Since the Company was in a loss position for all periods presented, basic net loss per share attributable to common stockholders is the same as diluted net loss per share attributable to common stockholders as the inclusion of all potentially dilutive common shares would have been anti-dilutive.

Net loss per share was determined as follows (in thousands, except per share data):

	Year Ended December 31, 2017		2016
Net loss	$ (48,732)		$ (56,128)
Weighted average common stock outstanding	652		414
Net loss per share, basic and diluted	$ (74.74)		$ (135.57)

The following potentially dilutive securities outstanding have been excluded from the computations of diluted weighted average shares outstanding because such securities have an antidilutive impact due to losses reported:

	December 31, 2017	2016
Common stock options	76,644	92,509
Unvested restricted stock units	5,089	5,355
Common stock warrants	53,715	53,715
	135,448	151,579

Comprehensive Loss

For the years ended December 31, 2017 and 2016, there was no difference between comprehensive loss and the Company s net loss.

Segment and Geographical Information

The Company operates and manages its business as one reportable and operating segment. The Company s chief executive officer, who is the chief operating decision maker, reviews financial information on an aggregate basis for purposes of allocating resources and evaluating financial performance. Primarily all of the Company s long-lived assets are based in the United States. Long-lived assets are comprised of property and equipment. For the years ended December 31, 2017 and 2016, 95% and 96%, respectively, of the Company s revenues, were in the United States, based on the shipping location of the external customer.

Accounting Pronouncements Adopted in 2017

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation (Topic 718) : Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payments, including income tax consequences, application of award forfeitures to expense, classification on the statement of cash flows, and classification of awards as either equity or liabilities. This guidance was effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods.

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As a result of adopting ASU 2016-09, the Company has made an accounting policy election to account for forfeitures as they occur. This change has been applied on a modified retrospective basis, resulting in a cumulative-effect adjustment to increase accumulated deficit by $206,000 as of January 1, 2017, the date of adoption. The adoption of ASU 2016-09 also requires that excess tax benefits and tax deficiencies be recorded in the statement of operations as opposed to additional paid-in capital when the awards vest or are settled. The adoption of ASU 2016-09 as it relates to the accounting for excess tax benefits and tax deficiencies has no impact on the Company s current financial statements or on any prior period financial statements presented. ASU 2016-09 also requires excess tax benefits to be classified as an operating activity, consistent with other income tax cash flows, and may be applied either on a retrospective or prospective basis. The Company has elected to apply this amendment on a prospective basis, as there is no impact to its prior period statements of cash flows. As such, prior periods have not been adjusted.

In July 2015, the FASB issued an accounting standard which applies to all inventory that is measured using methods other than last-in, first-out or the retail inventory method, including inventory that is measured using first-in, first-out or average cost. The standard requires entities to measure inventory at the lower of cost and net realizable value, defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance was effective for public entities for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. The Company s elected to adopt this standard as of January 1, 2017, on a prospective basis. The adoption had no impact on its financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes , which requires entities to present its deferred tax assets and deferred tax liabilities as noncurrent in its financial statements. The guidance was effective for public entities for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. The Company s elected to adopt this standard as of January 1, 2017, on a prospective basis. The adoption of this new guidance does not create any impact to the Company s financial statements due to the fact that no deferred tax assets or liabilities have been reported in its financial statements. This will likely remain the case if the Company continues to incur additional losses, which requires it to maintain a full valuation allowance as it will be more-likely-than-not that its deferred tax assets are not realizable.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB), jointly with the International Accounting Standards Board, issued a comprehensive new standard on recognition from contracts with customers. The standard s core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will become effective for the Company beginning in the first quarter of 2018. Early application would be permitted in 2017. Entities would have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. The guidance requires an entity to recognize revenue in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606) : Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net), to clarify certain aspects of the principal-versus-agent guidance in its new revenue recognition standard.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) : Identifying Performance Obligations and Licensing to clarify on how to identify the performance obligations and the licensing implementation guidance in its new revenue recognition standard.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606) : Narrow-Scope Improvements and Practical Expedients, to address certain issues identified by the Transition Resource Group, (the TRG) in the guidance on assessing collectability, presentation of sales tax, noncash consideration, and completed contracts and contracts modifications at transition.

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The Company adopted the revenue accounting standards on January 1, 2018 using the modified retrospective approach, with the cumulative effect being recorded within retained earnings on January 1, 2018. The new revenue standard is principles-based and interpretation of those principles may vary from company to company based on their unique circumstances. It is possible that interpretation, industry practice, and guidance may evolve as companies and the accounting profession work to implement this new standard. The Company has determined that the new guidance will not have a material impact on its financial statements but will have an impact upon financial statement disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (ASU 2016-02), which increases transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, using a modified retrospective approach, and early adoption is permitted. The Company is evaluating the impact of the adoption of this standard on its financial statements. The Company does expect that the adoption will increase its lease assets and correspondingly increase its lease liabilities.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) : Classification of Certain Cash Receipts and Cash Payments. This update clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and for interim periods therein with early adoption permitted and must be applied retrospectively to all periods presented. The Company does not currently anticipate that the adoption of this standard will have a material impact on its financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230) : Restricted Cash (a consensus of the FASB Emerging Issues Task Force). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for all interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-18 to have a material impact on the Company s financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718) . ASU No. 2017-09 provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions or award classification and would not be required if the changes are considered non-substantive. The amendments of this ASU are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of ASU No. 2017-09 to have a material impact on the Company s financial statements.

3. Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

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Level 2 Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of December 31, 2017 and 2016, cash equivalents were all categorized as Level 1 and consisted of money market funds. As of December 31, 2017 and 2016, there were no financial assets and liabilities categorized as Level 2 or 3. There were no transfers between fair value hierarchy levels during the years ended December 31, 2017 and 2016.

4. Inventories

Inventories consisted of the following (in thousands):

	December 31,	
	2017	2016
Raw materials	$ 1,286	$ 5,706
Finished products	3,009	2,756
Total inventories	$ 4,295	$ 8,462

As of December 31, 2017 and 2016, there were no work-in-process inventories.

5. Property and Equipment, Net

Property and equipment, net, consisted of the following (in thousands):

	December 31,	
	2017	2016
Computer software	$ 248	$ 456
Computer equipment	717	1,268
Machinery and equipment	3,351	4,313
Furniture and fixture	517	636
Leasehold improvements	638	679
Equipment held by customers	2,997	3,475
	8,468	10,827

Less: Accumulated depreciation and amortization		(5,564)		(6,389)
Add: Construction-in-progress		46		117
	$	2,950	$	4,555

Depreciation expense for the years ended December 31, 2017 and 2016, was $1,476,000 and $1,506,000, respectively. Amortization of capital leased assets included in depreciation for the years ended December 31, 2017 and 2016, was $9,000 and $11,000, respectively. Property and equipment includes certain equipment that is leased to customers and located at customer premises. The Company retains the ownership of the leased equipment and has the right to remove the equipment if it is not being utilized according to expectations. Depreciation expense relating to the leased equipment held by customers of $735,000 and $539,000, was recorded in cost of revenues during the years ended December 31, 2017 and 2016, respectively. The net book value of this equipment was $1,811,000 and $2,587,000 at December 31, 2017 and 2016, respectively.

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6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	December 31, 2017		December 31, 2016	
Accrued litigation settlement	$	1,760	$	
Accrued interest payable		364		1,220
Accrued professional services		288		43
Accrued travel expenses		90		429
Accrued sales, use and other taxes		21		40
Accrued warranty		390		509
Sales return allowance		55		43
Accrued clinical trial costs		57		134
Accrued restructuring charge		98		
Other accrued liabilities		474		649
	$	3,597	$	3,067

7. Borrowings

CRG

On September 22, 2015, the Company entered into a Term Loan Agreement (the Loan Agreement) with CRG under which, subject to certain conditions, the Company may borrow up to $50,000,000 in principal amount from CRG on or before March 29, 2017. The Company borrowed $30,000,000 on September 22, 2015. The Company borrowed an additional $10,000,000 on June 15, 2016 under the Loan Agreement. The Company would have been eligible to borrow an additional $10,000,000, on or prior to March 29, 2017, upon achievement of certain revenue milestones, among other conditions, but those milestones were not achieved. Under the Loan Agreement, the first sixteen quarterly payments are interest-only payments, and the last eight quarterly payments will be equal installments in which interest and principal amounts are paid. Interest is calculated at a fixed rate of 12.5% per annum. The Company makes quarterly payments of interest only in arrears commencing on September 30, 2015. During the interest-only period, the Company may elect 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 (PIK) for the remaining amount, for which the 4.0% per annum of interest would be added to the outstanding principal amount of the borrowings. To date, the Company has elected the PIK interest option to the extent available and has made a cash payment for the remaining amount. Principal is repayable in eight equal quarterly installments during the final two years of the term. All unpaid principal, and accrued and unpaid interest, is due and payable in full on September 30, 2021.

The Company may voluntarily prepay the borrowings in full, with a prepayment premium beginning at 5.0% and declining by 1.0% annually thereafter, with no premium being payable if prepayment occurs after the fifth year of the loan. Each tranche of borrowing requires the payment, on the borrowing date, of a financing fee equal to 1.5% of the borrowed loan principal, which is recorded as a discount to the debt. In addition, a facility fee equal to 7.0% of the amounts borrowed plus any PIK is payable at the end of the term or when the borrowings are repaid in full. A long-term liability is being accreted using the effective interest method for the facility fee over the term of the Loan Agreement with a corresponding discount to the debt. The borrowings are collateralized by a security interest in substantially all of the Company s assets. The Loan Agreement requires that the Company adheres to certain affirmative and negative covenants, including financial reporting requirements, certain minimum financial covenants for pre-specified liquidity and revenue requirements and a prohibition against the incurrence of indebtedness, or creation of additional liens, other than as specifically permitted by the terms of the Loan Agreement. In particular, the covenants of the Loan Agreement include a covenant that the Company maintain a minimum of $5,000,000 of cash and certain cash equivalents, and the Company had to achieve minimum revenue of $7,000,000 in 2015, and must achieve minimum revenue of $23,000,000 in 2016, $40,000,000 in 2017, $50,000,000 in 2018, $60,000,000 in 2019 and $70,000,000 in 2020 and in each year thereafter, as applicable. On October 28, 2016, the Company amended the terms of the Loan Agreement, to reduce the minimum

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revenue that the Company must achieve in 2016 to $18,000,000. If the Company fails to meet the applicable minimum revenue target in any calendar year, the Loan Agreement provides the Company with a cure right if it prepays a portion of the outstanding principal equal to 2.0 times the revenue shortfall. In addition, the Loan Agreement prohibits the payment of cash dividends on the Company s capital stock and also places restrictions on mergers, sales of assets, investments, incurrence of liens, incurrence of indebtedness and transactions with affiliates. CRG may accelerate the payment terms of the Loan Agreement upon the occurrence of certain events of default set forth therein, which include the failure of the Company to make timely payments of amounts due under the Loan Agreement, the failure of the Company to adhere to the covenants set forth in the Loan Agreement, the insolvency of the Company or upon the occurrence of a material adverse change.

On December 14, 2017, the Company entered into a waiver and consent agreement (the Waiver and Consent) with CRG. The Waiver and Consent provided for the waiver of the minimum required revenue financial covenant for the twelve-month period beginning January 1, 2017, as required under the terms of the Loan Agreement. Pursuant to the Waiver and Consent, CRG also consented to the Company s payment of the cash interest payment due on December 31, 2017 in the form of a PIK loan instead. As of December 31, 2017, the Company was in compliance with all applicable covenants.

As of December 31, 2017, principal and PIK payments under the Loan Agreement follows (in thousands):

Period Ending December 31,		**Principal and PIK Loan Repayments**
2018	$	
2019		
2020		10,000
2021		20,000
2022 and after		10,000
		40,000
Add: Accretion of closing fees		994
Add: PIK		4,466
		45,460
Less: Amount representing debt financing costs		(716)
Borrowings, net of current portion	$	44,744

Contemporaneously with the execution of the Loan Agreement, the Company entered into a Securities Purchase Agreement (the CRG Purchase Agreement) with CRG which allowed it to purchase up to $5,000,000 of the Company s common stock. CRG purchased 8,705 shares of common stock on September 22, 2015 at a price of $559.64 per share, which is the 10-day average of closing prices of the Company s common stock ending on September 21, 2015. The closing price on September 22, 2015 was $558.80 yielding a $0.84 per share premium. Both the premium and the issuance costs were allocated to the borrowings under Loan Agreement and the common stock purchase under the CRG Purchase Agreement based on the relative fair values of each security. The portion of the premium allocated to the borrowings is being amortized over the term of the Loan Agreement. Pursuant to the CRG Purchase Agreement, the Company filed a shelf registration statement covering, among other things, the resale of the shares sold to CRG and must comply with certain affirmative covenants during the time that such registration statement remains in effect.

In connection with the initial drawdown under the Loan Agreement, the Company recorded a debt discount of $876,000 as contra-debt. The debt discount comprised financing fees of $450,000, paid directly to CRG, and an allocation of the other costs directly attributable to the Loan Agreement and Securities Purchase Agreement with CRG of $541,000 net of the common stock premium of $115,000 based on the relative fair values of each security. In connection with the June 2016 drawdown under the Loan Agreement, the Company recorded a debt discount of $275,000 which comprised financing fees of $150,000, paid directly to CRG, and other costs directly attributable to the Loan Agreement with CRG

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of $125,000. The debt discount is being amortized as non-cash interest expense using the effective interest method over the term of the Loan Agreement. As of December 31, 2017 and 2016, the balance of the aggregate debt discount was $716,000 and $919,000, respectively. The Company s interest expense associated with the debt discount amounted to $203,000 and $196,000 during the years ended December 31, 2017 and 2016, respectively.

As noted in Note 1 to these financial statements, due to the substantial doubt about the Company s ability to continue operating as a going concern and the material adverse change clause in the CRG Loan Agreement, the entire amount of borrowings at December 31, 2017 and 2016 has been classified as current in these financial statements. CRG has not invoked the material adverse change clause.

PDL BioPharma

On April 18, 2013, the Company entered into a Credit Agreement (Agreement) with PDL BioPharma, Inc. (PDL) whereby PDL agreed to loan up to $40,000,000. Contemporaneous with the execution of the Agreement the Company borrowed an initial $20,000,000 (Term Note).

The Term Note was scheduled to mature April 18, 2018, had a stated interest rate of 12.0% per annum and could be prepaid by the Company at any time. The Company paid interest-only through the first ten quarters and, thereafter, repayment of principal in equal installments including accrued and unpaid interest, payable each quarter. As provided under the terms of the Agreement, for the first eight quarterly interest payments, or through 2015, on the Term Note the Company elected to convert an amount of interest, up to 1.5% per annum, into additional loans, referred to as PIK loans. The PIK loans accrued interest and were added to the aggregate principal balance of the Term Note.

In September 2015, in connection with the consummation of the Loan Agreement with CRG, the Company repaid all amounts outstanding under the Agreement. The payoff amount of $21,363,000 included accrued interest through the repayment date of $563,000 and $200,000 as an end-of-term final payment fee recorded in other income (expense), net on the statement of loss and comprehensive loss. For the years ended December 31, 2017 and 2016, the Company incurred interest expense of $121,000 and $380,000, respectively.

In addition to the interest and principal payments, the Company also paid a royalty, referred to as Assigned Interests, equal to 1.8% of the Company s quarterly net revenues. Upon the prepayment of the Term Note, the Company s obligations relating to Assigned Interests continue, and are payable through the maturity date at a reduced rate of 0.9% of the quarterly net revenues, subject to certain quarterly minimum mandatory amounts, which are payable monthly. The ongoing obligation was determined to be an embedded element of the Agreement and cannot be bifurcated from the Term Note for accounting purposes. Accordingly, the Company continued to account for the Assigned Interests obligation relating to future royalties as a debt instrument by applying the retrospective approach and reviews its estimate of forecasted Assigned Interests payable annually. Under the retrospective method, the Company computes a new effective interest rate based on the original carrying amount, actual cash flows to date, and remaining estimated cash flows over the maturity date. The new effective interest rate, 20.4% as of December 31, 2016, was used to adjust the carrying amount to the present value of the revised estimated cash flows, discounted at the new effective interest rate. At the time of the repayment the resulting increase in the carrying value of the Assigned Interests, of $942,000, was recognized as a component of other income (expense), net, on the statements of operations and comprehensive loss. The Company has an aggregate accrual for its Assigned Interests obligations of $364,000 and $1,463,000, representing the net present value of the future minimum royalty obligation as of December 31, 2017 and 2016, respectively. The Assigned Interest liability was included within accrued expenses and other current liabilities as of December 31, 2017 and 2016, on the balance sheet.

Additionally, until April 2018, the Company must periodically pay PDL a percentage of its net revenue and comply with certain affirmative covenants and negative covenants limiting its ability to, among other things, undergo a change in control or dispose of assets, in each case subject to certain exceptions. The Company was in compliance with the covenants under the Agreement as of December 31, 2017.

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8. Capital Leases

Capital lease obligations consist of leased office equipment. As of December 31, 2017 and 2016, the aggregate amount of capital leases recorded within property and equipment, net, on the accompanying balance sheet is $14,000 and $39,000, respectively. The current portion of the capital lease obligations is included in accrued liabilities and the balance included within other long-term liabilities represents the long-term portion.

The future minimum lease payments as of December 31, 2017, are as follows (in thousands):

Period ending December 31,	**Future Minimum Lease Payments**	
2018	$	13
2019		1
Total minimum payments		14
Less: Amount representing future interest		
Present value of minimum lease payments	$	14

9. Commitments and Contingencies

Lease Commitments

The Company s operating lease obligations primarily consist of leased office, laboratory, and manufacturing space under a non-cancelable operating lease that expires in November 2019. The lease agreement includes a renewal provision allowing the Company to extend this lease for an additional period of three years. In addition to the minimum future lease commitments presented below, the lease requires the Company to pay property taxes, insurance, maintenance, and repair costs. The lease includes a rent holiday concession and escalation clauses for increased rent over the lease term. Rent expense is recognized using the straight-line method over the term of the lease. The Company records deferred rent calculated as the difference between rent expense and the cash rental payments. In connection with the facility lease, the landlord also provided incentives of $369,000 to the Company in the form of leasehold improvements. These amounts were reflected as deferred rent and were amortized as a reduction to rent expense over the original term of the Company s operating lease. In February 2016, the Company entered into an additional non-cancelable operating lease for warehouse and storage space that expires in November 2019. Rent expense was $1,833,000 and $1,098,000 for the years ended December 31, 2017 and 2016, respectively.

On October 19, 2017, the Company entered into an agreement to sublease one of its facilities (Note 10). The sublease agreement commenced on approximately December 1, 2017 and is scheduled to expire on November 15, 2019 (which is 15 days prior to the expiration of the facility lease). The sublessee pays a base rent of $3.25 per rentable square foot, for a total of $79,950 per month, increasing to $3.35 per rentable square foot, for a total of $82,410 per month as of December 1, 2018. In addition to the base rent, the sublessee pays the Landlord s operating expenses and property taxes due and payable with respect to the subleased facility.

The future aggregate minimum lease payments, net of sublease income, as of December 31, 2017, are as follows (in thousands):

Year ending December 31,		Future Minimum Lease Payments
2018	$	1,071
2019		1,009
Total minimum lease payments	$	2,080

Purchase Obligations

Purchase obligations consist of agreements to purchase goods and services entered into in the ordinary course of business. The Company had non-cancellable commitments that were payable within one year to suppliers for purchases totaling $1,172,000 and $3,542,000 as of December 31, 2017 and 2016, respectively.

Indemnification

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and may provide for indemnification of the counterparty. The Company s exposure under these agreements is unknown because it involves claims that may be made against it in the future, but have not yet been made. To date, the Company has not been subject to any claims or been required to defend any action related to its indemnification obligations.

The Company indemnifies each of its directors and officers for certain events or occurrences, subject to certain limits, while the director is or was serving at the Company s request in such capacity, as permitted under Delaware law and in accordance with its certificate of incorporation and bylaws. The term of the indemnification period lasts as long as a director may be subject to any proceeding arising out of acts or omissions of such director in such capacity. The maximum amount of potential future indemnification is unlimited; however, the Company currently holds director liability insurance. This insurance allows the transfer of risk associated with the Company s exposure and may enable it to recover a portion of any future amounts paid. The Company believes that the fair value of these indemnification obligations is minimal. Accordingly, it has not recognized any liabilities relating to these obligations for any period presented.

Legal Proceedings

Except as set forth below, the Company is not involved in any pending legal proceedings that it believes could have a material adverse effect on its financial condition, results of operations or cash flows. From time to time, the Company may pursue litigation to assert its legal right and such litigation may be costly and divert the efforts and attention of its management and technical personnel which could adversely affect its business.

Between May 22, 2017 and May 25, 2017, three purported class action lawsuits were filed in the Superior Court of the State of California, County of San Mateo (State Court), against the Company, certain of its officers and directors and the underwriters of the Company s January 2015 IPO. The actions were captioned Grotewiel v. Avinger, Inc., et al., No. 17-CIV-02240, Gonzalez v. Avinger, Inc., et al., No. 17-CIV-02284, and Olberding v. Avinger, Inc., et al., No. 17-CIV-02307. These lawsuits allege that the registration statement for the Company s IPO made false and misleading statements and omissions in violation of the Securities Act of 1933. Plaintiffs seek to represent a class of purchasers of our common stock in and/or traceable to our IPO. Plaintiffs seek, among other things, unspecified compensatory damages, interest, costs, recission, and attorneys fees. On June 12, 2017, defendants removed these actions to the United States District Court for the Northern District of California (Federal Court), where they were captioned Grotewiel v. Avinger, Inc., No. 17-cv-03400, Gonzalez v. Avinger, Inc., No. 17-cv-03401, and Olberding v. Avinger, Inc., No. 17-cv-03398, and where the actions were related and assigned to the same judge.

On October 11, 2017, the Federal Court appointed a lead plaintiff and approved the selection of a lead counsel in the Grotewiel action (Federal Action). An amended complaint in the Federal Action is due on November 21, 2017. On June 22, 2017, and June 23, 2017, plaintiffs Olberding and Gonzalez moved to remand their cases to the State Court. Defendants opposed these motions. On July 21, 2017, the Federal Court granted the motions to remand the Olberding and Gonzalez actions to the State Court. On August 9, 2017, the State Court consolidated the Olberding and Grotewiel actions under the caption Gonzalez v. Avinger, Inc., et al., No. 17-CIV-02284 (State Action). On September 22, 2017, an amended complaint was filed in the State Action. On October 31, 2017, the parties in the State Action stipulated to a stay of proceedings until judgment is entered in the Federal Action. On November 2, 2017, pursuant to stipulation of the parties, the State Court entered an order staying proceedings in the State Action until judgment is entered in the Federal Action.

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The Company and its directors believes that the foregoing lawsuits are entirely without merit; however, in the interest of avoiding the cost and disruption of continuing to defend against these lawsuits, on February 8, 2018, the Company participated in a mediation to explore whether a settlement could be reached. While a settlement was not reached then, the parties continued discussions and they ultimately reached agreement. On March 19, 2018, the Company entered into a binding memorandum of understanding to settle the securities class actions pending against the Company and several of its officers and directors. The settlement is for a total of $5 million and, if approved by the court, will result in a full release of claims against all defendants. The settlement is subject to final documentation, notice to class members, and approval of the court. The Company s total contribution to the settlement fund is $1.76 million. As such, the Company included $1.76 million for litigation settlement within accrued expenses and other current liabilities as of December 31, 2017.

10. Restructuring Charges and Expenses

In April 2017, the Company undertook an organizational realignment which included a reduction in force, lowering its total headcount by approximately 33% compared to December 31, 2016. Accordingly, the Company recorded a restructuring charge of approximately $519,000, relating to severance related costs at that time. As of December 31, 2017, all of the total severance related costs related to the April 2017 termination of 44 employees had been paid.

In September 2017, the Company effected a cost reduction plan, which included a company-wide reduction in force, lowering its total headcount by 24 employees. The Company recorded a restructuring charge of approximately $416,000, relating to severance related costs at that time. In October 2017, the Company subleased one of its facilities and ceased to use the facility as part of the cost reduction plan. The Company recorded a restructuring charge of approximately $388,000 relating to the cost to exit the facility. As of December 31, 2017, all of the total severance related costs related to the termination of 24 employees had been paid. As of December 31, 2017, $98,000 of the total costs to exit the facility was included within accrued expenses and other current liabilities.

11. Stockholders Equity (Deficit)

Preferred Stock

At December 31, 2017, the Company s certificate of incorporation, as amended and restated, authorizes the Company to issue up to 5,000,000 shares of preferred stock with $0.001 par value per share, of which no shares were issued and outstanding.

Common Stock

At December 31, 2017, the Company s certificate of incorporation, as amended and restated, authorizes the Company to issue up to 100,000,000 shares of common stock with $0.001 par value per share, of which 833,597 shares were issued and outstanding.

Common Stock Warrants

In connection with the issuance of the Company s Series E Convertible preferred stock in September 2014 through January 2015, the Company issued, to each investor who purchased shares of Series E Convertible preferred stock, warrants to purchase up to the number of shares of common stock equal to 50% of the number of shares of the Company s Series E Convertible preferred stock purchased.

The warrants are immediately exercisable, at an exercise price per share of $504.00, and expire upon the earlier of September 2, 2019 or upon the consummation of a change of control of the Company. The Company determined that these common stock warrants meet the requirements for equity classification. In connection with the issuance of its Series E Convertible preferred stock in September through December 2014, the Company issued warrants to purchase an aggregate of 33,314 shares of common stock. The common stock warrants were recorded at their allocated fair value of $175,000 within stockholders equity (deficit).

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In connection with the issuance of the Company s Series E Convertible preferred stock in January 2015, the Company issued warrants to purchase an aggregate of 6,129 shares of common stock. The common stock warrants were recorded at their allocated fair value of $804,000 within stockholders equity (deficit).

On January 14, 2015, the Company amended its Series E Convertible preferred stock Purchase Agreement to provide for the issuance of common stock warrants to each investor who purchased shares of Series E Convertible preferred stock equal to 70% of the number of shares of the Company s Series E Convertible preferred stock purchased by such investor. As with the common stock warrants previously issued, any new common stock warrants were immediately exercisable, at an exercise price of $504.00 per share, and expire upon the earlier of September 2, 2019 or upon consummation of a change in control of the Company. As a result of this amendment to the Series E Convertible preferred stock Purchase Agreement, the Company issued additional warrants to purchase 15,801 shares of common stock to investors who previously acquired shares of Series E Convertible preferred stock from September 2014 through January 2015.

As of December 31, 2017 and 2016, warrants to purchase an aggregate of 53,715 shares of common stock were outstanding.

Stock Plans

In January 2015, the Board of Directors adopted and the Company s stockholders approved the 2015 Equity Incentive Plan (2015 Plan). The 2015 Plan replaced the 2009 Stock Plan (the 2009 Plan) which was terminated immediately prior to consummation of the Company s IPO, collectively the Plans. The 2015 Plan provides for the grant of incentive stock options (ISOs) to employees and for the grant of nonstatutory stock options (NSOs), restricted stock, RSUs, stock appreciation rights, performance units and performance shares to employees, directors and consultants. Initially a total of 33,000 shares of common stock were reserved for issuance pursuant to the 2015 Plan. The shares reserved for issuance under the 2015 Plan included shares reserved but not issued under the 2009 Plan, plus any share awards granted under the 2009 Plan that expire or terminate without having been exercised in full or that are forfeited or repurchased. In addition, the number of shares available for issuance under the 2015 Plan includes an automatic annual increase on the first day of each fiscal year beginning in fiscal 2016, equal to the lesser of 42,250 shares, 5.0% of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year or an amount as determined by the Board of Directors. For fiscal 2017, the common stock available for issuance under the 2015 Plan was increased by 29,720 shares of common stock. As of December 31, 2017, 69,641 shares were available for grant under the 2015 Plan.

Pursuant to the Plans, ISOs and NSOs may be granted with exercise prices at not less than 100% of the fair value of the common stock on the date of grant and the exercise price of ISOs granted to a stockholder, who, at the time of grant, owns stock representing more than 10% of the voting power of all classes of the stock of the Company, shall be not less than 110% of the fair market value per share of common stock on the date of grant. The Company s Board of Directors determines the vesting schedule of the options. Options granted generally vest over four years and expire ten years from the date of grant.

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Stock option activity under the Plans is set forth below:

	Number of Shares		Average Exercise Price		Intrinsic Value (in thousands)
Balance at December 31, 2015	83,445	$	299.29	$	50,827
Options granted	17,468	$	472.18		
Options exercised	(572)	$	180.74		
Options cancelled	(7,832)	$	511.20		
Balance at December 31, 2016	92,509	$	314.73	$	5
Options granted	27,115	$	291.14		
Options exercised		$			
Options cancelled	(42,980)	$	340.89		
Balance at December 31, 2017	76,644	$	291.72	$	

Additional information related to the status of options as of December 31, 2017 is summarized as follows:

Options Outstanding and Vested as of December 31, 2017									
		Options Outstanding					Options Vested		
	Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable		Weighted Average Exercise Price
$	20.40	50	9.56	$	20.40		$	20.40
$	82.00	8,927	9.21	$	82.00		$	82.00
$	105.20	575	9.18	$	105.20	127	$	105.20
$	142.00	688	8.84	$	142.00	688	$	142.00
$	147.20	321	8.82	$	147.20	134	$	147.20
$	162.00	105	1.44	$	162.00	105	$	162.00
$	180.00	31,117	7.01	$	180.00	23,853	$	180.00
$	198.00	15,628	6.90	$	198.00	15,628	$	198.00
$	204.80	200	8.57	$	204.80	78	$	204.80
$	436.40	100	7.18	$	436.40	68	$	436.40
$	440.40	234	8.44	$	440.40	234	$	440.40
$	495.20	824	8.33	$	495.20	345	$	495.20
$	504.00	1,298	3.55	$	504.00	1,298	$	504.00
$	518.40	1,499	8.19	$	518.40	655	$	518.40
$	519.60	4,412	8.17	$	519.60	3,151	$	519.60
$	594.00	929	5.26	$	594.00	714	$	594.00
$	608.40	332	7.58	$	608.40	203	$	608.40
$	708.80	50	7.83	$	708.80	27	$	708.80
$	784.40	3,828	7.97	$	784.40	2,873	$	784.40
$	810.00	4,049	8.04	$	810.00	1,331	$	810.00
$	882.00	756	8.96	$	882.00	42	$	882.00
$	900.00	722	4.57	$	900.00	722	$	900.00
		76,644	7.41	$	291.72	52,276	$	288.31

The weighted-average grant date fair value of stock options granted during the years ended December 31, 2017 and 2016 was $30.65 and $219.91 per share, respectively. As of December 31, 2017, the weighted average remaining contractual life of options outstanding and vested was 6.96 years. As of December 31, 2017, the aggregate intrinsic value of options outstanding and vested was none. The aggregate intrinsic value of options exercised was none and $135,000 during the years ended December 31, 2017 and 2016, respectively. The aggregate intrinsic value was calculated as the difference between the exercise prices of the underlying options and the closing market price of the common stock on the date of exercise. Because of the Company s net operating losses, the Company did not realize any tax benefits from share-based payment arrangements for the years ended December 31, 2017 and 2016.

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The Company s RSUs vest annually over four years in equal increments. A summary of all RSU activity is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Awards outstanding at December 31, 2015	2,271	$ 756.56	3.88	$ 2,063
Awarded	4,633	$ 519.20		
Released	(467)	$ 721.60		
Forfeited	(1,082)	$ 598.40		
Awards outstanding at December 31, 2016	5,355	$ 561.90	3.09	$ 793
Awarded	7,782	$ 114.41		
Released	(1,136)	$ 526.10		
Forfeited	(6,912)	$ 302.60		
Awards outstanding at December 31, 2017	5,089	$ 237.78	2.87	$ 37

As of December 31, 2017, $962,000 of total unrecognized compensation expense related to employee RSUs was expected to be recognized over a weighted-average period of 2.87 years. The Company used the closing market price of $7.28 per share at December 31, 2017, to determine the aggregate intrinsic value.

2015 Employee Stock Purchase Plan

In January 2015, the Board of Directors adopted and the Company s stockholders approved the 2015 Employee Stock Purchase Plan (ESPP) under which eligible employees are permitted to purchase common stock at a discount through payroll deductions. Initially 12,500 shares of common stock were reserved for issuance, which is subject to an automatic increase on the first day of each fiscal year, commencing in 2016, by an amount equal to the lesser of (i) 12,325 shares (ii) 1.5% of the outstanding shares of common stock as of the last day of the immediately preceding fiscal year; or (iii) an amount as determined by the Board of Directors. For fiscal 2017, the common stock available for issuance under the ESPP was increased by 8,916 shares of common stock. The price of the common stock purchased will be the lower of 85% of the fair market value of the common stock at the beginning of an offering period or at the end of a purchase period. The ESPP is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended. The first offering under the ESPP began in February 2015. As of December 31, 2017, approximately 19,095 shares of common stock remained reserved for issuance under the ESPP. The Company incurred $107,000 and $372,000 in stock-based compensation expense related to the ESPP for the year ended December 31, 2017 and 2016, respectively.

12. Stock-Based Compensation

Stock-based compensation for the Company includes amortization related to all stock options, RSUs and shares issued under the ESPP, based on the grant-date estimated fair value. The Company estimates the fair value of stock options and shares issued under the ESPP on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model determines the fair value of stock-based payment awards based on the fair market value of the Company s common stock on the date of grant and is affected by assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the fair value of the Company s common stock, and the volatility over the expected term of the awards. The Company has opted to use the simplified method for estimating the expected term of options, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the option. Prior to the Company s IPO in January 2015, due to the Company s limited operating history and a lack of company specific historical and implied volatility data, the Company based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. When selecting these public companies on which it has based its expected stock price volatility, the Company selected companies with comparable characteristics to it, including enterprise value, stage of development, risk profile, and position within the industry as well as selecting companies with historical share price information sufficient to meet the expected life of the stock-based awards. The historical volatility data was computed using the daily closing prices for the selected companies shares during the equivalent period of the calculated expected term of the share-based payments. Following the closing of the Company s IPO, the Company supplements its own available company specific historical volatility with the volatility of the previously selected peer group of publicly traded companies. The Company will continue to analyze the historical stock price volatility and expected term assumptions as more historical data for the Company s common stock becomes available. The risk-free rate assumption is based on the U.S. Treasury instruments with maturities similar to the expected term of the Company s stock options. The expected dividend assumption is based on the Company s history of not paying dividends and its expectation that it will not declare dividends for the foreseeable future.

As noncash stock-based compensation expense recognized in the financial statements is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. During the year ended December 31, 2016, the Company estimates a forfeiture rate for its stock options and RSUs based on an analysis of its actual forfeitures based on actual forfeiture experience and other factors. Forfeitures are estimated at the time of grant and revised, if necessary, over the service period to the extent that actual forfeitures differ, or are expected to differ, from prior estimates. Forfeitures are estimated based on estimated future employee turnover and historical experience. Effective January 1, 2017, the Company adopted ASU 2016-09 and elected to recognize forfeitures when they occur using a modified retrospective approach. The fair value for the Company s employee stock options was estimated at the date of grant using the Black-Scholes valuation model with the following average assumptions:

	Year Ended December 31,	
	2017	2016
Expected term (years)	5.9	6.1
Expected volatility	57.2%	49.7%
Risk-free interest rate	2.2%	1.5%
Dividend rate		

As of December 31, 2017 and 2016, the total unamortized compensation expense related to stock options granted to employees and directors was $2,979,000 and $12,312,000, respectively, which is expected to be amortized over the next 1.45 and 2.33 years, respectively.

The fair value of the shares to be issued under the Company s ESPP was estimated using the Black-Scholes valuation model with the following assumptions:

	Year Ended December 31,	
	2017	2016
Expected term (years)	0.5	0.5
Expected volatility	109.2%	72.1%
Risk-free interest rate	0.78%	0.41%
Dividend rate		

The Company measures the fair value of RSUs using the closing stock price of a share of the Company s common stock on the grant date and is recognized as expense on a straight-line basis over the vesting period of the award. The total fair value of shares vested pursuant to RSUs in the year ended December 31, 2017 and 2016 was $598,000 and $486,000, respectively. As of December 31, 2017, total unamortized stock-based compensation expense related to unvested RSUs was $962,000, with a weighted-average remaining recognition period of 2.87 years.

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Total noncash stock-based compensation expense relating to the Company s stock options, ESPP and RSUs recognized, before taxes, during the years ended December 31, 2017 and 2016, is as follows (in thousands):

	Year Ended December 31, 2017		2016	
Cost of revenues	$	269	$	608
Research and development expenses		1,766		2,732
Selling, general and administrative expenses		2,931		4,052
	$	4,966	$	7,392

13. Income Taxes

For the years ended December 31, 2017 and 2016, the Company s provision for income taxes consisted of zero state income tax expense. A reconciliation of the statutory U.S. federal rate to the Company s effective tax rate is as follows (in thousands):

	Year Ended December 31, 2017		2016	
Tax at federal statutory rate	$	(16,565)	$	(19,077)
Federal Tax Rate Remeasurement		35,953		
State taxes, net of federal benefit		993		
Permanent differences		525		1,023
Change in valuation allowance		(22,554)		18,321
Research credits		(229)		(245)
Other		1,877		(22)
Provision for taxes	$		$	

Significant components of the Company s net deferred tax assets as of December 31, 2017 and 2016 consist of the following (in thousands):

	As of December 31, 2017		2016	
Deferred tax assets:				
Federal, state and foreign net operating lossses	$	62,057	$	82,353
Research and other credits		3,632		2,953
Fixed assets		604		623
Interest		593		581
Accruals and other		3,615		4,906
Total deferred tax assets		70,501		91,416
Less: Valuation allowance		(70,501)		(91,416)
Net deferred tax assets	$		$	

The valuation allowance decreased by $20,915,000 and increased by $20,232,000 during the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, the Company had federal net operating loss carryforwards of approximately $258,370,000, which begin to expire in 2027, and state net operating loss carryforwards of approximately $191,940,000, which begin to expire in 2018.

As of December 31, 2017, the Company had federal research and development credit carryforwards of approximately $2,796,000, which expire in the years 2027 through 2037, and state research and development credit carryforwards of approximately $3,029,000. The state research and development credit can be carried forward indefinitely.

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Federal and state tax laws impose substantial restrictions on the utilization of the net operating loss, and credit carryforwards in the event of an ownership change as defined in Section 382 of the Internal Revenue Code. Accordingly, the Company s ability to utilize these carryforwards may be limited as a result of such ownership change. Such a limitation could result in the expiration of carryforwards before they are utilized. On December 22, 2017, the Tax Cuts and Jobs Act, or Tax Act, was enacted into law with many significant changes to the U.S. tax laws. The Tax Act limits the utilization of NOLs arising in tax years beginning after December 31, 2017 to 80% of taxable income per year. However, existing NOLs that arose in years prior to December 31, 2017 are not affected by these provisions. Our ability to utilize NOLs arising in future tax periods may be limited by the Tax Act.

The Company had unrecognized tax benefits of approximately $1,747,000 and $1,536,000, as of December 31, 2017 and 2016, of which $1,557,000 and $1,266,000, respectively, would affect the effective tax rate if recognized, before consideration of the valuation allowance.

A reconciliation of the unrecognized tax benefits from January 1, 2016 through December 31, 2017 is as follows (in thousands):

	As of December 31,	
	2017	**2016**
Balance at beginning of year	$ 1,536	$ 3,902
Increase/decrease based on the tax positions in the current year	211	(2,593)
Additions for tax positions of prior year		227
Balance at end of year	$ 1,747	$ 1,536

The Company does not expect a significant change to its unrecognized tax benefits over the next twelve months. The unrecognized tax benefits may increase or change during the next twelve months for items that arise in the ordinary course of business. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the nation. The Company is not currently under audit by the Internal Revenue Service or other similar state and local authorities. All tax years remain open to examination by major taxing jurisdictions to which the Company is subject.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. At December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Act; however, in certain cases, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances. In other cases, we have not been able to make a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to enactment. In all cases, we will continue to make and refine our calculations as additional analysis is completed. In addition, our estimates may also be affected as we gain a more thorough understanding of the tax law.

We are required to recognize the effect of the tax law changes in the period of enactment, such as determining the estimated transition tax, re-measuring our U.S. deferred tax assets and liabilities at a 21% rate as well as reassessing the net realizability of our deferred tax assets and liabilities.

We re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. The provisional amount related to the re-measurement of our deferred tax balance is a reduction of approximately $36 million. Due to the corresponding valuation allowance fully offsetting deferred taxes, there is no income statement impact.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118) which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since the Act was passed late in the fourth quarter of 2017, and ongoing guidance and accounting interpretation are expected over the next 12 months, we consider the accounting of the transition tax and deferred tax re-measurements to be incomplete due to the forthcoming guidance and our ongoing analysis of final year-end data and tax positions. We expect to complete our analysis within the measurement period in accordance with SAB 118.

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14. Related-Party Transactions

During the years ended December 31, 2017 and 2016, the Company purchased marketing services from Recreation, Inc., a brand strategy and design agency headquartered in San Francisco, California for $130,000 and $697,000, respectively. John D. Simpson, the Company s former Senior Vice President of Sales, was the Chief Executive Officer of Recreation, Inc. until March 2015 and is the son of Dr. John B. Simpson, the Company s founder and former Executive Chairman of the Board of Directors. As of December 31, 2017 and 2016, amounts due to Recreation, Inc., included in accounts payable and accrued liabilities, were none and $6,000, respectively.

From October 2013 through July 2014, the Company entered into convertible notes with certain investors, including existing stockholders, some members of the Board of Directors and their affiliated companies and some members of management for a total aggregate principal amount of $18,192,000 (Note 8) and issued warrants to purchase shares of the Company s common stock at an exercise price of $504.00 per share. The issuance of $5,122,000 of the total aggregate principal amount of the convertible notes was considered a related-party transaction. In September 2015, the Company repaid all amounts outstanding under the convertible notes. For the years ended December 31, 2017 and 2016, the Company did not recognize any interest expense related to the related-party convertible notes within interest expense in the Company s statements of operations and comprehensive loss.

In April 2015, the Company entered into an agreement with Chansu Consulting, LLC (Chansu) to provide consulting services related to regulatory affairs. The General Partner of Chansu is the son-in-law of Dr. John B. Simpson, the Company s founder and former Executive Chairman of the Board of Directors. For the year ended December 31, 2017 and 2016, Chansu provided regulatory consulting services of $1,000 and $3,000, respectively. As of December 31, 2017 and 2016, there were no amounts due to Chansu included in accounts payable and accrued liabilities.

In October 2015, the Company entered into an agreement with Consensys Imaging Service (Consensys) to provide field engineers to assist the Company with the installation, service and maintenance of its Lightbox consoles. Jeffrey M. Soinski, the Company s President, Chief Executive Officer and a member of its Board of Directors was also a member of the Board of Directors of Consensys until October 2017. For the year ended December 31, 2017 and 2016, Consensys provided services of $188,000 and $123,000, respectively. As of December 31, 2017 and 2016, amounts due to Consensys included in accounts payable and accrued liabilities, were $6,000 and $20,000, respectively.

15. 401(k) Plan

The Company has a qualified retirement plan under section 401(k) of the Internal Revenue Code (IRC) under which participants may contribute up to 90% of their eligible compensation, subject to maximum deferral limits specified by the IRC. The Company may make a discretionary matching contribution to the 401(k) plan, and may make a discretionary employer contribution to each eligible employee each year. Eligible employees vest in the Company s contributions over a graded four year schedule. To date, the Company has made no contributions to the 401(k) plan.

16. Subsequent Events

2015 Equity Incentive Plan

In January 2018, the number of shares of common stock authorized for issuance under the 2015 Plan was automatically increased by 29,720 shares, which was ratified by the Company s Board of Directors.

2015 Employee Stock Purchase Plan

In January 2018, the number of shares of common stock authorized for issuance under the 2015 ESPP was automatically increased by 8,916 shares, which was ratified by the Company s Board of Directors.

Reverse Stock Split

On January 30, 2018, the Company s Board of Directors approved an amendment to the Company s amended and restated certificate of incorporation to effect a 1-for-40 reverse stock split of the Company s common stock and convertible preferred stock. The par value of the common stock and convertible preferred stock was not adjusted as a result of the reverse stock split. All common stock, convertible preferred stock, stock options and warrants, and per share amounts in the financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split. The reverse stock split was effected on January 30, 2018.

Borrowings

On January 24, 2018, the Company entered into a waiver agreement (the Waiver) with CRG. The Waiver provided for the waiver of the $5,000,0000 minimum liquidity financial covenant and reduced it to $2,500,000 for the period beginning January 1, 2018 through February 28, 2018, as required under the terms of the Loan Agreement and waived any event of default resulting from non-compliance with the $5,000,000 minimum liquidity financial covenant.

On February 14, 2018, the Company entered into Amendment No. 2 to the Term Loan Agreement (the Amendment No. 2 Loan Agreement) with CRG. Under its terms, the Amendment No. 2 Loan Agreement, among other things: (1) extended the interest-only period through June 30, 2021; (2) extended the period during which the Company may elect to pay a portion of interest in PIK interest payments through June 30, 2021 so long as no default has occurred and is continuing; (3) permitted the Company to make its entire interest payments in PIK interest payments for through December 31, 2019 so long as no default has occurred and is continuing; (4) extended the maturity date to June 30, 2023; (5) reduced the minimum liquidity requirement to $3.5 million at all times; (6) eliminated the minimum revenue covenant for 2018 and 2019; (7) reduced the minimum revenue covenant to $15 million for 2020, $20 million for 2021 and $25 million for 2022; and (8) provided CRG with board observer rights.

Series A Preferred Stock

On February 14, 2018, the Company entered into a Series A Purchase Agreement with CRG, pursuant to which it agreed to convert $38.0 million of the outstanding principal amount of its senior secured term loan (plus the back-end fee and prepayment premium applicable thereto) under the Loan Agreement into newly authorized Series A preferred stock. Under the terms of the Series A Purchase Agreement the holders of Series A preferred stock are entitled to receive annual accruing dividends at a rate of 8%, payable in additional shares of Series A preferred stock or cash, at the Company s option. The shares of Series A preferred stock have no voting rights and rank senior to all other classes and series of the Company s equity in terms of repayment and certain other rights. The Series A preferred stock and any of the Company s common stock issued upon conversion of the Series A preferred stock is subject to a lockup agreement through February 14, 2019.

Series B Preferred Stock and Common Stock Warrants

On February 16, 2018, the Company completed a public offering of 17,979 shares of Series B convertible preferred stock (the Series B preferred stock) and warrants to purchase 17,979,000 shares of common stock (the Series B Offering). As a result, the Company received net proceeds of approximately $16.0 million after underwriting discounts, commissions, legal and accounting fees of approximately $1.9 million. The Series B preferred stock has a liquidation preference of $0.001 per share, full ratchet price based anti-dilution protection, has no voting rights and is subject to certain ownership limitations. The Series B preferred stock is immediately convertible at the option of the holder, has no stated maturity, and does not pay regularly stated dividends or interest. Each share of Series B preferred stock is accompanied by one warrant that expires on the seventh anniversary of the date of issuance to purchase up to 500 shares of common stock (the Series 1 warrants) and one warrant that expires on the earlier of (i) the seventh anniversary of the date of issuance or (ii) the 60th calendar day following the receipt and announcement of FDA clearance of our Pantheris below-the-knee device (or the same or similar product with a different name) to purchase up to 500 shares of common stock; provided, however, if at any time during such 60-day period the volume weighted average price for any trading day is less than the then effective exercise price, the termination date shall be extended to the seven year anniversary of the initial exercise date (the Series 2 warrants). In addition, pursuant to the Series A Purchase Agreement, the Company issued to CRG 41,800 shares of Series A preferred stock at the closing of the Series B Offering. The Series A preferred stock was issued in exchange for the conversion of $38.0 million of the outstanding principal amount of their senior secured term loan (plus the back-end fee and prepayment premium applicable thereto), totaling approximately $41.8 million. The Series A preferred stock is initially convertible into 20,900,000 shares of common stock subject to certain limitations contained in the Series A Purchase Agreement.

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SIGNATURES

Pursuant to the requirements of Section 13 and 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned thereunto duly authorized.

Avinger, Inc.
(Registrant)

Date: April 25, 2018

/s/ Jeffrey M. Soinski
Jeffrey M. Soinski
Chief Executive Officer
(Principal Executive Officer)

Date: April 25, 2018

/s/ Matthew B. Ferguson
Matthew B. Ferguson
Chief Financial Officer
(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jeffrey Soinski and Matthew Ferguson, jointly and severally, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her, and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffrey M. Soinski Jeffrey M. Soinski	President and Chief Executive Officer (Principal Executive Officer); Director	April 25, 2018
/s/ Matthew B. Ferguson Matthew B. Ferguson	Chief Financial Officer and Chief Business Officer (Principal Financial and Accounting Officer)	April 25, 2018
* Donald A. Lucas	Director	April 25, 2018

* James B. McElwee	Director	April 25, 2018
* James G. Cullen	Director	April 25, 2018

*By: /s/ Jeffrey M. Soinski
Jeffrey M. Soinski
Attorney-in-Fact