VICOR CORP
Form 10-Q
February 27, 2008

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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 September 30, 2007

__ 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	04-2742817
(State of Incorporation)	(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 þ No o
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 o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ
The number of shares outstanding of each of the issuer s classes of common stock as of January 31, 2008 was:

Common Stock, $.01 par value 29,811,197
Class B Common Stock, $.01 par value 11,824,952

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Item 1 Financial Statements

VICOR CORPORATION
Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

Assets		September 30, 2007		December 31, 2006 (As Restated)
Current assets:				
Cash and cash equivalents	$	49,504	$	35,860
Restricted cash and short-term investments		1,045		1,045
Short-term investments		28,542		81,681
Accounts receivable, less allowance of $404 in 2007 and $583 in 2006		28,242		30,399
Insurance receivable for litigation settlements				12,800
Inventories, net		21,905		22,001
Deferred tax assets		3,648		3,702
Other current assets		2,505		2,181
Total current assets		135,391		189,669
Property, plant and equipment, net		50,464		51,573
Other assets		5,386		5,691
	$	191,241	$	246,933
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$	9,843	$	7,273
Accrued compensation and benefits		5,212		5,192
Accrued expenses		3,823		4,189
Accrual for litigation settlements		240		50,000
Income taxes payable		628		2,049
Deferred revenue		853		76
Total current liabilities		20,599		68,779
Deferred income taxes		4,377		4,389

Minority interests	3,679	3,593
Stockholders equity:		
Preferred Stock		
Class B Common Stock	118	119
Common Stock	384	382
Additional paid-in capital	159,011	158,021
Retained earnings	124,766	133,405
Accumulated other comprehensive income	134	72
Treasury stock, at cost	(121,827)	(121,827)
Total stockholders equity	162,586	170,172
	$ 191,241	$ 246,933

See accompanying notes.

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VICOR CORPORATION
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006 (As restated)	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006 (As restated)
Net revenues	$ 47,693	$ 46,932	$ 141,880	$ 144,014
Cost of revenues	29,789	26,981	84,150	81,852
Gross margin	17,904	19,951	57,730	62,162
Operating expenses:				
Selling, general and administrative	12,314	11,225	36,490	33,796
Research and development	7,735	7,961	22,802	23,531
(Gain) loss from litigation-related settlements, net	0	0	(1,353)	0
Total operating expenses	20,049	19,186	57,939	57,327
Income (loss) from operations	(2,145)	765	(209)	4,835
Other income (expense), net	1,242	1,318	3,725	3,787
Income (loss) before income taxes	(903)	2,083	3,516	8,622
(Benefit) provision for income taxes	(1,616)	(379)	(1,329)	210
Loss from equity method investment (net of tax)	170	70	1,007	242
Net income	$ 543	$ 2,392	$ 3,838	$ 8,170
Net income per common share:				
Basic	$ 0.01	$ 0.06	$ 0.09	$ 0.19
Diluted	$ 0.01	$ 0.06	$ 0.09	$ 0.19

Shares used to compute net income per share:				
Basic	41,617	41,703	41,586	41,932
Diluted	41,715	41,771	41,657	42,212
Cash dividends per share	$ 0.15	$ 0.00	$ 0.30	$ 0.27

See accompanying notes.

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VICOR CORPORATION
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended	
	September 30, 2007	September 30, 2006 (As restated)
Operating activities:		
Net income	$ 3,838	$ 8,170
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,928	10,621
Loss from equity method investee (net of tax)	1,007	242
Stock compensation expense	498	523
(Accretion) amortization of bond (discount) premium	(437)	14
Gain on disposals of equipment	(108)	(75)
Minority interest in net income of subsidiaries	179	417
Change in current assets and liabilities, net	(33,314)	(8,852)
Net cash (used in) provided by operating activities	(19,409)	11,060
Investing activities:		
Purchases of investments	(102,060)	(105,107)
Sales and maturities of investments	155,636	109,398
Additions to property, plant and equipment	(7,427)	(4,242)
Proceeds from sale of equipment	108	0
Purchase of equity method investment	(1,000)	0
Increase in other assets	(85)	(148)
Net cash provided by (used in) investing activities	45,172	(99)
Financing activities:		
Proceeds from issuance of Common Stock	495	5,566
Dividends paid	(12,569)	(11,343)
Acquisitions of treasury stock	0	(10,835)

Net cash used in financing activities	(12,074)	(16,612)
Effect of foreign exchange rates on cash	(45)	3
Net increase (decrease) in cash and cash equivalents	13,644	(5,648)
Cash and cash equivalents at beginning of period	35,860	33,703
Cash and cash equivalents at end of period	$ 49,504	$ 28,055

See accompanying notes.

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VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
September 30, 2007
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements 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, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

As described in Note 6., due to an additional investment in Great Wall Semiconductor Corporation (GWS) in May 2007, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for the three and nine months ended September 30, 2006 and as of December 31, 2006 have been retroactively restated to reflect the equity method of accounting, in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock .

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 nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2007. The balance sheet at December 31, 2006 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, 2006 (File No. 0-18277) filed by Vicor Corporation (the Company or Vicor) with the Securities and Exchange Commission.

2. Cash and Short-Term Investments

Restricted cash and short-term investments represent the amount of cash and short-term investments required to be set aside as a guarantee for certain foreign letters of credit. Restricted cash and short-term investments of $1,045,000 as of December 31, 2006, and $906,000 as of September 30, 2006 and December 31, 2005, respectively, were reclassified to conform to the 2007 presentation.

Through February 25, 2008, auctions held for several of the Company s auction rate securities with a total aggregate value of approximately $17.5 million failed. As of February 25, 2008, the Company was holding a total of approximately $44 million in auction rate securities, the significant majority of which are student loan backed securities. These municipal and corporate debt securities have their interest rates reset at auction at regular intervals ranging from seven to 90 days. The Company is in the process of reviewing this matter in order to determine the impact, if any, on the investments liquidity and/or carrying value.

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

3. Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (FAS 123R). Stock compensation expense for the three and nine months ended September 30 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Cost of revenues	$ 12	$ 16	$ 36	$ 65
Selling, general and administrative	104	92	268	271
Research and development	61	65	194	187
Total stock based compensation	$ 177	$ 173	$ 498	$ 523

4. Net Income per Share

The following table sets forth the computation of basic and diluted income per share for the three and nine months ended September 30 (in thousands, except per share amounts):

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006 (As restated)	2007	2006 (As restated)
Numerator:				
Net income	$ 543	$ 2,392	$ 3,838	$ 8,170
Denominator:				
Denominator for basic income per share-weighted average shares	41,617	41,703	41,586	41,932
Effect of dilutive securities:				
Employee stock options	98	68	71	280
Denominator for diluted income per share-adjusted weighted-average shares and	41,715	41,771	41,657	42,212

assumed conversions								
Basic income per share	$	0.01	$	0.06	$	0.09	$	0.19
Diluted income per share	$	0.01	$	0.06	$	0.09	$	0.19

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

4. Net Income per Share (Continued)

Options to purchase 925,363 and 1,467,531 shares of Common Stock were outstanding for the three months ended September 30, 2007 and 2006, respectively, and options to purchase 1,000,808 and 611,095 shares of Common Stock were outstanding for the nine months ended September 30, 2007 and 2006, respectively, but were not included in the computation of diluted income per share because the options exercise prices were greater than the average market price of the Common Stock and, therefore, the effect would have been antidilutive.

5. Inventories

Inventories are valued at the lower of cost (determined using the first-in, first-out method) or market. The Company provides reserves for inventories estimated to be excess, obsolete or unmarketable. The Company s estimation process for such reserves is based upon its known backlog, projected future demand and expected market conditions. If the Company s estimated demand and / or market expectation were to change or if product sales were to decline, the Company s estimation process may cause larger inventory reserves to be recorded, resulting in larger charges to cost of revenues.

Inventories were as follows as of September 30, 2007 and December 31, 2006 (in thousands):

	September 30, 2007	December 31, 2006
Raw materials	$ 23,039	$ 23,805
Work-in-process	3,072	2,319
Finished goods	4,128	4,240
	30,239	30,364
Inventory reserves	(8,334)	(8,363)
Net balance	$ 21,905	$ 22,001

6. Investments

In May 2007, the Audit Committee of the Board of Directors approved an additional investment of $1,000,000 in non-voting convertible preferred stock of Great Wall Semiconductor Corporation (GWS) and agreed to an additional investment of $1,000,000 if certain conditions were met by November 2007. Those conditions were not met by November 2007. However, the Company did make the additional $1,000,000 investment in February 2008, which will increase its ownership in GWS to approximately 30%. The additional $1,000,000 investment was approved by the Audit Committee of the Company s Board of Directors. The Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008 due to the additional investment. The Company s total gross investment in GWS was $4,000,000 as of September 30, 2007 and $3,000,000 as of December 31, 2006. GWS designs, develops and manufactures high performance power semiconductors. A director of Vicor is the founder, President, Chairman of the Board, Chief Executive Officer and the majority voting shareholder of GWS.

The Company considered the requirements of FASB Interpretation No. 46 (revised December 2003),

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VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

6. Investments (Continued)

Consolidation of Variable Interest Entities (FIN 46R), in accounting for the additional investment in GWS, and determined that GWS is a variable interest entity. However, the Company concluded that it is not the primary beneficiary. As a result, the Company is accounting for the investment under the equity method of accounting in accordance with Accounting Principles Board Opinion No. 18, The Equity Method for Accounting for Investments in Common Stock (APB 18). The Company has also considered FIN No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock (FIN 35) and EITF 02-14, Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock (EITF 02-14). The additional investment made in May 2007 resulted in the Company owning approximately 24% of GWS which management believes, along with other qualitative factors considered, gives the Company significant influence over GWS. In addition, the Company has an option to purchase an additional 1.5% of GWS for $90,000. The Company also believes that its investment in GWS represents in-substance common stock. As a result, the additional investment requires the Company to account for the investment in GWS under the equity method of accounting and to retroactively restate its previously issued consolidated financial statements. Previously, the Company accounted for the investment as a cost method investment as management believed it did not have significant influence over GWS. At December 31, 2006, the Company owned approximately 17.5% of GWS.

In accordance with APB 18, each investment in GWS has been accounted for as a step acquisition using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141). The allocation of the purchase price included acquired intangible assets, including core and developed technology as well as in-process research and development (IPR&D). The excess of the purchase price over the fair value allocated to the net assets is goodwill. The core and developed technology is being amortized over three years. The amounts allocated to IPR&D were charged to expense in accordance with FAS 141, which specifies that the amount assigned to the acquired intangible assets to be used in a particular research and development project that have no alternative future use shall be charged to expense at the acquisition date. The amounts included in other assets in the accompanying consolidated balance sheets related to the net GWS investment were $818,000 and $826,000 as of September 30, 2007 and December 31, 2006, respectively, as follows (in thousands):

	September 30, 2007	December 31, 2006
Equity method goodwill	$ 762	$ 775
Intangible assets, net of amortization	56	51
	$ 818	$ 826

The negative net equity of GWS was approximately ($900,000) at September 30, 2007 and ($1,000,000) at December 31, 2006.

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