

Avinger Inc  
Form 10-Q  
May 13, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended March 31, 2015**

**or**

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

**For the transition period from      to**

**Commission File Number: 001-36817**

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## AVINGER, INC.

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-8873453**  
(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)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☒

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

As of May 1, 2015, the number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 12,240,164.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements concerning our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business, operations and financial performance and condition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as anticipate, assume, believe, contemplate, continue, could, due, estimate, expect, may, objective, plan, predict, potential, positioned, seek, should, target, will, would and other similar expressions that are intended to indicate future events and future trends, or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

- the outcome of our clinical studies, including VISION, and plans to conduct further clinical studies;
- our plans to modify our current products, or develop new products, to address additional indications;
- the expected timing of submission of a 510(k) to FDA for Pantheris;
- the expected growth in our business and our organization;
- our expectations regarding government and third-party payor coverage and reimbursement;
- our ability to retain and recruit key personnel, including the continued development of a sales and marketing infrastructure;
- our ability to obtain and maintain intellectual property protection for our products;
- our estimates of our expenses, ongoing losses, future revenue, capital requirements and our needs for, or ability to obtain, additional financing;
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act or a smaller reporting company under the Securities Act;

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- our ability to identify and develop new and planned products and acquire new products;
- our financial performance; and
- developments and projections relating to our competitors or our industry.

We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. These forward-looking statements are based on management's current expectations, estimates, forecasts and projections about our business and the industry in which we operate and management's beliefs and assumptions and are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this Quarterly Report on Form 10-Q may turn out to be inaccurate. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. We urge you to consider these factors carefully in evaluating the forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC as exhibits to the Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

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## AVINGER, INC.

AS OF AND FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

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Avinger, Ocelot, Pantheris, and Lumivascular are trademarks of our company. Our logo and our other trade names, trademarks and service marks appearing in this Quarterly Report on Form 10-Q are our property. Other trade names, trademarks and service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners. Solely for convenience, our trademarks and trade names referred to in this Quarterly Report on Form 10-Q 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. Certain market and industry data used in this Quarterly Report on Form 10-Q, where noted, is attributable to Millennium Research Group, Inc. Millennium Research Group asserts copyright protection over the use of such information and reserves all rights with respect to its use. This information has been reprinted with Millennium Research Group's permission and the reproduction, distribution, transmission or publication of such information is prohibited without its consent.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. UNAUDITED FINANCIAL STATEMENTS****AVINGER, INC.****CONDENSED BALANCE SHEETS****(unaudited)***(In thousands, except share and per share data)*

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 69,404	\$ 12,316
Accounts receivable, net	1,292	2,068
Inventories	4,045	3,991
Prepaid expenses and other current assets	1,628	562
Total current assets	76,369	18,937
Property and equipment, net	2,585	2,608
Other assets	939	3,235
Total assets	\$ 79,893	\$ 24,780
<b>Liabilities, convertible preferred stock and stockholders' equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 1,654	\$ 1,013
Accrued compensation	1,359	1,147
Accrued expenses and other current liabilities	4,476	4,850
Borrowings	3,745	1,873
Total current liabilities	11,234	8,883
Borrowings, net of current portion	16,747	18,537
Convertible notes and accrued interest	9,064	8,643
Other long-term liabilities	258	325
Total liabilities	37,303	36,388
Commitments and contingencies (Note 8)		
Convertible preferred stock issuable in series, par value of \$0.001		
Shares authorized: none at March 31, 2015 and 6,819,197 at December 31, 2014		
Shares issued and outstanding: none at March 31, 2015 and 5,262,728 at December 31, 2014		
Liquidation preference: none at March 31, 2015 and \$231,836 at December 31, 2014		132,260
Stockholders' equity (deficit):		
Preferred stock issuable in series, par value of \$0.001		
Shares authorized: 5,000,000 at March 31, 2015 and none at December 31, 2014		

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Shares issued and outstanding: none at March 31, 2015 and December 31, 2014

Common stock, par value of \$0.001

Shares authorized: 100,000,000 at March 31, 2015 and 15,555,555 at December 31, 2014

Shares issued and outstanding: 12,240,164 at March 31, 2015 and 243,260 at December 31, 2014

	12	
Additional paid-in capital	201,912	2,665
Accumulated deficit	(159,334)	(146,533)
Total stockholders' equity (deficit)	42,590	(143,868)
Total liabilities, convertible preferred stock, and stockholders' equity (deficit)	\$ 79,893	\$ 24,780

See accompanying notes.



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**AVINGER, INC.**
**CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
**(unaudited)**
*(In thousands, except per share data)*

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Revenues	\$ 2,088	\$ 2,119
Cost of revenues	1,288	1,503
Gross profit	800	616
Operating expenses:		
Research and development	3,860	2,856
Selling, general and administrative	6,365	4,139
Total operating expenses	10,225	6,995
Loss from operations	(9,425)	(6,379)
Interest income	3	1
Interest expense	(1,323)	(1,573)
Other income (expense), net	329	1
Loss before provision for income taxes	(10,416)	(7,950)
Provision for income taxes	1	21
Net loss and comprehensive loss	(10,417)	(7,971)
Adjustment to net loss resulting from convertible preferred stock modification	(2,384)	
Net loss and comprehensive loss attributable to common stockholders	\$ (12,801)	\$ (7,971)
Net loss attributable to common stockholders per share, basic and diluted	\$ (1.53)	\$ (32.94)
Weighted average common shares used to compute net loss per share, basic and diluted	8,373	242

See accompanying notes.

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## AVINGER, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
<b>Cash flows from operating activities</b>		
Net loss	\$ (10,417)	\$ (7,971)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	317	406
Amortization of debt issuance costs and debt discount	50	55
Stock-based compensation	1,232	188
Remeasurement of warrant and embedded derivatives	(344)	27
Noncash interest expense	487	747
Provision for excess and obsolete inventories	(8)	(66)
Changes in operating assets and liabilities:		
Accounts receivable	775	167
Inventories	(133)	551
Prepaid expenses and other current assets	(1,058)	157
Other assets		(22)
Accounts payable	642	(174)
Accrued compensation	212	26
Accrued expenses and other current liabilities	388	561
Other liabilities	(64)	(54)
Net cash used in operating activities	(7,921)	(5,402)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(208)	(1)
Net cash used in investing activities	(208)	(1)
<b>Cash flows from financing activities</b>		
Principal paydown of capital lease obligations	(4)	(4)
Proceeds from the issuance of convertible preferred stock, net of issuance costs	6,176	
Proceeds from initial public offering, net of issuance costs	58,745	
Proceeds from the exercise of common stock warrants	300	
Proceeds from the issuance of common stock		7
Net cash provided by financing activities	65,217	3
Net change in cash and cash equivalents	57,088	(5,400)
Cash and cash equivalents, beginning of period	12,316	12,221
Cash and cash equivalents, end of period	\$ 69,404	\$ 6,821
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 55	\$ 585
Noncash investing and financing activities:		
Conversion of convertible preferred stock to common stock upon initial public offering	\$ 137,632	\$
Modification of convertible preferred stock	2,384	

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Accounts payable for purchases of property and equipment	37	
Vesting of common stock subject to repurchase	2	2
Issuance of common stock warrants	804	
Transfer between inventory and property and equipment	87	42

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 arterial disease ("PAD"). Patients with PAD have a build-up of plaque in the arteries that supply blood to the arms and legs. The Company manufactures and sells a suite of products in the United States and in select European 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"). The Company is also developing Pantheris, its image-guided atherectomy device, designed to allow physicians to precisely remove arterial plaque in PAD patients. Pantheris is currently undergoing a U.S. clinical trial intended to support a 510(k) submission to the U.S. Food and Drug Administration ("FDA") in the second half of 2015. The Company is located in Redwood City, California.

**Initial Public Offering**

In January 2015, the Company issued and sold 5,000,000 shares of its common stock in its initial public offering ("IPO") at a public offering price of \$13.00 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 6,967,925 shares of common stock resulting in the reclassification of \$137,626,000 from outside of stockholders equity (deficit) to additional paid-in capital.

**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

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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.

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 ).

The accompanying condensed balance sheet as of March 31, 2015, the condensed statements of operations and comprehensive loss and cash flows for the three months ended March 31, 2015 and 2014 are unaudited. The financial data and other information disclosed in these notes to the financial statements related to March 31, 2015, and the three months ended March 31, 2015 and 2014, are also unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial position as of March 31, 2015, and the results of its operations and cash flows for the three months ended March 31, 2015 and 2014. The results for the three months ended March 31, 2015, are not necessarily indicative of results to be expected for the year ending December 31, 2015, or for any other interim period or for any future year. The December 31, 2014 condensed balance sheet data has been derived from audited financial statements. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations relating to interim financial statements. These unaudited condensed financial statements and notes should be read in conjunction with the financial statements included in the Company's Form 10-K for the fiscal year ended December 31, 2014, which was filed with the SEC on March 27, 2015. The Company's significant accounting policies are more fully described in Note 2 of the Notes to the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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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. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**

The Company has evaluated the estimated fair value of its financial instruments as of March 31, 2015 and December 31, 2014. Financial instruments consist of cash and cash equivalents, accounts receivable and payable, and other current liabilities, borrowings, convertible notes and embedded derivatives. 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 and convertible notes approximate fair value. Fair value accounting is applied to the warrant liabilities and embedded derivatives that are recorded at fair value in the financial statements.

**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, using level 1 inputs, based on quoted market prices. As of March 31, 2015 and December 31, 2014, 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 March 31, 2015 and 2014. 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.

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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 March 31, 2015 and December 31, 2014.

The Company's accounts receivable are due from a variety of health-care organizations in the United States and select European markets. At March 31, 2015 and December 31, 2014, there were two customers and no customers that represented 10% or more of the Company's accounts receivable, respectively. For the three months ended March 31, 2015 and 2014, there were two customers and no customers that represented 10% or more of revenues, respectively. 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 certain of its commercial products in-house, including the production of 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.

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 continue to be accepted in the marketplace, nor can there be any assurance that 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.

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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.

**Deferred Initial Public Offering Costs**

Deferred offering costs, which primarily consist of direct incremental legal and accounting fees relating to the IPO, were capitalized. As of December 31, 2014, \$2,608,000 of deferred offering costs were capitalized in other assets on the balance sheet, of which \$1,848,000 had been paid. The Company incurred \$3,553,000 in offering costs and in January 2015, these initial public offering costs were offset against the proceeds obtained from the Company's IPO.

**Convertible Preferred Stock**

Prior to its IPO the Company recorded its convertible preferred stock at fair value on the dates of issuance, net of issuance costs and classified the convertible preferred stock outside of stockholders' deficit on the balance sheets as events triggering the liquidation preferences were not solely within the Company's control. Upon the closing of the IPO, all shares of convertible preferred stock then outstanding converted into an aggregate of 6,967,925 shares of common stock resulting in the reclassification of \$137,626,000 from outside of stockholders' equity (deficit) to additional paid-in capital.

**Warrant Liability and Embedded Derivative Instruments**

The Company accounts for its warrants for shares of common stock in accordance with the accounting guidance for derivatives. The accounting guidance provides a two-step model to be applied in determining whether a financial instrument is indexed to an entity's own stock and, therefore, qualifies for a scope exception. The two-step model requires a contract for a financial instrument to be both (1) indexed to the entity's own stock and (2) classified in the stockholders' deficit section of the balance sheet. If a financial instrument qualifies for a scope exception, it would not be considered a derivative financial instrument.

As the price per share of the common stock warrants issued with the convertible notes was not fixed until the issuance of the Series E Convertible Preferred Stock in September 2014, these warrants were initially classified as a derivative liability. As a derivative liability, the warrants were initially recorded at fair value and were subject to remeasurement at each balance sheet date until September 2014. Any change in fair value as a result of a remeasurement was recognized as a component of other income (expense), net in the statements of operations and comprehensive loss. The Company re-evaluated the terms of the common stock warrants issued with the convertible notes after the issuance of the Series E Convertible Preferred Stock in September 2014 and determined that they then met the first criterion of the two-step model. Accordingly, the associated current fair value of the warrant liability was reclassified to additional paid-in capital in the stockholders' deficit section of the balance sheet at that time, thus satisfying the second criterion of the two-step model.



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The Company records a compound derivative asset or liability related to redemption features embedded within the outstanding convertible notes. The convertible notes issued in 2013 and 2014 included features which were determined to be embedded derivatives requiring bifurcation and separate accounting. The embedded derivatives were initially recorded at fair value and are subject to remeasurement as of each balance sheet date. Any change in fair value is recognized as a component of other income (expense), net in the statements of operations and comprehensive loss.

### **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 recognizes revenue in accordance with Accounting Standards Codification (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.

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

1.                   Lighbox 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. The Company recovers the cost of providing the leased Lightbox through a premium in the amount charged for its disposable products in comparison to a standalone purchase. When a Lightbox is placed under a lease agreement, the Company retains title to the equipment and it remains capitalized on its balance sheet under property and equipment. Depreciation expense on these leased Lightboxes is recorded to cost of revenues on a straight-line basis. The costs to maintain these leased Lightboxes are charged to cost of revenues as incurred.

The Company evaluates its lease 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.

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. 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):

	Amount	
Balance at December 31, 2014	\$	167
Warranty provision		21
Usage		(19)
Balance at March 31, 2015	\$	169

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**Common Stock Valuation and Stock-Based Compensation**

Stock-based awards issued to employees are recorded at fair value as of the grant date using the Black-Scholes option-pricing model and 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. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates.

Prior to completion of the Company's IPO 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 estimating 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 in January 2015, the fair value of its common stock is determined based on the closing price of its common stock on The NASDAQ Stock Market.

**Net Loss per Share Attributable to Common Stockholders**

Basic net loss per share attributable to common stockholders 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 attributable to common stockholders by the weighted average number of shares of common stock and dilutive potential shares of common stock outstanding during the period. 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. For the computation of net loss per share attributable to common stockholders, common stock shares subject to repurchase of 415 and 583 were excluded from the calculations as of March 31, 2015 and December 31, 2014, respectively. 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 potential dilutive common shares would have been anti-dilutive.

The Company allocates no loss to participating securities because they have no contractual obligation to share in the losses of the Company. The shares of the Company's convertible preferred stock participate in any dividends declared by the Company and are therefore considered to be participating securities.

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

		Three Months Ended March 31,	
		2015	2014
Net loss	\$	(10,417)	\$ (7,971)
Adjustment to net loss resulting from convertible preferred stock modification		(2,384)	

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Net loss attributable to common stockholders	\$	(12,801)	\$	(7,971)
Weighted average common stock outstanding		8,373		242
Net loss attributable to common stockholders per share, basic and diluted	\$	(1.53)	\$	(32.94)

In addition to the outstanding convertible notes (Note 6), the following potentially dilutive securities outstanding have been excluded from the computations of diluted weighted average shares outstanding because such securities have an anti-dilutive impact due to losses reported, in common stock equivalent shares:

	2015	March 31, 2014
Convertible preferred stock outstanding		2,591,102
Common stock options	3,035,348	384,614
Common stock warrants	2,213,395	160,367
	5,248,743	3,136,083

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**Comprehensive Loss**

For the three months ended March 31, 2015 and 2014, there was no difference between comprehensive loss and the Company's net loss.

**Segment and Geographical Information**

The Company operates in one segment. 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 three months ended March 31, 2015 and 2014, 99% and 100%, respectively, of the Company's revenues, were in the United States, based on the shipping location of the external customer.

**Recent Accounting Pronouncements**

In April 2015, the Financial Accounting Standards Board (FASB) issued an accounting standard update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The updated standard requires retrospective adoption and is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its financial statements.

**3. Fair Value Measurements**

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents and the derivative instruments related to redemption features embedded within its outstanding convertible notes. 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.

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.

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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 March 31, 2015 and December 31, 2014, cash equivalents and restricted cash were all categorized as Level 1 and consisted of money market funds. The Company issued convertible notes in 2013 and 2014 (Note 6). In connection with the convertible notes, the Company agreed to issue warrants to purchase shares of its common stock. As the price per share of the common stock warrants was not fixed until the issuance of the Series E Convertible Preferred Stock in September 2014, they were classified as a derivative liability and were subject to remeasurement at each balance sheet date until September 2014. The convertible notes also contained redemption features which were determined to be a compound embedded derivative requiring fair value accounting. The common stock warrant liability and embedded derivatives in the convertible notes were categorized as Level 3. When a determination is made to classify a financial instrument within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable inputs, observable inputs (that is, components that are actively quoted and can be validated to external sources). Any change in fair value is recognized as a component of other income (expense), net, on the statements of operations and comprehensive loss.

There were no transfers between fair value hierarchy levels during the three months ended March 31, 2015 and 2014.

### ***Common Stock Warrant Liability***

The Company's common stock warrant liability represented a financial instrument classified as Level 3. As the price per share of the common stock warrants was not fixed until the issuance of the Series E Convertible Preferred Stock in September 2014, they were classified as a derivative liability and were subject to remeasurement at each balance sheet date. Contemporaneous with the Series E Convertible Preferred Stock issuance, the Company determined that these common stock warrants met the requirements for equity classification and the fair value of the common stock warrant liability was reclassified to additional paid-in capital. Subsequent to September 2014, there were no changes in fair value.

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## Embedded Derivatives in Convertible Notes

The following table sets forth a summary of the changes in the estimated fair value of the Company's compound embedded derivative associated with its convertible notes, which represent a financial instrument classified as Level 3. Accordingly, the income (expense) in the table below includes changes in fair value due in part to observable factors that are part of the Level 3 methodology (in thousands):

	Amount
Fair value at December 31, 2014	\$ 231
Issuance of convertible notes	
Change in fair value recorded in other income (expense), net	344
Fair value at March 31, 2015	\$ 575

Through December 31, 2014 the Company determined the value of the compound derivative utilizing a Monte Carlo Simulation model. The inputs used to determine the estimated fair value of the derivative instrument include the probability of an underlying event triggering the embedded derivative occurring and its timing. The fair value measurement is based upon significant inputs not observable in the market. The inputs included the probability that the Company would need to raise additional equity in 2014, as well as various financing and exit events in 2015. These assumptions are inherently subjective and involve significant management judgment. The following table summarizes these various assumptions:

	December 31, 2014
Equity financing in 2014	100.0%
Equity financing in 2015	14.3%
Liquidation	0.1%
Initial public offering	79.5%
Change of control	6.2%

Subsequent to the Company's IPO the value of the compound derivative was determined utilizing a Black-Derman-Toy model. The inputs used to determine the estimated fair value of the derivative instrument include the term structure of yields which are observed in the market, the credit spread, which was estimated by the Company, and the volatility, which was estimated using an analysis of comparable bonds in the market. The fair value measurement is based upon significant inputs not observable in the market. These assumptions are inherently subjective and involve significant management judgment. The following table summarizes these various assumptions:

	March 31, 2015
Time to first call option (years)	0.5
Credit spread	20.0%
Expected volatility	35.0%

The compound embedded derivative asset is included in other long-term assets as of March 31, 2015 and December 31, 2014, on the balance sheets.



**4. Inventories**

Inventories consisted of the following (in thousands):

	March 31, 2015		December 31, 2014	
Raw materials	\$	2,203	\$	2,265
Work-in-process		104		61
Finished products		1,738		1,665
Total inventories	\$	4,045	\$	3,991

Table of Contents**5. Borrowings**

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 ). Under the terms of the Agreement, if the Company achieved certain net revenue milestones prior to June 30, 2014, the Company would be eligible to borrow an additional amount between \$10,000,000 and \$20,000,000 (net of fees) at the Company's election. The Company did not achieve the net revenue milestones and accordingly, there are no additional available funds to borrow under the Agreement.

The Term Note matures on April 18, 2018, has a stated interest rate of 12.0% per annum and can be prepaid by the Company at any time. A fee of 1.0% (\$200,000) of the original principal amount is payable upon maturity or prepayment in full of the Term Note, and is being amortized into the Term Note. The Company pays interest-only through the first ten quarters and, thereafter, will commence repayment of principal in equal installments including accrued and unpaid interest, payable each quarter. Under the terms of the Agreement, for the first eight quarterly interest payments, or through 2015, on the Term Note the Company may elect to convert an amount of interest, up to 1.5% per annum, into additional loans, referred to as paid-in-kind, or PIK, loans. The PIK loans will accrue, be capitalized and compounded, and added to the aggregate principal balance of the Term Note. In addition to the interest and principal payments, the Company also pays a royalty, referred to as Assigned Interests, equal to 1.8% of the Company's quarterly net revenues. Upon prepayment of the Term Note, the Company's obligations relating to Assigned Interests continue, and will be payable through the maturity date at a reduced rate of 0.9% of the quarterly net revenues, subject to certain quarterly minimum mandatory amounts as follows (in thousands), which are payable quarterly:

Period Ending December 31,	Mandatory Minimum Quarterly Payment
2015	\$ 229
2016	305
2017	305
2018	310
	\$ 1,149

The Term Note grants PDL a security interest in substantially all current and future assets of the Company and contains customary affirmative covenants and customary negative covenants limiting the Company's ability to, among other things and for so long as any amounts are due and owing under the Agreement, dispose of assets, undergo a change in control, merge or consolidate, enter into certain transactions with affiliates, make acquisitions, incur debt, incur liens, pay dividends, repurchase stock and make investments, in each case subject to certain exceptions. Additionally, even if the Term Note is prepaid, until there are no further obligations relating to Assigned Interests, it must comply with certain affirmative covenants and negative covenants limiting its ability to, among other things, undergo a change in control and dispose of assets, in each case subject to certain exceptions. The Agreement and the security interest agreement also contain customary events of default including, among others, payment defaults, breaches of covenants, bankruptcy and insolvency events, cross defaults with certain material indebtedness, defaults upon the entry of certain judgments against the Company, and breaches of representations and warranties. Upon an event of default, all obligations may become immediately due and payable and the stated interest rate would likely be increased to a default rate of 14.0% per annum.

The Company incurred fees and legal expenses of \$519,000 in connection with the Agreement, which have been recorded as deferred financing costs on the accompanying balance sheets and are amortized using the effective interest method. The Company also paid \$200,000 in fees to PDL upon origination of the Term Note, which is reflected as a discount on the debt and is being accreted over the life of the Term Note. The Company calculated an effective interest rate of 27.2% upon origination of the Term Note based on its best estimate of future cash outflows. The Company reviews its estimate of forecasted Assigned Interests payable annually and revisions to estimated cash flows are reflected using the retrospective method. Under the retrospective method, the Company computes a new effective interest rate based on the original carrying

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amount, actual cash flows to date, and remaining estimated cash flows over the maturity of the Term Note. The new effective interest rate, 18.3% as of December 31, 2014, is then used to adjust the carrying amount to the present value of the revised estimated cash flows, discounted at the new effective interest rate. For the three months ended March 31, 2015 and 2014, the Company incurred interest expense of \$900,000 and \$895,000, respectively.

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Principal and PIK loan repayments of the Term Note as of March 31, 2015 are as follows (in thousands):

Period Ending December 31,	Principal and PIK Loan Repayments
2015	\$ 1,818
2016	7,273
2017	7,273
2018	3,636
	20,000
Add: Payment in kind interest	600
	20,600
Less: Amount representing debt discount	(108)
	20,492
Less: Current portion of long-term borrowings	(3,745)
Borrowings, net of current portion	\$ 16,747

## 6. Convertible Notes

On October 29, 2013, the Company entered into a Note and Warrant Purchase Agreement (the "Convertible Note Agreement"), as amended in May 2014, with certain existing convertible preferred stockholders, third-parties and employees for the issuance of convertible notes for up to an aggregate principal amount of \$25,000,000. Under the terms of the Convertible Note Agreement, the Company issued convertible notes in October and November 2013 for total proceeds of \$13,472,000, and in May and July 2014 for additional total proceeds of \$4,720,000. The convertible notes bear interest at a rate of 30-day LIBOR, plus 6% per annum subject to a minimum internal rate of return of 20%. The notes will mature and the accrued interest thereon will become payable on the earlier of: (i) October 29, 2018, (ii) an event of default, or (iii) a change of control event.

The principal and accrued interest on the notes were convertible, at the option of the holder, upon a future issuance of the Company's convertible preferred stock or common stock (the "Equity Financing") into that same stock at a conversion price equal to 85% of the price paid by other investors in the financing event. For holders who elected not to convert their notes upon the closing of the Company's Series E Preferred Stock financing or upon its IPO, the Company may repay the holder, at its sole election, a payment equal to the greater of (i) 125% of the outstanding principal and accrued and unpaid interest, or (ii) the amount providing the investor with a 20% minimum internal rate of return, at any time prior to their maturity date. Upon a change of control, the Company will repay the holder, at the election of such holder, a payment equal to the greater of (i) 125% of the outstanding principal and accrued and unpaid interest, (ii) an amount equal to the return the holders of Series D preferred stock would be entitled to receive in such change of control, or (iii) the amount providing the investor with a 20% minimum internal rate of return, provided that in the event that the change of control includes any contingent payments based on future performance, the amount due and payable under clause (ii) will be recalculated at the time each installment or contingent payment is made.

In conjunction with the issuance of the convertible notes, the Company issued warrants to purchase up to the number of shares of common stock equal to 15% of the principal amount of the convertible notes divided by an exercise price per share equal to the lesser of \$39.15 per share, or the price per share paid by the investors in the first bona fide preferred stock financing subsequent to the date of the convertible notes. Upon the Series E Convertible Preferred Stock issuance in September 2014, the exercise price per share was fixed at \$12.60 per share and the Company issued warrants to purchase a total of 216,547 shares of common stock. The warrants, which were immediately exercisable, expired upon the closing of the Company's IPO. The estimated fair value of the warrants upon issuance, of \$1,000, was based on an option pricing model. The Company recorded the fair value of the warrants at issuance as a debt discount and as a warrant liability. The debt discount is being accreted using the effective interest method as additional interest expense over the term of the convertible notes.

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The convertible notes have redemption features that were determined to be compound embedded derivatives requiring bifurcation and separate accounting. The fair value of the compound embedded derivative upon issuance was determined to be a liability of \$179,000. The fair value of these derivative instruments was recognized as an additional discount and as a derivative liability on the balance sheets upon issuance of the convertible notes. The compound embedded derivative associated with the convertible notes requires periodic re-measurements to fair value while the instruments are still outstanding.

The Company incurred total debt issuance costs of \$93,000 in connection with the issuance of the convertible notes. The deferred issuance costs will be amortized over the term of the convertible notes.

In September and November 2014, in connection with the issuance of the Series E Convertible Preferred Stock, \$11,582,000 of the outstanding convertible notes and accrued interest thereon was converted into shares of Series E Convertible Preferred Stock. As of March 31, 2015, the Company had \$9,064,000 in principal and accrued interest underlying outstanding convertible notes.

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The Company's interest expense associated with the convertible notes amounted to \$423,000 and \$677,000 during the three months ended March 31, 2015 and 2014, respectively, based on the minimum internal rate of return of 20%.

## 7. Capital Leases

Capital lease obligations consist of leased office equipment. As of March 31, 2015 and December 31, 2014, the aggregate amount of capital leases recorded within property and equipment, net, on the accompanying balance sheet is \$35,000 and \$12,000, 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 March 31, 2015, are as follows (in thousands):

Period ending December 31,	Future Minimum Lease Payments	
2015	\$	15
2016		11
2017		10
2018		1
Total minimum payments		37
Less: Amount representing future interest		2
Present value of minimum lease payments	\$	35

## 8. 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 2016. The lease agreement includes two renewal provisions allowing the Company to extend this lease for additional periods of three years each. 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 have been reflected as deferred rent and are being amortized as a reduction to rent expense over the term of the Company's operating lease. Rent expense was \$230,000 and \$230,000 for the three months ended March 31, 2015 and 2014, respectively.

The future minimum lease payments as of March 31, 2015, are as follows (in thousands):

Period ending December 31,	Future Minimum Lease Payments	
2015	\$	844
2016		1,060
Total minimum lease payments	\$	1,904

#### Purchase Obligations

Purchase obligations consist of agreements to purchase goods and services entered into in the ordinary course of business. The Company had noncancellable commitments to suppliers for purchases totaling \$1,456,000 and \$1,334,000 as of March 31, 2015 and December 31, 2014, respectively.

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**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.

In accordance with the Company's amended and restated certificate of incorporation and its amended and restated bylaws, the Company has indemnification obligations to its officers and directors, subject to some limits, with respect to their service in such capacities. The Company has also entered into indemnification agreements with its directors and certain of its officers. To date, the Company has not been subject to any claims, and it maintains director and officer insurance that may enable it to recover a portion of any amounts paid for future potential claims. 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. The Company believes that the fair value of these indemnification obligations is minimal, and accordingly, it has not recognized any liabilities relating to these obligations for any period presented.

**Legal Proceedings**

The Company was not party to any legal proceedings at March 31, 2015 and December 31, 2014. The Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation and contingencies. Reserve estimates are recorded when and if it is determined that a loss-related matter is both probable and reasonably estimable.

On February 15, 2014, the Company entered into an engagement letter with a financial advisor which provided for such firm to serve as its placement agent and for the Company to make certain payments to them in connection with its Series E Convertible Preferred Stock financing. After the entry into such engagement letter, the financial advisor did not provide the level of service the Company was expecting and was not responsible for introducing the Company to any of the Series E Convertible Preferred Stock investors. In December 2014, the Company and its former financial advisor agreed to amend and to terminate their engagement letter, effective immediately. Pursuant to the terms of the amended engagement letter, the Company agreed to pay the former financial advisor a transaction fee of \$650,000, to be paid in four equal quarterly installments starting on December 31, 2014, and ending on September 30, 2015 and \$35,000 for reimbursement of the former financial advisor's out-of-pocket expenses, which were due upon execution of the amendment. The transaction fee and out-of-pocket expenses were reflected as additional Series E Convertible Preferred Stock issuance costs during the year ended December 31, 2014.

**9. Convertible Preferred Stock**

At December 31, 2014, convertible preferred stock authorized and outstanding consisted of the following (in thousands except share amounts):

Shares	Shares Issued and	Carrying	Preferential Liquidation
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Series	Authorized	Outstanding	Value	Value
Series A	326,595	326,591	\$ 6,183	\$ 6,212
Series A-1	225,235	225,235	6,649	3,243
Series B	755,516	755,486	27,272	27,538
Series C	561,448	561,423	22,397	22,485
Series D	800,000	722,367	37,153	37,708
Series E	4,150,403	2,671,626	32,606	134,650
	6,819,197	5,262,728	\$ 132,260	\$ 231,836

On January 9, 2015, the Company issued a total of 490,472 shares of Series E Convertible Preferred Stock at \$12.60 per share for total cash proceeds of \$6,180,000. Upon the closing of the IPO, all shares of convertible preferred stock then outstanding converted into an aggregate of 6,967,925 shares of common stock. As of March 31, 2015, the Company does not have any convertible preferred stock issued or outstanding.

### 10. Stockholders' Equity (Deficit)

#### Preferred Stock

At March 31, 2015, 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.

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**Common Stock**

At March 31, 2015, 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 12,240,164 shares were issued and outstanding.

**Restricted Stock**

In May 2012, the Company entered into two Restricted Stock Purchase Agreements with two individuals in return for certain intellectual property ( IP ) and ongoing consulting services. 1,666 shares of common stock were issued under each Restricted Stock Purchase Agreement for a total of 3,332 shares at a fair market value of \$14.85 per share for a total purchase price of \$49,500. The shares are subject to repurchase at cost, or \$14.85 per share, with 20% being released from the repurchase option at the date of assignment of the IP and 1/48th of the remaining 80% being released monthly thereafter. Stock compensation expense of \$49,500, representing the intrinsic value of the shares was recorded to consulting expense in 2012. Since it was not possible to value the IP, this noncash compensation expense was calculated at the fair market value of the shares of \$14.85 per share.

As of March 31, 2015 and December 31, 2014, a total of 415 and 583 shares, respectively, were subject to repurchase, at cost, under these Restricted Stock Purchase Agreements.

**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 \$12.60, 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. As of December 31, 2014, in connection with the issuance of its Series E Convertible Preferred Stock, the Company issued warrants to purchase an aggregate of 1,335,779 shares of common stock. The common stock warrants were recorded at their allocated fair value of \$175,000 within stockholders' deficit.

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 245,235 shares of common stock. The common stock warrants were recorded at their allocated fair value of \$804,000 within stockholders' equity (deficit).

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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 are immediately exercisable, at an exercise price of \$12.60 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, the Company issued additional warrants to purchase 632,381 shares of common stock to investors who previously acquired shares of Series E Convertible Preferred Stock from September 2014 through January 2015.

The Company determined that the amendment to the Series E Convertible Preferred Stock Purchase agreement should be accounted for as a modification. Accordingly, the incremental fair value from the modification, the additional warrants to purchase 632,381 shares of common stock warrants, of \$2,384,000, was recorded as an increase to stockholders' equity (deficit) and as an adjustment to net loss attributable to common stockholders in the Company's statement of operations and comprehensive loss for the three months ended March 31, 2015. This amount represents a return to the preferred stockholders and is treated in a manner similar to the treatment of dividends paid to holders of preferred stock in the computation of earnings per share. As a result, the deemed dividend is subtracted from net loss available to common stockholders in reconciling net loss to net loss available for common shareholders.

Table of Contents**Stock Plans**

In January 2015, the Company's Board of Directors adopted and the Company's stockholders approved the 2015 Equity Incentive Plan (the 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 ISOs to employees and for the grant of NSOs, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to employees, directors and consultants. A total of 1,320,000 shares of common stock were reserved for issuance pursuant to the 2015 Plan. In addition, the shares reserved for issuance under the 2015 Plan will also include 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 will also include an annual increase on the first day of each fiscal year beginning in fiscal 2016, equal to the lesser of 1,690,000 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.

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.

Activity under the Plans is set forth below:

	Shares Available for Grant	Number of Shares	Options Outstanding Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2014	21,705	3,010,373	\$ 5.78	\$ 13,188
Additional shares reserved	1,320,000			
Granted	(32,444)	32,444	\$ 10.91	
Exercised			\$	
Cancelled	7,469	(7,469)	\$ 14.34	
Balance at March 31, 2015	1,316,730	3,035,348	\$ 5.78	\$ 17,714

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2015 and 2014 was \$5.83 and \$0.13 per share, respectively. As of March 31, 2015, the aggregate intrinsic value of options outstanding and vested was \$188,000. The aggregate intrinsic value of options exercised was none and none during the three months ended March 31, 2015 and 2014, respectively. The aggregate intrinsic value was calculated as the difference between the exercise prices of the underlying options and the estimated fair value 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 three months ended March 31, 2015 and 2014.

At March 31, 2015 and at December 31, 2014, there were 212,498 and 201,018 shares, respectively, vested with a weighted-average exercise price of \$14.66 and \$5.38 per share, respectively, and a weighted average contractual life of 6.77 and 7.03 years, respectively.

**2015 Employee Stock Purchase Plan**

In January 2015, the Company's 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. 500,000 shares of common stock are reserved for issuance and will be increased on the first day of each fiscal year, commencing in 2016, by an amount equal to the lesser of (i) 493,000 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. 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. The Company incurred \$23,000 in stock-based compensation expense related to the ESPP for the three months ended March 31, 2015.

Table of Contents**11. Stock-Based Compensation**

The Company estimates the fair value of stock-based compensation 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. Due to the Company's limited operating history and a lack of company specific historical and implied volatility data, the Company has 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. 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 stock-based compensation expense recognized in the financial statements is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. 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. 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:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Expected term (years)	6.3	7.0
Expected volatility	55.0%	52.1%
Risk-free interest rate	1.7%	2.1%
Dividend rate		

As of March 31, 2015 and December 31, 2014, the total unamortized compensation expense related to stock-based awards granted to employees and directors was \$17,875,000 and \$18,938,000, which is expected to be amortized over the next 3.68 and 3.92 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 average assumptions for the three months ended March 31, 2015:

	<b>Three Months Ended March 31, 2015</b>
Expected term (years)	0.5
Expected volatility	47.2%
Risk-free interest rate	0.07%
Dividend rate	

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Total stock-based compensation expense recognized during the three months ended March 31, 2015 and 2014, is as follows (in thousands):

	<b>Three Months Ended March 31,</b>			
	<b>2015</b>		<b>2014</b>	
Cost of revenues	\$	60	\$	13
Research and development expenses		552		50
Selling, general and administrative expenses		620		