

VICOR CORP
Form 10-Q
July 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

For the transition period from _____

Commission File Number 0-18277

VICOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

04-2742817
(I.R.S. Employer

Identification No.)
25 Frontage Road, Andover, Massachusetts 01810

(Address of Principal Executive Office)

(978) 470-2900

(Registrant's telephone number)

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

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

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

Large accelerated filer Accelerated filer

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

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

The number of shares outstanding of each of the issuer's classes of Common Stock as of **June 30, 2015** was:

Common Stock, \$.01 par value	27,015,475
Class B Common Stock, \$.01 par value	11,758,218

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Part I Financial Information

Condensed Consolidated Balance Sheets

(In thousands)

(Unaudited)

Item 1 Financial Statements

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 65,148	\$ 55,187
Short-term investments		270
Accounts receivable, less allowance of \$205 in 2015 and \$183 in 2014	27,069	28,431
Inventories, net	25,462	26,328
Deferred tax assets	106	107
Other current assets	3,346	3,155
Total current assets	121,131	113,478
Long-term investments, net	2,955	3,002
Property, plant and equipment, net	36,031	37,387
Other assets	1,670	1,675
Total assets	\$ 161,787	\$ 155,542
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 9,397	\$ 7,932
Accrued compensation and benefits	9,040	8,663
Accrued expenses	2,240	3,178
Accrued severance charges	742	1,904
Income taxes payable	8	41
Deferred revenue	2,185	1,439
Total current liabilities	23,612	23,157
Long-term deferred revenue	537	637
Long-term income taxes payable	869	867
Deferred income taxes payable	329	329
Total liabilities	25,347	24,990
Commitments and contingencies (Note 11)		

Equity:

Vicor Corporation stockholders equity:			
Class B Common Stock		118	118
Common Stock		394	393
Additional paid-in capital		173,638	171,901
Retained earnings		98,934	94,758
Accumulated other comprehensive loss		(529)	(471)
Treasury stock, at cost		(138,927)	(138,927)
Total Vicor Corporation stockholders equity		133,628	127,772
Noncontrolling interest		2,812	2,780
Total equity		136,440	130,552
Total liabilities and equity		\$ 161,787	\$ 155,542

See accompanying notes.

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VICOR CORPORATION

Condensed Consolidated Statements of Operations

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net revenues	\$ 56,119	\$ 53,361	\$ 120,136	\$ 106,594
Cost of revenues	29,609	30,699	64,735	61,140
Gross margin	26,510	22,662	55,401	45,454
Operating expenses:				
Selling, general and administrative	15,086	17,033	29,948	35,013
Research and development	10,631	10,643	21,050	20,894
Total operating expenses	25,717	27,676	50,998	55,907
Income (loss) from operations	793	(5,014)	4,403	(10,453)
Other income (expense), net:				
Total unrealized gains on available-for-sale securities, net	54	40	39	79
Portion of gains recognized in other comprehensive income (loss)	(50)	(20)	(31)	(59)
Net credit gains recognized in earnings	4	20	8	20
Other income, net	35	62	2	92
Total other income (expense), net	39	82	10	112
Income (loss) before income taxes	832	(4,932)	4,413	(10,341)
Provision for income taxes	61		200	17
Consolidated net income (loss)	771	(4,932)	4,213	(10,358)
Less: Net income (loss) attributable to noncontrolling interest	(34)	(97)	37	(145)
Net income (loss) attributable to Vicor Corporation	\$ 805	\$ (4,835)	\$ 4,176	\$ (10,213)
Net income (loss) per common share attributable to Vicor Corporation:				
Basic	\$ 0.02	\$ (0.13)	\$ 0.11	\$ (0.26)
Diluted	\$ 0.02	\$ (0.13)	\$ 0.11	\$ (0.26)

Shares used to compute net income (loss) per common share
attributable to Vicor Corporation:

Basic	38,750	38,542	38,719	38,541
Diluted	39,293	38,542	39,221	38,541

See accompanying notes.

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VICOR CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Consolidated net income (loss)	\$ 771	\$ (4,932)	\$ 4,213	\$ (10,358)
Foreign currency translation (losses) gains, net of tax(1)	(60)	71	(97)	148
Unrealized gains on available-for-sale securities, net of tax(2)	49	19	34	56
Other comprehensive income (loss)	(11)	90	(63)	204
Consolidated comprehensive income (loss)	760	(4,842)	4,150	(10,154)
Less: Comprehensive income (loss) attributable to noncontrolling interest	(39)	(92)	32	(135)
Comprehensive income (loss) attributable to Vicor Corporation	\$ 799	\$ (4,750)	\$ 4,118	\$ (10,019)

- (1) Net of tax provision (benefit) of \$0 for the three and six months ended June 30, 2015 and 2014, respectively.
- (2) The deferred tax assets associated with cumulative unrealized losses on available-for-sale securities are completely offset by a tax valuation allowance as of June 30, 2015 and 2014. Therefore, there is no net income tax benefit recognized for the three and six months ended June 30, 2015 and 2014.

See accompanying notes.

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Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Operating activities:		
Consolidated net income (loss)	\$ 4,213	\$ (10,358)
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	4,723	4,854
Stock-based compensation expense	1,051	771
Provision for doubtful accounts	8	11
Decrease in long-term deferred revenue	(69)	(69)
Gain on disposal of equipment	(52)	(6)
Credit gain on available-for-sale securities	(8)	(20)
Increase in long-term income taxes payable	2	7
Change in current assets and liabilities, net	2,408	2,589
Net cash provided by (used for) operating activities	12,276	(2,221)
Investing activities:		
Additions to property, plant and equipment	(3,324)	(3,481)
Sales and maturities of investments	360	90
Proceeds from sale of equipment	52	6
Increase in other assets	(75)	(32)
Net cash used for investing activities	(2,987)	(3,417)
Financing activities:		
Proceeds from issuance of Common Stock	685	20
Net cash provided by financing activities	685	20
Effect of foreign exchange rates on cash	(13)	84
Net increase (decrease) in cash and cash equivalents	9,961	(5,534)
Cash and cash equivalents at beginning of period	55,187	56,339
Cash and cash equivalents at end of period	\$ 65,148	\$ 50,805

See accompanying notes.

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Notes to Condensed Consolidated Financial Statements

June 30, 2015

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Vicor Corporation and its consolidated subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2015. The balance sheet at December 31, 2014 presented herein has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 0-18277) filed by the Company with the Securities and Exchange Commission.

2. Short-Term and Long-Term Investments

As of June 30, 2015 and December 31, 2014, the Company held one auction rate security that had experienced failed auctions totaling \$3,000,000 at par value, which was purchased through and is held by a broker-dealer affiliate of Bank of America, N.A. (the Failed Auction Security). The Failed Auction Security held by the Company is Aaa/AA+ rated by major credit rating agencies, collateralized by student loans, and guaranteed by the U.S. Department of Education under the Federal Family Education Loan Program. Management is not aware of any reason to believe the issuer of the Failed Auction Security is presently at risk of default. Through June 30, 2015, the Company has continued to receive interest payments on the Failed Auction Security in accordance with the terms of its indenture. Management believes the Company ultimately should be able to liquidate the Failed Auction Security without significant loss primarily due to the overall quality of the issue held and the collateral securing the substantial majority of the underlying obligation. However, current conditions in the auction rate securities market have led management to conclude the recovery period for the Failed Auction Security exceeds 12 months. As a result, the Company continued to classify the Failed Auction Security as long-term as of June 30, 2015.

The following is a summary of available-for-sale securities (in thousands):

June 30, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Failed Auction Security	\$ 3,000	\$	\$ 386	\$ 2,614

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Brokered certificates of deposit	340	1		341
	\$ 3,340	\$ 1	\$ 386	\$ 2,955

December 31, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Failed Auction Security	\$ 3,000	\$	\$ 425	\$ 2,575
Brokered certificates of deposit	700		3	697
	\$ 3,700	\$	\$ 428	\$ 3,272

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Notes to Condensed Consolidated Financial Statements

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