VICOR CORP
Form 10-Q
October 28, 2016
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2016**

**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 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 **October 21, 2016** was:

| | |
|---|---|
| Common Stock, $.01 par value | 27,097,656 |
| Class B Common Stock, $.01 par value | 11,758,218 |

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VICOR CORPORATION

Part I Financial Information

Item 1 Financial Statements

Condensed Consolidated Balance Sheets

(In thousands)

(Unaudited)

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 55,066 | $ 62,980 |
| Accounts receivable, less allowance of $154 in 2016 and $171 in 2015 | 28,026 | 25,982 |
| Inventories, net | 26,562 | 23,442 |
| Other current assets | 3,086 | 3,102 |
| Total current assets | 112,740 | 115,506 |
| Long-term deferred tax assets, net | 11 | 15 |
| Long-term investments, net | 2,580 | 2,866 |
| Property, plant and equipment, net | 37,535 | 37,450 |
| Other assets | 2,172 | 1,708 |
| Total assets | $ 155,038 | $ 157,545 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 7,965 | $ 7,470 |
| Accrued compensation and benefits | 8,649 | 8,349 |
| Accrued expenses | 2,178 | 2,568 |
| Accrued severance charges | | 195 |
| Income taxes payable | 23 | 31 |
| Deferred revenue | 2,626 | 1,988 |
| Total current liabilities | 21,441 | 20,601 |
| Long-term deferred revenue | 392 | 468 |
| Contingent consideration obligations | 288 | 144 |
| Long-term income taxes payable | 182 | 192 |
| Deferred income taxes payable | | 55 |
| Total liabilities | 22,303 | 21,460 |

| | | |
|---|---|---|
| Commitments and contingencies (Note 12) | | |
| Equity: | | |
| Vicor Corporation stockholders equity: | | |
| Class B Common Stock | 118 | 118 |
| Common Stock | 396 | 395 |
| Additional paid-in capital | 174,881 | 174,337 |
| Retained earnings | 96,126 | 99,685 |
| Accumulated other comprehensive loss | (96) | (577) |
| Treasury stock, at cost | (138,927) | (138,927) |
| Total Vicor Corporation stockholders equity | 132,498 | 135,031 |
| Noncontrolling interest | 237 | 1,054 |
| Total equity | 132,735 | 136,085 |
| Total liabilities and equity | $ 155,038 | $ 157,545 |

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, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net revenues | $ 53,227 | $ 48,664 | $ 152,195 | $ 168,800 |
| Cost of revenues | 27,304 | 27,378 | 82,485 | 92,113 |
| Gross margin | 25,923 | 21,286 | 69,710 | 76,687 |
| Operating expenses: | | | | |
| Selling, general and administrative | 13,312 | 13,383 | 41,643 | 43,331 |
| Research and development | 10,338 | 10,121 | 31,824 | 31,171 |
| Total operating expenses | 23,650 | 23,504 | 73,467 | 74,502 |
| Income (loss) from operations | 2,273 | (2,218) | (3,757) | 2,185 |
| Other income (expense), net: | | | | |
| Total unrealized gains on available-for-sale securities, net | 1 | 15 | 54 | 54 |
| Portion of losses (gains) recognized in other comprehensive income (loss) | 2 | (11) | (44) | (42) |
| Net credit gains recognized in earnings | 3 | 4 | 10 | 12 |
| Other income (expense), net | 208 | (3) | 340 | (1) |
| Total other income (expense), net | 211 | 1 | 350 | 11 |
| Income (loss) before income taxes | 2,484 | (2,217) | (3,407) | 2,196 |
| Less: Provision for income taxes | 133 | 174 | 168 | 374 |
| Gain from sale of equity method investment, net of tax | | 5,000 | | 5,000 |
| Consolidated net income (loss) | 2,351 | 2,609 | (3,575) | 6,822 |
| Less: Net income (loss) attributable to noncontrolling interest | 15 | 106 | (16) | 143 |
| Net income (loss) attributable to Vicor Corporation | $ 2,336 | $ 2,503 | $ (3,559) | $ 6,679 |
| Net income (loss) per common share attributable to Vicor Corporation: | | | | |
| Basic | $ 0.06 | $ 0.06 | $ (0.09) | $ 0.17 |
| Diluted | $ 0.06 | $ 0.06 | $ (0.09) | $ 0.17 |

| | | | | |
|---|---|---|---|---|
| Shares used to compute net income (loss) per common share attributable to Vicor Corporation: | | | | |
| Basic | 38,837 | 38,786 | 38,811 | 38,742 |
| Diluted | 39,184 | 39,086 | 38,811 | 39,176 |

See accompanying notes.

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VICOR CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Consolidated net income (loss) | $ 2,351 | $ 2,609 | $ (3,575) | $ 6,822 |
| Foreign currency translation gains (losses), net of tax (1) | 56 | 61 | 473 | (36) |
| Unrealized (losses) gains on available-for-sale securities, net of tax (2) | (2) | 11 | 44 | 45 |
| Other comprehensive income | 54 | 72 | 517 | 9 |
| Consolidated comprehensive income (loss) | 2,405 | 2,681 | (3,058) | 6,831 |
| Less: Comprehensive income (loss) attributable to noncontrolling interest | 19 | 110 | 20 | 142 |
| Comprehensive income (loss) attributable to Vicor Corporation | $ 2,386 | $ 2,571 | $ (3,078) | $ 6,689 |

(1) Net of tax provision (benefit) of $0 for the three and nine months ended September 30, 2016 and 2015.
(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 September 30, 2016 and 2015. Therefore, there is no net income tax provision (benefit) recognized for the three and nine months ended September 30, 2016 and 2015.

See accompanying notes.

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VICOR CORPORATION

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operating activities: | | |
| Consolidated net income (loss) | $ (3,575) | $ 6,822 |
| Adjustments to reconcile consolidated net income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 6,384 | 6,954 |
| Gain from sale of equity method investment | | (5,000) |
| Stock-based compensation expense, net | 171 | 1,392 |
| Increase in other assets | (505) | |
| Decrease in long-term deferred revenue | (76) | (103) |
| Deferred income taxes | (51) | |
| Benefit for doubtful accounts | (22) | (18) |
| Loss (gain) on disposal of equipment | 4 | (54) |
| Credit gain on available-for-sale securities | (10) | (12) |
| (Decrease) increase in long-term income taxes payable | (10) | 8 |
| Change in current assets and liabilities, net | (3,894) | 2,959 |
| Net cash (used for) provided by operating activities | (1,584) | 12,948 |
| Investing activities: | | |
| Additions to property, plant and equipment | (6,368) | (5,596) |
| Proceeds from sale of equity method investment | | 5,000 |
| Sales and maturities of investments | | 360 |
| Proceeds from sale of equipment | 2 | 54 |
| Increase in other assets | (18) | (156) |
| Net cash used for investing activities | (6,384) | (338) |
| Financing activities: | | |
| Proceeds from issuance of Common Stock | 455 | 781 |
| Payment of contingent consideration obligations | (64) | |
| Acquisition of noncontrolling interest | (372) | |
| Net cash provided by financing activities | 19 | 781 |
| Effect of foreign exchange rates on cash | 35 | (7) |

| | | |
|---|---|---|
| Net (decrease) increase in cash and cash equivalents | (7,914) | 13,384 |
| Cash and cash equivalents at beginning of period | 62,980 | 55,187 |
| Cash and cash equivalents at end of period | $ 55,066 | $ 68,571 |

See accompanying notes.

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VICOR CORPORATION

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Vicor Corporation and its consolidated subsidiaries (collectively, 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 nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2016. The balance sheet at December 31, 2015 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, 2015 filed by the Company with the Securities and Exchange Commission on March 8, 2016.

2. Long-Term Investments

As of September 30, 2016 and December 31, 2015, the Company held one auction rate security that had experienced failed auctions of $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 September 30, 2016, 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 September 30, 2016.

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

| September 30, 2016 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Failed Auction Security | $ 3,000 | $ | $ 420 | $ 2,580 |

| December 31, 2015 | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Failed Auction Security | $ 3,000 | $ | $ 474 | $ 2,526 |
| Brokered certificates of deposit | 340 | | | 340 |
| | $ 3,340 | $ | $ 474 | $ 2,866 |

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Notes to Condensed Consolidated Financial Statements

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(unaudited)

As of September 30, 2016, the Failed Auction Security had been in an unrealized loss position for greater than 12 months.

The amortized cost and estimated fair value of the Failed Auction Security on September 30, 2016, by contractual maturity, is shown below (in thousands):

| | Cost | Estimated Fair Value |
|---|---|---|
| Due in twenty-six years | $ 3,000 | $ 2,580 |

Based on the fair value measurements described in Note 3, the fair value of the Failed Auction Security on September 30, 2016, with a par value of $3,000,000, was estimated by the Company to be approximately $2,580,000. The gross unrealized loss of $420,000 on the Failed Auction Security consists of two types of estimated loss: an aggregate credit loss of $62,000 and an aggregate temporary impairment of $358,000. In determining the amount of credit loss, the Company compared the present value of cash flows expected to be collected to the amortized cost basis of the security, considering credit default risk probabilities and changes in credit ratings as significant inputs, among other factors (See Note 3).

The following table represents a rollforward of the activity related to the credit loss recognized in earnings on the Failed Auction Security for the nine months ended September 30 (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Balance at the beginning of the period | $ 72 | $ 84 |
| Reductions in the amount related to credit gain for which other-than-temporary impairment was not previously recognized | (10) | (12) |
| Balance at the end of the period | $ 62 | $ 72 |

At this time, the Company has no intent to sell the impaired Failed Auction Security and does not believe it is more likely than not the Company will be required to sell this security. If current market conditions deteriorate further, the Company may be required to record additional unrealized losses. If the credit rating of the security deteriorates, the Company may be required to adjust the carrying value of the investment through impairment charges recorded in the Condensed Consolidated Statements of Operations, and any such impairment adjustments may be material.

Based on the Company s ability to access cash and cash equivalents and its expected operating cash flows, management does not anticipate the current lack of liquidity associated with the Failed Auction Security held will affect the Company s ability to execute its current operating plan.

3. Fair Value Measurements

The Company accounts for certain financial assets at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions market participants would use in pricing an asset or liability. A three-level hierarchy is used to show the extent and level of judgment used to estimate fair value measurements.

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Notes to Condensed Consolidated Financial Statements

September 30, 2016

(unaudited)

Assets measured at fair value on a recurring basis included the following as of September 30, 2016 (in thousands):

| | Quoted Prices in Active Markets (Level 1) | Using Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value as of September 30, 2016 |
|---|---|---|---|---|
| Cash equivalents: | | | | |
| Money market funds | $ 9,989 | $ | $ | $ 9,989 |
| Long-term investments: | | | | |
| Failed Auction Security | | | 2,580 | 2,580 |
| Liabilities: | | | | |
| Contingent consideration obligations | | | (288) | (288) |

Assets measured at fair value on a recurring basis included the following as of December 31, 2015 (in thousands):

| | Quoted Prices in Active Markets (Level 1) | Using Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value as of December 31, 2015 |
|---|---|---|---|---|
| Cash equivalents: | | | | |
| Money market funds | $ 10,412 | $ | $ | $ 10,412 |
| Long-term investments: | | | | |
| Failed Auction Security | | | 2,526 | 2,526 |
| Brokered certificates of deposit | | 340 | | 340 |
| Liabilities: | | | | |
| Contingent consideration obligation | | | (144) | (144) |

The Company has classified its contingent consideration obligations as Level 3 because the fair value for these liabilities was determined using unobservable inputs. The liabilities were based on estimated sales of legacy products over the period of royalty payments at the royalty rate (see Note 8), discounted using the Company s estimated cost of

capital.

The Company has classified its brokered certificates of deposit as Level 2 because the fair value for these investments was determined utilizing observable inputs from non-active markets. The fair values fluctuate with changes in market interest rates obtained from information available in publicly quoted markets. Management tested the reported fair values by comparing them to net present value calculations utilizing a discount rate based on U.S. Treasury bill and bond yields for similar maturities.

As of September 30, 2016, there was insufficient observable auction rate security market information available to determine the fair value of the Failed Auction Security using Level 1 or Level 2 inputs. As such, the Company s investment in the Failed Auction Security was deemed to require valuation using Level 3 inputs. Management, after consulting with advisors, valued the Failed Auction Security using analyses and pricing models similar to those used by market participants (i.e., buyers, sellers, and the broker-dealers responsible for execution of the Dutch auction pricing mechanism by which each issue s interest rate was set). Management utilized a probability weighted discounted cash flow ( DCF ) model to determine the estimated fair value of this security as of September 30, 2016. The major assumptions used in preparing the DCF model included: estimates for the amount

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Notes to Condensed Consolidated Financial Statements

September 30, 2016

(unaudited)

and timing of future interest and principal payments based on default probability assumptions used to measure the credit loss of 2.1%; the rate of return required by investors to own this type of security in the current environment, which management estimates to be 5.0% above the risk free rate of return; and an estimated timeframe of three to five years for successful auctions for this type of security to occur. In making these assumptions, management considered relevant factors including: the formula applicable to the security defining the interest rate paid to investors in the event of a failed auction (the Penalty Rate ); forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering the guarantees by the U.S. Department of Education of the underlying student loans, guarantees by other third parties, and additional credit enhancements provided through other means; and publicly available pricing data for recently issued student loan asset-backed securities not subject to auctions. In developing its estimate of the rate of return required by investors to own the security, management compared the Penalty Rate of the Failed Auction Security with yields of actively traded long-term bonds with similar characteristics and, reflecting the limited liquidity for auction rate securities and the discounts to par value seen in recent tender offers by issuers and arm s length market transactions between informed buyers and sellers, estimated the implied yield (i.e., the discount to par value) necessary to complete a sale of the Failed Auction Security. Management has calculated an increase or decrease in the liquidity risk premium of 5.0% referenced above of 1.0% (i.e., 100 basis points) as used in the model, would decrease or increase, respectively, the fair value of the Failed Auction Security by approximately $100,000.

For purposes of the valuation process for the Failed Auction Security, management consists of senior members of the Company s finance department. The fair value measurements for the Failed Auction Security are reviewed and updated on a quarterly basis. The calculations are prepared by the Company s Corporate Controller, in conjunction with information provided by its valuation advisors, and include the development and substantiation of the unobservable inputs. The methodology, assumptions, and calculations are reviewed and approved by the Company s Chief Financial Officer and Chief Accounting Officer.

The significant unobservable inputs used in the fair value measurement of the Failed Auction Security are the cumulative probability of earning the maximum rate until maturity, the cumulative probability of principal return prior to maturity, the cumulative probability of default, the liquidity risk premium, and the recovery rate in default. Significant increases (decreases) in any of those inputs in isolation would result in changes in fair value measurement. Significant increases (decreases) in the cumulative probability of earning the maximum rate until maturity, the cumulative probability of principal return prior to maturity, and the recovery rate in default would result in a higher (lower) fair value measurement, while increases (decreases) in the cumulative probability of default and the liquidity risk premium would result in a lower (higher) fair value measurement.

Generally, the interrelationships are such that a change in the assumption used for the cumulative probability of principal return prior to maturity is accompanied by a directionally similar change in the assumption used for the cumulative probability of earning the maximum rate until maturity and a directionally opposite change in the assumptions used for the cumulative probability of default and the liquidity risk premium. The recovery rate in default

is somewhat independent and based upon the security s specific underlying assets and published recovery rate indices.

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Notes to Condensed Consolidated Financial Statements

September 30, 2016

(unaudited)

Quantitative information about Level 3 fair value measurements as of September 30, 2016 is as follows (dollars in thousands):

| | Fair Value | Valuation Technique | Unobservable Input | Weighted Average |
|---|---|---|---|---|
| Failed Auction Security | $ 2,580 | Discounted cash flow | Cumulative probability of earning the maximum rate until maturity | 0.03% |
| | | | Cumulative probability of principal return prior to maturity | 94.82% |
| | | | Cumulative probability of default | 5.15% |
| | | | Liquidity risk premium | 5.00% |
| | | | Recovery rate in default | 40.00% |

The change in the estimated fair value calculated for the investment valued on a recurring basis utilizing Level 3 inputs (i.e., the Failed Auction Security) for the nine months ended September 30, 2016 was as follows (in thousands):

| | |
|---|---|
| Balance at the beginning of the period | $ 2,526 |
| Credit gain on available-for-sale securities included in Other income (expense), net | 10 |
| Gain included in Other comprehensive income (loss) | 44 |
| Balance at the end of the period | $ 2,580 |

The change in the estimated fair value calculated for the liabilities valued on a recurring basis utilizing Level 3 inputs (i.e., the Contingent consideration obligations) for the nine months ended September 30, 2016 was as follows (in thousands):

| | |
|---|---|
| Balance at the beginning of the period | $ 144 |
| | 208 |

| | |
|---|---|
| Obligation incurred upon acquisition of noncontrolling interest (see Note 8) | |
| Payments | (64) |
| Balance at the end of the period | $ 288 |

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the nine months ended September 30, 2016.

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Notes to Condensed Consolidated Financial Statements

September 30, 2016

(unaudited)

4. Stock-Based Compensation

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock option awards as of their grant date. Stock-based compensation expense, net for the three and nine months ended September 30 was as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Cost of revenues | $ (47) | $ 51 | $ 59 | $ 170 |
| Selling, general and administrative | (327) | 215 | 148 | 975 |
| Research and development | (124) | 75 | (36) | 247 |
| Total stock-based compensation | $ (498) | $ 341 | $ 171 | $ 1,392 |

On December 31, 2010, the Company granted 2,984,250 non-qualified stock options under the VI Chip 2007 Stock Option and Incentive Plan with performance-based vesting provisions tied to achievement of certain margin targets by VI Chip Corporation. As of December 31, 2010, the Company determined it was probable the margin targets could be achieved and, accordingly, began recording stock-based compensation expense relating to these options beginning January 1, 2011. During the third quarter of 2016, the Company determined the margin targets would not be met prior to the expiration date of the corresponding options, as VI Chip s revenue growth has been below levels necessary to achieve the targets. As a result, in accordance with the accounting guidance for performance-based stock options, the Company reversed approximately $768,000 of previously recorded stock-based compensation expense in the third quarter of 2016, representing all expense taken for these performance-based options through June 30, 2016. This resulted in decreases in cost of revenues of $86,000, selling, general and administrative expense of $516,000, and research and development expense of $166,000 for the three and nine months ended September 30, 2016.

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Notes to Condensed Consolidated Financial Statements

September 30, 2016

(unaudited)

5. Net Income (Loss) per Share

The following table sets forth the computation of basic and diluted net income (loss) 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, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Net income (loss) attributable to Vicor Corporation | $ 2,336 | $ 2,503 | $ (3,559) | $ 6,679 |
| Denominator: | | | | |
| Denominator for basic net income (loss) per share-weighted average shares (1) | 38,837 | 38,786 | 38,811 | 38,742 |
| Effect of dilutive securities: | | | | |
| Employee stock options (2) | 347 | 300 | | 434 |
| Denominator for diluted net income (loss) per share adjusted weighted-average shares and assumed conversions | 39,184 | 39,086 | 38,811 | 39,176 |
| Basic net income (loss) per share | $ 0.06 | $ 0.06 | $ (0.09) | $ 0.17 |
| Diluted net income (loss) per share | $ 0.06 | $ 0.06 | $ (0.09) | $ 0.17 |

(1) Denominator represents weighted average number of shares of Common Stock and Class B Common Stock outstanding.

(2) Options to purchase 449,464 and 1,845,289 shares of Common Stock for the three and nine months ended September 30, 2016, respectively, were not included in the calculation of net income (loss) per share as the effect would have been antidilutive. Options to purchase 533,689 and 141,971 shares of Common Stock for the three and nine months ended September 30, 2015, respectively, were not included in the calculation of net income per share as the effect would have been antidilutive.

6. Inventories

Inventories are valued at the lower of cost (determined using the first-in, first-out method) or net realizable value. Fixed production overhead is allocated to the inventory cost per unit based on the normal capacity of the production facilities. Abnormal production costs, including fixed cost variances from normal production capacity, if any, are charged to cost of revenues in the period incurred. All shipping and handling costs incurred in connection with the sale of products are included in cost of revenues.

The Company provides reserves for inventories estimated to be excess, obsolete or unmarketable. The Company s estimation process for assessing net realizable value is based upon its known backlog, projected future demand, historical consumption 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.

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VICOR CORPORATION

Notes to Condensed Consolidated Financial Statements

September 30, 2016

(unaudited)

Inventories were as follows (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials | $ 19,652 | $ 16,257 |
| Work-in-process | 2,991 | 2,879 |
| Finished goods | 3,919 | 4,306 |
| Net balance | $ 26,562 | $ 23,442 |

7. Other Investments

In September 2015, Intersil Corporation ( Intersil ) acquired Great Wall Semiconductor Corporation ( GWS ). At that time, the Company s gross investment in non-voting convertible preferred stock of GWS totaled $4,999,719, giving the Company an approximately 27% ownership interest in GWS. The Company received cash consideration of $4,999,719 for its investment from Intersil, representing full preference value of its shares of non-voting convertible preferred stock of GWS. Since the investment in GWS had previously been written down to zero, the full amount of the consideration was recorded as a gain from sale of equity method investment in the third quarter of 2015.

8. Noncontrolling Interest Transactions

On March 30, 2016, the Company acquired 100% ownership of certain operating assets and cash of its consolidated subsidiary, Converpower Corporation ( Converpower ), in which it held a 49% ownership interest. The operating assets and cash were acquired in exchange for the Company s common shares representing that 49% interest and the aggregate dollar amount of royalty payments to be made by the Company to Converpower. The transaction was executed through a newly-formed, wholly-owned subsidiary, Granite Power Technologies, Inc. ( GPT ), the business operations of which had formerly existed as a division of Vicor Corporation. The shares of Converpower common stock held by the Company were contributed to GPT prior to the transaction. At the same time that it entered into the Asset Purchase Agreement associated with this transaction, the Company and Converpower entered into a license agreement providing the Company the right to continue manufacturing certain Converpower products in exchange for payment of royalties, quarterly through June 30, 2021, equal to a percentage of the revenue generated by the manufacture and sale of these products by GPT. The estimated present value of total future royalties, included in Contingent consideration obligations in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2016, is $185,000 (initially $208,000, as of March 31, 2016). Although the Company exchanged its shares representing its 49% equity interest in Converpower, it acquired 100% control of the business operations. Accordingly, this transaction was accounted for as an acquisition of a noncontrolling interest (i.e., an equity transaction). As such, the noncontrolling interest balance in equity associated with Converpower was reduced to zero,

and the additional paid-in capital account was reduced by $208,000, the estimated present value of total future royalties as of March 31, 2016. As a result of the transactions associated with the consolidation of the Converpower operation into GPT, the Company s aggregate balance of cash, short-term interest receivable, and long-term investments on its Condensed Consolidated Balance Sheet as of March 31, 2016, declined by approximately $718,000. No amounts were recorded in the Condensed Consolidated Statement of Operations related to these transactions.

The respective noncontrolling interest holders of Converpower served as key employees of Converpower prior to the transactions described above.

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9. Severance and Other Charges

A summary of the activity related to the accrued severance charges is as follows (in thousands):

| | |
|---|---|
| Balance as of December 31, 2015 | $ 195 |
| Payments | (195) |
| Balance as of September 30, 2016 | $ |

10. Product Warranties

The Company generally offers a two-year warranty for all of its products, though it is party to a limited number of supply agreements with certain customers contractually committing the Company to warranty and indemnification requirements exceeding those to which the Company has been exposed in the past. The Company provides for the estimated cost of product warranties at the time product revenue is recognized. Factors influencing the Company s warranty reserves include the number of units sold, historical and anticipated rates of warranty returns, and the cost per return. The Company periodically assesses the adequacy of warranty reserves and adjusts the amounts as necessary. Warranty obligations are included in Accrued expenses in the accompanying Condensed Consolidated Balance Sheets.

Product warranty activity for the three and nine months ended September 30 was as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Balance at the beginning of the period | $ 496 | $ 332 | $ 584 | $ 204 |
| Accruals for warranties for products sold in the period | 61 | 280 | 291 | 465 |
| Fulfillment of warranty obligations | (106) | (18) | (374) | (75) |
| Revisions of estimated obligations | (109) | | (159) | |
| Balance at the end of the period | $ 342 | $ 594 | $ 342 | $ 594 |

11. Income Taxes

The tax provision is based on the estimated annual effective tax rate for the year, which includes estimated federal, state and foreign income taxes on the Company s projected pre-tax income (loss) and, in 2015, for estimated federal and state income taxes for certain noncontrolling interest subsidiaries that were not part of the Company s consolidated income tax returns**.**

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The provisions for income taxes and the effective income tax rates for the three and nine months ended September 30 were as follows (dollars in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Provision for income taxes | $ 133 | $ 174 | $ 168 | $ 374 |
| Effective income tax rate | 5.4% | 7.8% | 4.9% | 17.0% |

The Company s effective tax rate was lower than the statutory tax rate in each 2016 and 2015 period due to the utilization of net operating losses. The provisions for the three and nine months ended September 30, 2016 were primarily due to estimated state taxes in jurisdictions in which the Company does not have net operating loss carryforwards. No tax benefit could be recognized for the majority of the Company s losses during the periods due to a full valuation allowance against all net domestic deferred tax assets. In addition, in connection with the Company s acquisition of 100% ownership of certain operating assets and cash of Converpower, the related deferred tax liability for unremitted earnings of $55,000 was reversed and recorded as a discrete benefit in the first quarter of 2016 (see Note 8). The provisions for the three and nine months ended September 30, 2015 were primarily due to estimated federal and state taxes for one noncontrolling interest subsidiary, and for estimated state taxes in jurisdictions in which the Company does not have net operating loss carryforwards.

As of September 30, 2016, the Company continues to maintain a valuation allowance of approximately $25,855,000 against all domestic net deferred tax assets and the majority of foreign net deferred tax assets, for which realization cannot be considered more likely than not at this time.

12. Commitments and Contingencies

At September 30, 2016, the Company had approximately $596,000 of capital expenditure commitments.

On January 28, 2011, SynQor, Inc. ( SynQor ) filed a complaint for patent infringement against Ericsson, Inc. ( Ericsson ), Cisco Systems, Inc. ( Cisco ) and the Company in the U.S. District Court for the Eastern District of Texas (the Texas Action ). Ericsson and Cisco subsequently settled with SynQor and are no longer parties to the Texas Action. With respect to the Company, SynQor s complaint in the Texas Action alleged that the Company s products, including but not limited to unregulated bus converters used in intermediate bus architecture power supply systems, infringe SynQor s U.S. patent numbers 7,072,190, 7,272,021, and 7,564,702 ( the 190 patent , the 021 patent and the 702 patent , respectively). SynQor s complaint sought an injunction against further infringement and an award of unspecified compensatory and enhanced damages, interest, costs and attorney fees. On September 20, 2011, SynQor filed an amended complaint in the Texas Action that further alleged that the Company s products, including, but not

limited to, unregulated bus converters used in intermediate bus architecture power supply systems, infringe SynQor s U.S. patent number 8,023,290 ( the 290 patent ). The Company responded to SynQor s amended complaint in the Texas Action by denying that it infringes any of the SynQor patents, and asserting that the SynQor patents are invalid. The Company has further alleged that the SynQor 290 patent is unenforceable due to inequitable conduct by SynQor or its agents during the examination of the 290 patent at the United States Patent and Trademark Office ( USPTO ). The Company has also asserted counterclaims seeking damages against SynQor for deceptive trade practices and tortious interference with prospective economic advantage arising from SynQor s attempted enforcement of its patents against the Company.

The Company has initiated administrative review proceedings at the USPTO challenging the validity of certain claims of the SynQor patents asserted in the Texas Action, including all claims that were asserted against the Company by SynQor. Regarding the 190 patent, the Patent Trial and Appeal Board ( PTAB ) of the USPTO issued a decision upholding the validity of the 190 patent claims. That decision was appealed by the Company to the United States Court of Appeals for the Federal Circuit ( the Federal Circuit ), which issued a decision on March 13, 2015 reversing the PTAB, determining that certain claims were invalid, and remanding the matter to the PTAB for further proceedings. On May 2, 2016, the PTAB issued a decision determining that all but one

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of the remaining claims of the 190 patent were invalid and remanding the remaining claim to a patent examiner for further examination. In addition, on that date, the PTAB issued decisions finding all challenged claims of SynQor s 021 patent invalid and upholding the validity of all challenged claims of SynQor s 702 and 290 patents. The Company has filed an appeal with the Federal Circuit from the PTAB s decision upholding the validity of the challenged claims of the 702 and 290 patents. SynQor has filed an appeal with the Federal Circuit from the PTAB s decision that the challenged claims of the 021 patent are invalid. Decisions in these appeals are not expected until 2017. On May 23, 2016, the Texas Court issued an order staying the Texas Action until the completion of all of the administrative review proceedings concerning the asserted SynQor patents, including any appeals from such proceedings to the Federal Circuit.

The Company continues to believe none of its products, including its unregulated bus converters, infringe any valid claim of the asserted SynQor patents, either alone or when used in an intermediate bus architecture implementation, including such use by Cisco. The Company believes SynQor s claims lack merit and, therefore, continues to vigorously defend itself against SynQor s patent infringement allegations. The Company does not believe a loss is probable for this matter. If a loss were to be incurred, however, the Company cannot estimate the amount of possible loss or range of possible loss at this time.

In addition to the SynQor matter, the Company is involved in certain other litigation and claims incidental to the conduct of its business. While the outcome of lawsuits and claims against the Company cannot be predicted with certainty, management does not expect any current litigation or claims to have a material adverse impact on the Company s financial position or results of operations.

13. Segment Information

The Company has organized its business segments according to its key product lines. The Brick Business Unit segment ( BBU ) designs, develops, manufactures and markets the Company s modular DC-DC converters and configurable products, and also includes the entities comprising Vicor Custom Power and the BBU operations of Vicor Japan Company, Ltd. ( VJCL ). The VI Chip segment includes VI Chip Corporation, which designs, develops, manufactures and markets many of the Company s advanced power component products. The VI Chip segment also includes the VI Chip business conducted through VJCL. The Picor segment includes Picor Corporation, which designs, develops, manufactures and markets integrated circuits and related products for use in a variety of power management and power system applications. The Picor segment develops these products for use in the Company s BBU and VI Chip modules, to be sold as complements to the Company s BBU and VI Chip products, or for sale to third parties for separate (i.e., stand-alone) applications.

The Company s chief operating decision maker evaluates performance and allocates resources based on segment revenues and segment operating income (loss). The operating income (loss) for each segment includes selling, general and administrative and research and development expenses directly attributable to the segment. Certain of the

Company s indirect overhead costs, which include corporate selling, general and administrative expenses, are allocated among the segments based upon an estimate of costs associated with each segment. Assets allocated to each segment are based upon specific identification of such assets, which include accounts receivable, inventories, fixed assets and certain other assets. The Corporate segment consists of those operations and assets shared by all segments. The costs of certain centralized executive and administrative functions are recorded in this segment, as are certain shared assets, most notably cash and cash equivalents, deferred tax assets, long-term investments, the Company s facilities in Massachusetts, real estate and other assets. The Company s accounting policies and method of presentation for segments are consistent with that used throughout the Condensed Consolidated Financial Statements.

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The following table provides segment financial data for the three months ended September 30 (in thousands):

| | BBU | VI Chip | Picor | Corporate | Eliminations (1) | Total |
|---|---|---|---|---|---|---|
| 2016: | | | | | | |
| Net revenues | $ 38,518 | $ 11,961 | $ 5,320 | $ | $ (2,572) | $ 53,227 |
| Income (loss) from operations | 3,734 | (1,915) | 627 | (173) | | 2,273 |
| Total assets | 193,115 | 21,453 | 6,928 | 72,521 | (138,979) | 155,038 |
| Depreciation and amortization | 1,025 | 531 | 142 | 375 | | 2,073 |
| 2015: | | | | | | |
| Net revenues | $ 41,119 | $ 6,023 | $ 2,791 | $ | $ (1,269) | $ 48,664 |
| Income (loss) from operations | 5,612 | (6,564) | (1,169) | (97) | | (2,218) |
| Total assets | 163,801 | 15,372 | 4,796 | 88,142 | (108,836) | 163,275 |
| Depreciation and amortization | 1,119 | 633 | 123 | 356 | | 2,231 |

The following table provides segment financial data for the nine months ended September 30 (in thousands):

| | BBU | VI Chip | Picor | Corporate | Eliminations (1) | Total |
|---|---|---|---|---|---|---|
| 2016: | | | | | | |
| Net revenues | $ 115,963 | $ 30,126 | $ 12,596 | $ | $ (6,490) | $ 152,195 |
| Income (loss) from operations | 9,475 | (12,131) | (510) | (591) | | (3,757) |
| Total assets | 193,115 | 21,453 | 6,928 | 72,521 | (138,979) | 155,038 |
| Depreciation and amortization | 3,293 | 1,660 | 404 | 1,027 | | 6,384 |
| 2015: | | | | | | |
| Net revenues | $ 131,396 | $ 28,939 | $ 13,870 | $ | $ (5,405) | $ 168,800 |
| Income (loss) from operations | 17,618 | (15,336) | 474 | (571) | | 2,185 |
| Total assets | 163,801 | 15,372 | 4,796 | 88,142 | (108,836) | 163,275 |
| Depreciation and amortization | 3,424 | 2,150 | 318 | 1,062 | | 6,954 |

(1) The elimination for net revenues is principally related to inter-segment sales by Picor to BBU and VI Chip and for inter-segment sales by VI Chip to BBU. The elimination for total assets is principally related to inter-segment

accounts receivable due to BBU for the funding of VI Chip and Picor operations.

14. Impact of Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board ( FASB ) issued guidance to clarify how certain cash receipts and cash payments should be presented in the statement of cash flows. These include debt prepayment, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees and beneficial interests in securitization transactions. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company has not yet determined the impact this new guidance will have on its consolidated financial statements and related disclosures.

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In March 2016, the FASB issued new guidance for employee share-based payment accounting, which makes several modifications to existing guidance related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. This new guidance also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company has not yet determined the impact this new guidance will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued new guidance for lease accounting, which will require lessees to recognize all leases with a duration of greater than twelve months on the balance sheet. For lessors, the guidance modifies the classification criteria and accounting for sales-type and direct financing leases. The new standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company has not yet determined the impact this new guidance will have on its consolidated financial statements and related disclosures.

In July 2015, the FASB issued new guidance for inventory accounting, which will require companies to measure in scope inventory at the lower of cost or net realizable value. Current guidance requires an entity to measure inventory at the lower of cost or market. The new guidance does not apply to inventory that is measured using last-in, first-out ( LIFO ) or retail inventory methods. The guidance applies to all other inventory, which includes inventory that is measured using first-in, first-out ( FIFO ), which the Company employs, or average cost methods. The new guidance will be effective for the Company on January 1, 2017, and is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company does not anticipate the new guidance will have a material impact on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued new guidance for revenue recognition, which will require an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles when it becomes effective which, for the Company, will now be on January 1, 2018, as on July 9, 2015, the FASB voted to defer the effective date of the new standard by one year. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect the new guidance will have on its consolidated financial statements and related disclosures. While the Company has begun its assessment of the new standard and plans to utilize the cumulative effect transition method, it has not yet determined the effect the standard will have on its ongoing financial reporting.

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

Except for statements of historical fact contained herein, statements in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words believes, expects, anticipates, intends, estimates, pla assumes, may, will, would, should, continue, prospective, project, and other similar words or expressio forward-looking statements. Forward-looking statements include, without limitation, statements regarding the transition of the Company s business strategically and organizationally from serving a large number of relatively low volume customers across diversified markets and geographies to serving a small number of relatively large volume customers, typically concentrated in computing and communications; the level of customer orders overall and, in particular, from large customers and the delivery lead times associated therewith; the financial and operational impact of customer changes to shipping schedules; the derivation of a portion of the Company s sales in each quarter from orders booked in the same quarter; the Company s ongoing development of power conversion architectures, switching topologies, packaging technologies, and products; the Company s plans to invest in expanded manufacturing capacity and the timing and location thereof; the Company s continued success depending in part on its ability to attract and retain qualified personnel; the Company s belief that cash generated from operations and the total of its cash and cash equivalents will be sufficient to fund operations for the foreseeable future; the Company s belief that it has limited exposure to currency risks; the Company s intentions regarding the declaration and payment of cash dividends; the Company s intentions regarding protecting its rights under its patents; and the Company s expectation that no current litigation or claims will have a material adverse impact on its financial position or results of operations. These statements are based upon the Company s current expectations and estimates as to the prospective events and circumstances which may or may not be within the Company s control and as to which there can be no assurance. Actual results could differ materially from those expressed or implied by forward-looking statements as a result of various factors, including the Company s ability to: grow its revenues, establish and maintain profitability, develop and market new products and technologies cost effectively, and on a timely basis leverage the Company s new technologies in standard products to promote market acceptance of the Company s new approach to power system architecture; leverage design wins into increased product sales; continue to meet requirements of key customers and prospects; enter into licensing agreements increasing the Company s market opportunity and accelerating market penetration; realize significant royalties under such licensing agreements; achieve sustainable bookings rates for the Company s products across served markets and geographies; improve manufacturing and operating efficiencies; successfully enforce the Company s intellectual property rights; successfully defend outstanding litigation; hire and retain key personnel; and maintain an effective system of internal controls over financial reporting, including the Company s ability to obtain required financial information for investments on a timely basis, the Company s ability to assess the value of assets, including illiquid investments, and the accounting therefor. These and other factors that may influence actual results are described in the risk factors set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2015, under Part I, Item I Business, under Part I, Item 1A Risk Factors, under Part I, Item 3 Legal Proceedings, and under Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations. The risk factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2015 may not be exhaustive. Therefore, the information contained therein should be read together with other reports and documents that the Company files with the Securities and Exchange Commission from

time to time, including Forms 10-Q, 8-K and 10-K, which may supplement, modify, supersede or update those risk factors. Except as required by law, the Company does not undertake any obligation to update any forward-looking statements as a result of future events or developments.

Overview

We design, develop, manufacture, and market modular power components and power systems for converting, regulating, and controlling electric current. We also license certain rights to our technology in return for recurring royalties. The principal customers for our power converters and systems are large original equipment manufacturers ( OEMs ) and their contract manufacturers, and smaller, lower volume users. We serve a broad range of market segments and geographies worldwide.

We have organized our business segments according to our key product lines. Reflecting our history and direction, we broadly categorize our products as either legacy or advanced , generally based on design, performance, and form factor considerations, as well as the range of applications for which the products are appropriate.

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The BBU segment designs, develops, manufactures and markets our legacy lines of DC-DC converters and configurable products, as well as complementary components providing AC line rectification, input filtering, power factor correction, and transient protection. The BBU segment also includes the BBU business conducted through VJCL and our Vicor Custom Power subsidiaries. The BBU has customers concentrated in aerospace and aviation, defense electronics, industrial automation and equipment, medical diagnostics, rail transportation, and test and measurement instrumentation.

As previously disclosed, on March 30, 2016, we acquired 100% ownership of certain operating assets and cash of Converpower Corporation ( Converpower ). We also entered into a license with Converpower allowing us to continue manufacturing certain products and supporting existing customers. With the closing of the Converpower transaction, we have completed the consolidation of our Vicor Custom Power operations into three wholly-owned subsidiaries.

The VI Chip segment consists of our subsidiary, VI Chip Corporation, which designs, develops, manufactures, and markets many of our advanced power component products. The VI Chip segment also includes the VI Chip business conducted through VJCL. VI Chip targets large, high-volume customers concentrated in the datacenter and supercomputer segments of the computing market, although we also target applications in aerospace and aviation, defense electronics, electric and hybrid vehicles, instrumentation and test equipment, and networking equipment.

The Picor segment consists of our subsidiary, Picor Corporation, which designs, develops, manufactures, and markets integrated circuits and related solid-state products for use in a variety of power management and power system applications. Picor develops these products for use in our BBU and VI Chip modules, to be sold as complements to our BBU and VI Chip products, or for sale to third parties for separate (i.e., stand-alone) applications, often integrated with VI Chip products to represent a customer solution, particularly in the datacenter and supercomputer segments of the computing market.

Our consolidated results continued to reflect recent trends and circumstances, particularly the negative influence on our revenue and profitability of general weakness of demand for our legacy products due to global macroeconomic uncertainty. Customer interest in our expanding portfolio of advanced products continues to increase, but we are encountering longer sales cycles than originally anticipated, attributable, in part, to the same trends and circumstances influencing our legacy product lines. However, since the first quarter of 2016, our 48 Volt to Point-of-Load solutions have received significant, high profile recognition from customers, user groups, and trade publications. We believe this heightened visibility, along with the implied endorsements of our solutions, will contribute to shortened sales cycles.

We believe the following factors influenced our results for the third quarter of 2016 and may continue to influence our results for the foreseeable future:

Global demand for our legacy brick converters, configurable products, and associated components remains weak and unpredictable, given the macroeconomic variables underlying customer confidence across industries and geographies. Our legacy products are commonly used in high-value capital goods and sizeable infrastructure projects, the end demand for which has lagged, reflecting low-growth economies and budgetary uncertainty. Although we have completed initiatives to reduce our exposure to certain problematic market segments, notably the custom portion of defense electronics, we expect to experience relatively flat aggregate demand for the BBU until macroeconomic trends improve.

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Our profitability is closely aligned with production volumes, as evidenced by our improved third quarter gross margin performance. We manufacture our products in Andover, Massachusetts, in a state-of-the-art, highly automated factory. While direct labor and associated costs are scaled with volume, extended periods of low activity and/or small production runs contribute to lower profitability, largely due to lower overhead absorption, which is less scalable, given the sophistication and complexity of our manufacturing processes. An additional influence on product-level profitability has been the availability and delivery timing of certain materials and components we use in our products. Due to the same economic uncertainty we and our customers are experiencing, our suppliers are facing production and scheduling challenges. While first quarter shipments of legacy products were lower, in part, due to supplier delays, our aggressive efforts to improve supply continuity and inventory management resulted in no such delays during the subsequent two quarters. Although our actions have reduced the likelihood and potential impact of supply chain disruption, we anticipate supplier delays may again be an influence on production volumes for the foreseeable future.

We have focused our organization on the promising opportunities for our advanced products, in which we have invested a substantial amount of research and development effort and dollars. Many of these opportunities are in the early phases of expansion, and we are committed to expanding our product lines and our ability to serve and support customers in pursuit of these opportunities. As such, our operating costs have been high, relative to revenue levels, and likely will remain relatively high until revenue from our legacy products recovers and revenue from our newer advanced products increases on a sustained basis.

Customer adoption of certain new products has been delayed by unanticipated market influences beyond our control. For example, our leadership position in the transition of datacenter computing to 48 Volt to Point-of-Load solutions using our Factorized Power Architecture was the basis for our expectation of an earlier, higher-volume uptake of such solutions and our decisions to focus our resources on such opportunities. However, delays in the transition of processor generations and associated supply chain disruption caused repeated delays in customer purchase orders. We continue to believe our new products, notably our 48 Volt to Point-of-Load solutions for datacenters, will be adopted in volume by multiple, leading customers, particularly in light of various announcements during the first and second quarters from two industry trade organizations regarding adoption and support of 48 Volt bus architectures. However, we cannot control the actions by, nor the timing, of our customers, their contract manufacturers, or the significant vendors also participating in the market.

Our consolidated financial results have recently been influenced by adjustments associated with operational restructuring initiatives. As addressed in prior filings, during the first quarter of 2016, we completed the consolidation of our Vicor Custom Power operations, reducing our six domestic locations to three. While this consolidation disrupted the sales, bookings, and manufacturing patterns of the custom operations for the fourth

quarter of 2015 and the first quarter of 2016, we believe we are currently achieving our competitive and performance goals.

During the third quarter of 2016, we reversed approximately $768,000 of stock-based compensation expense related to certain VI Chip performance-based stock options. This resulted in decreases to cost of revenues of $86,000, selling, general, and administrative expense of $516,000 and research and development expense of $166,000 for the three and nine months ended September 30, 2016. (See Note 4 to the Condensed Consolidated Financial Statements).

Consolidated net revenues for the third quarter of 2016 increased by 9.4% to $53,227,000 from $48,664,000 for the third quarter of 2015, primarily due to higher customer bookings in the third quarter of 2016 compared to the third quarter of 2015, and increased by 0.5% on a sequential basis from $52,941,000 for the second quarter of 2016. Export sales as a percentage of total revenues for the respective quarters ended September 30, 2016 and 2015 were approximately 59% and 57%, reflecting the relatively high volume, during the third quarter of 2016, of shipments to off-shore contract manufacturers serving customers of our 48 Volt to Point-of-Load solutions. Gross margin increased to $25,923,000 for the third quarter of 2016 from $21,286,000 for the third quarter of 2015, and

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increased on a sequential basis from $24,471,000 for the second quarter of 2016. Gross margin as a percentage of net revenue increased to 48.7% for the third quarter of 2016 compared to 43.7% for the third quarter of 2015, due to the increase in revenues, and increased on a sequential basis from 46.2% for the second quarter of 2016, due to the sequential increase in revenues and a more favorable product mix.

Consolidated net revenues for the nine months ended September 30, 2016 decreased by 9.8% to $152,195,000 from $168,800,000 for the nine months ended September 30, 2015, primarily due to an overall 12.8% decrease in bookings for the nine months ended June 30, 2016 compared to the nine months ended June 30, 2015. Export sales as a percentage of total revenues for the nine months ended September 30, 2016 and 2015 were approximately 60%. Gross margin decreased to $69,710,000 for the nine months ended September 30, 2016 from $76,687,000 for the nine months ended September 30, 2015. Gross margin as a percentage of revenue increased to 45.8% for the nine months ended September 30, 2016 compared to 45.4% for the nine months ended September 30, 2015. The lower gross margin dollars is primarily due to the lower net revenues, while the higher gross margin percentage was primarily due to a more favorable product mix and lower charges for inventory and warranty reserves in 2016 compared to 2015.

Backlog, representing the total of orders for products for which shipment is scheduled within the next 12 months, was $42,124,000 at the end of the third quarter of 2016, as compared to $41,674,000 at the end of the second quarter of 2016.

Operating expenses for the third quarter of 2016 increased $146,000, or 0.6%, to $23,650,000 from $23,504,000 for the third quarter of 2015, due to an increase in research and development expense of $217,000 partially offset by a decrease in selling, general and administrative expenses of $71,000. The primary elements of the increase in research and development expenses were project and pre-production materials of $372,000 and compensation expenses of $194,000, partially offset by decreases in deferred costs of $206,000, depreciation and amortization of $143,000, and facilities expenses of $57,000. The increase in compensation expense was partially offset by the reversal of stock-based compensation expense, discussed above, of $166,000. The primary components of the decrease in selling, general and administrative expenses were declines in compensation expenses of $188,000, advertising expenses of $103,000, commissions expense of $96,000, and legal fees of $90,000, partially offset by increases in travel expenses of $137,000, outside services of $116,000, and audit, tax, and accounting fees of $98,000. The decrease in compensation expense was due to the reversal of stock-based compensation expense of $516,000, discussed above, partially offset by annual compensation adjustments in May 2016.

Operating expenses for the nine months ended September 30, 2016 decreased $1,035,000, or 1.4%, to $73,467,000 from $74,502,000 for the nine months ended September 30, 2015, primarily due to a decrease in selling, general and administrative expenses of $1,688,000, partially offset by an increase in research and development expense of $653,000. The primary components of the decrease in selling, general and administrative expenses were declines in compensation expenses of $752,000, commissions expense of $581,000, legal fees of $330,000, supplies expense of $166,000, and project expenses of $105,000, partially offset by increases in outside services of $243,000, and travel

expenses of $231,000. The primary elements of the increase in research and development expenses were project and pre-production materials of $765,000, compensation expenses of $496,000, and set-up and tooling expenses of $104,000, partially offset by decreases in depreciation and amortization of $211,000, deferred costs of $183,000, and facilities expenses of $178,000.

In September 2015, Intersil Corporation ( Intersil ) acquired Great Wall Semiconductor Corporation ( GWS ). At that time, our gross investment in non-voting convertible preferred stock of GWS totaled $4,999,719, giving us an approximately 27% ownership interest in GWS. We received cash consideration of $4,999,719 for our investment from Intersil, representing full preference value of our shares of non-voting convertible preferred stock of GWS. Since the investment in GWS had previously been written down to zero, the full amount of the consideration was recorded as a gain from sale of equity method investment in the third quarter of 2015.

Net income attributable to Vicor Corporation for the third quarter of 2016 was $2,336,000, or $0.06 per diluted share, compared to net income attributable to Vicor Corporation of $2,503,000, or $0.06 per diluted share, for the third quarter of 2015, and net loss attributable to Vicor Corporation of $(544,000), or $ (0.01) per share, for the second quarter of 2016.

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Net loss attributable to Vicor Corporation for the nine months ended September 30, 2016, was $(3,559,000), or $(0.09) per share, compared to net income attributable to Vicor Corporation of $6,679,000, or $0.17 per diluted share, for the nine months ended September 30, 2015.

For the nine months ended September 30, 2016, depreciation and amortization totaled $6,384,000, and capital additions totaled $6,368,000, compared to totals of $6,954,000 and $5,596,000, respectively, for the nine months ended September 30, 2015.

Inventories increased by approximately $3,120,000, or 13.3%, to $26,562,000, compared to $23,442,000 at December 31, 2015. This increase was primarily associated with increases in VI Chip and Picor inventories of $2,533,000 and $754,000, respectively, to meet increased bookings for the two segments.

Critical Accounting Policies and Estimates

Please refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2015 for a summary of the Company s critical accounting policies and estimates.

Three months ended September 30, 2016, compared to three months ended September 30, 2015

Consolidated net revenues for the third quarter of 2016 were $53,227,000, an increase of $4,563,000, or 9.4%, as compared to $48,664,000 for the third quarter of 2015, and an increase of $286,000, or 0.5%, on a sequential basis from $52,941,000 for the second quarter of 2016.

Net revenues, by segment, for the third quarter of 2016 and the third quarter of 2015 were as follows (dollars in thousands):

| | | | Increase (decrease) | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| BBU | $ 38,518 | $ 41,119 | $ (2,601) | (6.3)% |
| VI Chip | 11,539 | 5,789 | 5,750 | 99.3% |
| Picor | 3,170 | 1,756 | 1,414 | 80.5% |
| Total | $ 53,227 | $ 48,664 | $ 4,563 | 9.4% |

The increase in consolidated net revenues for the third quarter of 2016 from the third quarter of 2015 was primarily due to an overall 6.9% increase in bookings in the third quarter of 2016, compared to the third quarter of 2015. VI

Chip and Picor bookings increased by 163.1% and 218.0%, respectively, while BBU bookings declined 18.9%. The decrease in BBU revenues was primarily attributable to a decrease in BBU module and configurable product revenues of approximately $1,816,000 and a decrease in Vicor Custom Power revenues of $1,755,000 due to the consolidation of operations noted above. Revenues recorded by VI Chip for the third quarter of 2016 were associated largely with fulfillment of increased orders for our 48 Volt to Point-of-Load solutions. Customer bookings patterns continue to be unpredictable, particularly for the VI Chip and Picor segments.

Gross margin for the third quarter of 2016 increased $4,637,000, or 21.8%, to $25,923,000, from $21,286,000 for the third quarter of 2015. Gross margin as a percentage of net revenue increased to 48.7% for the third quarter of 2016 compared to 43.7% for the third quarter of 2015, primarily due to the increase in net revenues and a more favorable product mix.

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Selling, general, and administrative expenses were $13,312,000 for the third quarter of 2016, a decrease of $71,000, or 0.5%, from $13,383,000 for the third quarter of 2015. Selling, general, and administrative expenses as a percentage of net revenues decreased to 25.0% for the third quarter of 2016 from 27.5% for the third quarter of 2015, primarily due to the increase in net revenues.

The components of the $71,000 decrease in selling, general and administrative expenses for the third quarter of 2016 from the third quarter of 2015 were as follows (dollars in thousands):

| | Increase (decrease) | |
|---|---|---|
| Compensation | $ (188) | (2.3)%(1) |
| Advertising expenses | (103) | (20.0)%(2) |
| Commissions expense | (96) | (9.7)%(3) |
| Legal fees | (90) | (22.1)% |
| Employment recruiting | 63 | 222.2% |
| Audit, tax, and accounting fees | 98 | 22.5% |
| Outside services | 116 | 28.4%(4) |
| Travel expenses | 137 | 22.9%(5) |
| Other, net | (8) | (0.5)% |
| | $ (71) | (0.5)% |

(1) Decrease primarily attributable to the reversal of VI Chip performance-based stock compensation expense (see Note 4 to the Condensed Consolidated Financial Statements) and the disposition of certain Vicor Custom Power subsidiaries, partially offset by annual compensation adjustments in May 2016.
(2) Decrease primarily attributed to decreases in sales support expenses, direct mailings, and advertising in trade publications.
(3) Decrease primarily attributable to the decrease in net revenues subject to commissions.
(4) Increase primarily attributable to an increase in the use of outside consultants at certain international locations.
(5) Increase primarily attributable to increased travel by the Company s sales and marketing personnel.

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Research and development expenses were $10,338,000 for the third quarter of 2016, an increase of $217,000, or 2.1%, compared to $10,121,000 for the third quarter of 2015. As a percentage of net revenues, research and development expenses decreased to 19.4% for the third quarter of 2016 from 20.8% for the third quarter of 2015, primarily due to the increase in net revenues.

The components of the $217,000 increase in research and development expenses were as follows (dollars in thousands):

| | Increase (decrease) | |
|---|---|---|
| Project and pre-production materials | $ 372 | 32.7%(1) |
| Compensation | 194 | 2.8%(2) |
| Computer expenses | 37 | 36.3% |
| Facilities expenses | (57) | (10.5)% |
| Depreciation and amortization | (143) | (23.8)%(3) |
| Deferred costs | (206) | (1118.7)%(4) |
| Other, net | 20 | 2.2% |
| | $ 217 | 2.1% |

(1) Increase primarily attributable to increases in spending by the BBU and VI Chip segments.
(2) Increase primarily attributable to annual compensation adjustments in May 2016.
(3) Decrease attributable to certain BBU segment fixed assets becoming fully depreciated during 2016.
(4) Decrease primarily attributable to an increase in deferred costs capitalized for certain non-recurring engineering projects for which the related revenues have been deferred.

The significant components of Other income (expense), net for the three months ended September 30, and the changes between the periods were as follows (in thousands):

| | 2016 | 2015 | Increase (decrease) |
|---|---|---|---|
| Rental income | $ 198 | $ | $ 198 |
| Interest income | 21 | 15 | 6 |
| Credit gains on available-for-sale securities | 3 | 4 | (1) |

| | | | |
|---|---|---|---|
| Gain on disposals of equipment | | 2 | (2) |
| Foreign currency losses, net | (14) | (26) | 12 |
| Other, net | 3 | 6 | (3) |
| | $ 211 | $ 1 | $ 210 |

During the second quarter of 2016, we began recognizing rental income under a new leasing agreement with a third party for the former Westcor facility. Our exposure to market risk fluctuations in foreign currency exchange rates relate primarily to the operations of VJCL, for which the functional currency is the Japanese Yen. The functional currency of all other subsidiaries in Europe and Asia is the U.S. Dollar. While our Vicor B.V. operation also potentially exposes us to exchange rate risk, as that subsidiary s sales are denominated in Euros and Pounds Sterling, any periodic gains or losses associated with exchange rate fluctuations are small, given the small U.S. Dollar value of shipments we make to Vicor B.V.

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Income before income taxes was $2,484,000 for the third quarter of 2016, as compared to loss before taxes of $(2,217,000) for the third quarter of 2015.

The provision for income taxes and the effective income tax rates for the third quarter of 2016 and the third quarter of 2015 were as follows (dollars in thousands):

| | 2016 | 2015 |
|---|---|---|
| Provision for income taxes | $ 133 | $ 174 |
| Effective income tax rate | 5.4% | 7.8% |

Our effective tax rate was lower than the statutory rate in both 2016 and 2015 due to the utilization of net operating losses. The provision for the three months ended September 30, 2016 was primarily due to estimated state taxes in jurisdictions in which we do not have net operating loss carryforwards. No tax benefit could be recognized for the majority of our losses during the period due to a full valuation allowance against all net domestic deferred tax assets. The provision for the three months ended September 30, 2015 was primarily due to estimated federal and state taxes for one noncontrolling interest subsidiary, and for estimated state taxes in jurisdictions in which we do not have net operating loss carryforwards.

In September 2015, Intersil acquired GWS. At that time, our gross investment in non-voting convertible preferred stock of GWS totaled $4,999,719, giving us an approximately 27% ownership interest in GWS. We received cash consideration of $4,999,719 for our investment from Intersil, representing full preference value of our shares of non-voting convertible preferred stock of GWS. Since the investment in GWS had previously been written down to zero, the full amount of the consideration was recorded as a gain from sale of equity method investment in the third quarter of 2015.

Net income per diluted share attributable to Vicor Corporation was $0.06 for the third quarter of 2016 and 2015.

Nine months ended September 30, 2016, compared to nine months ended September 30, 2015

Consolidated net revenues for the nine months ended September 30, 2016 were $152,195,000, a decrease of $16,605,000, or 9.8%, from $168,800,000 for the nine months ended September 30, 2015.

Net revenues, by segment, for the nine months ended September 30, 2016 and the nine months ended September 30, 2015 were as follows (dollars in thousands):

| | | | Increase (decrease) | |
|---|---|---|---|---|
| | 2016 | 2015 | $ | % |
| BBU | $ 115,963 | $ 131,396 | $ (15,433) | (11.7)% |
| VI Chip | 28,958 | 27,844 | 1,114 | 4.0% |
| Picor | 7,274 | 9,560 | (2,286) | (23.9)% |
| Total | $ 152,195 | $ 168,800 | $ (16,605) | (9.8)% |

The overall decrease in consolidated net revenues for the nine months ended September 30, 2016 from the nine months ended September 30, 2015 was primarily due to an overall 12.8% decrease in bookings for the nine months ended June 30, 2016 compared to the nine months ended June 30, 2015, which included a 12.4% decrease for BBU and a 41.8% decrease for Picor. Customer bookings patterns continue to be unpredictable, particularly with the VI Chip and Picor segments. The decrease in BBU revenues was primarily attributable to a decrease in BBU module and configurable product revenues of approximately $13,054,000 and a decrease in Vicor Custom Power revenues of $3,904,000, due to the consolidation of operations noted above.

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Gross margin for the nine months ended September 30, 2016 decreased $6,977,000, or 9.1%, to $69,710,000 from $76,687,000 for the nine months ended September 30, 2015. Gross margin as a percentage of net revenues increased to 45.8% for the nine month period ended September 30, 2016 from 45.4% for the nine month period ended September 30, 2015. The lower gross margin dollars is primarily due to the lower net revenues, while the higher gross margin percentage was primarily due to a more favorable product mix and lower charges for inventory and warranty reserves in 2016 compared to 2015.

Selling, general and administrative expenses were $41,643,000 for the nine months ended September 30, 2016, a decrease of $1,688,000, or 3.9%, compared to $43,331,000 for the nine months ended September 30, 2015. Selling, general and administrative expenses as a percentage of net revenues increased to 27.4% for the nine month period ended September 30, 2016 from 25.7% for the nine month period ended September 30, 2015, primarily due to the decreases in net revenues.

The components of the $1,688,000 decrease in selling, general and administrative expenses for the nine months ended September 30, 2016 from the nine months ended September 30, 2015 were as follows (dollars in thousands):

| | Increase (decrease) | |
|---|---|---|
| Compensation | $ (752) | (2.9)%(1) |
| Commissions expense | (581) | (17.4)%(2) |
| Legal fees | (330) | (21.0)%(3) |
| Supplies expense | (166) | (37.1)%(4) |
| Project expenses | (105) | (71.8)% |
| Depreciation and amortization | (58) | (2.7)% |
| Audit, tax, and accounting fees | (51) | (3.5)% |
| Telephone expense | (41) | (4.7)% |
| Travel expenses | 231 | 11.9%(5) |
| Outside services | 243 | 18.7%(6) |
| Other, net | (78) | (1.9)% |
| | $ (1,688) | (3.9)% |

(1) Decrease primarily attributable to the reversal of VI Chip performance-based stock compensation expense (see Note 4 to the Condensed Consolidated Financial Statements), the consolidation of Westcor operations, and the disposition of certain Vicor Custom Power subsidiaries, partially offset by annual compensation adjustments in

May 2016.

(2) Decrease primarily attributable to the decrease in net revenues subject to commissions.

(3) Decrease attributable to reduced activity associated with the patent infringement claims filed against the Company during the first quarter of 2011 by SynQor. See Note 12 to the Condensed Consolidated Financial Statements.

(4) Decrease primarily attributable to a decrease in spending by the VI Chip segment.

(5) Increase primarily attributable to increased travel by the Company s sales and marketing personnel.

(6) Increase primarily attributable to an increase in the use of outside consultants by our information systems and technology department, and by certain international locations.

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Research and development expenses were $31,824,000 for the nine months ended September 30, 2016, an increase of $653,000, or 2.1%, from $31,171,000 for the nine months ended September 30, 2015. As a percentage of net revenues, research and development expenses increased to 20.9% for the nine month period ended September 30, 2016 from 18.5% for the nine month period ended September 30, 2015, primarily due to the lower revenues for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

The components of the $653,000 increase in research and development expenses for the nine months ended September 30, 2016 from the nine months ended September 30, 2015 were as follows (dollars in thousands):

| | Increase (decrease) | |
|---|---|---|
| Project and pre-production materials | $ 765 | 21.6%(1) |
| Compensation | 496 | 2.3%(2) |
| Set-up and tooling expenses | 104 | 42.4%(3) |
| Supplies expense | (74) | (9.6)% |
| Facilities expenses | (178) | (11.0)%(4) |
| Deferred costs | (183) | (112.1)%(5) |
| Depreciation and amortization | (211) | (11.8)%(6) |
| Other, net | (66) | (3.2)% |
| | $ 653 | 2.1% |

(1) Increase primarily attributable to increases in spending by the BBU and VI Chip segments.
(2) Increase primarily attributable to annual compensation adjustments in May 2016.
(3) Increase primarily attributable to an increase in tooling charges associated with the development of VI Chip products.
(4) Decrease primarily attributable to a decrease in utilities and building maintenance expenses.
(5) Decrease primarily attributable to an increase in deferred costs capitalized for certain non-recurring engineering projects for which the related revenues have been deferred.
(6) Decrease attributable to certain BBU segment fixed assets becoming fully depreciated during 2016.

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The significant components of Other income (expense), net for the nine months ended September 30, 2016 and the nine months ended September 30, 2015 and the changes from period to period were as follows (in thousands):

| | 2016 | 2015 | Increase (decrease) |
|---|---|---|---|
| Rental income | $ 264 | $ | $ 264 |
| Interest income | 47 | 31 | 16 |
| Foreign currency gains (losses), net | 34 | (104) | 138 |
| Credit gains on available-for-sale securities | 10 | 12 | (2) |
| (Loss) gain on disposals of equipment | (4) | 54 | (58) |
| Other, net | (1) | 18 | (19) |
| | $ 350 | $ 11 | $ 339 |

During the second quarter of 2016, we began recognizing rental income under a new leasing agreement with a third party for the former Westcor facility. Our exposure to market risk for fluctuations in foreign currency exchange rates relates primarily to the operations of VJCL, for which the functional currency is the Japanese Yen. The functional currency of the subsidiaries in Europe and other subsidiaries in Asia is the U.S. Dollar. While our Vicor B.V. operation also potentially exposes us to exchange rate risk, as that subsidiary s sales are denominated in Euros and Pounds Sterling, any periodic gains or losses associated with exchange rate fluctuations are small, given the small U.S. Dollar value of shipments we make to Vicor B.V.

Income (loss) before income taxes was $(3,407,000) for the nine months ended September 30, 2016 compared to $2,196,000 for the nine months ended September 30, 2015.

The provision for income taxes and the effective income tax rates for the nine months ended September 30, 2016 and the nine months ended September 30, 2015 were as follows (dollars in thousands):

| | 2016 | 2015 |
|---|---|---|
| Provision for income taxes | $ 168 | $ 374 |
| Effective income tax rate | 4.9% | 17.0% |

Our effective tax rate was lower than the statutory rate in both 2016 and 2015 due to the utilization of net operating losses. The provision for the nine months ended September 30, 2016 was primarily due to estimated state taxes in jurisdictions in which we do not have net operating loss carryforwards. No tax benefit could be recognized for the

majority of our losses during the period due to a full valuation allowance against all net domestic deferred tax assets. In addition, in connection with our acquisition of 100% ownership of certain operating assets and cash of Converpower, the related deferred tax liability for unremitted earnings of $55,000 was reversed and recorded as a discrete benefit in the first quarter of 2016 (see Note 8 to the Condensed Consolidated Financial Statements). The provision for the nine months ended September 30, 2015 was primarily due to estimated federal and state taxes for one noncontrolling interest subsidiary, and for estimated state taxes in jurisdictions in which we do not have net operating loss carryforwards.

In September 2015, Intersil acquired GWS. At that time, our gross investment in non-voting convertible preferred stock of GWS totaled $4,999,719, giving us an approximately 27% ownership interest in GWS. We received cash consideration of $4,999,719 for our investment from Intersil, representing full preference value of our shares of non-voting convertible preferred stock of GWS. Since the investment in GWS had previously been written down to zero, the full amount of the consideration was recorded as a gain from sale of equity method investment in the third quarter of 2015.

Net loss per share attributable to Vicor Corporation was $(0.09) for the nine months ended September 30, 2016, compared to net income per diluted share of $0.17 for the nine months ended September 30, 2015.

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Liquidity and Capital Resources

As of September 30, 2016, we had $55,066,000 in cash and cash equivalents. The ratio of total current assets to total current liabilities was 5.3:1 as of September 30, 2016 and 5.6:1 as of December 31, 2015. Working capital, defined as total current assets less total current liabilities, decreased $3,606,000 to $91,299,000 as of September 30, 2016 from $94,905,000 as of December 31, 2015.

The changes in working capital from December 31, 2015 to September 30, 2016 were as follows (in thousands):

| | Increase (decrease) |
|---|---|
| Cash and cash equivalents | $ (7,914) |
| Accounts receivable | 2,044 |
| Inventories, net | 3,120 |
| Other current assets | (16) |
| Accounts payable | (495) |
| Accrued compensation and benefits | (300) |
| Accrued expenses | 390 |
| Accrued severance charges | 195 |
| Income taxes payable | 8 |
| Deferred revenue | (638) |
| | $ (3,606) |

The primary uses of cash for the nine months ended September 30, 2016 was for operating activities of $1,584,000 and the purchase of equipment of $6,368,000.

In November 2000, our Board of Directors authorized the repurchase of up to $30,000,000 of our Common Stock (the November 2000 Plan ). The November 2000 Plan authorizes us to make such repurchases from time to time in the open market or through privately negotiated transactions. The timing and amounts of Common Stock repurchases are at the discretion of management based on its view of economic and financial market conditions. We did not repurchase shares of Common Stock under the November 2000 Plan during the nine months ended September 30, 2016. As of September 30, 2016, we had approximately $8,541,000 remaining under the November 2000 Plan.

Our primary liquidity needs are for making continuing investments in manufacturing equipment. We believe cash generated from operations and the total of our cash and cash equivalents will be sufficient to fund planned operations

and capital equipment purchases for the foreseeable future. We had approximately $596,000 of capital expenditure commitments, principally for manufacturing equipment, as of September 30, 2016.

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Item 3 Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including changes in interest rates affecting the return on our cash and cash equivalents and fluctuations in foreign currency exchange rates. As our cash and cash equivalents consist principally of cash accounts and money market securities, which are short-term in nature, we believe our exposure to market risk on interest rate fluctuations for these investments is not significant. As of September 30, 2016, our long-term investment portfolio, recorded on our Condensed Consolidated Balance Sheet as Long-term investments, net , consisted of a single auction rate security with a par value of $3,000,000, purchased through and held in custody by a broker-dealer affiliate of Bank of America, N.A., that has experienced failed auctions (the Failed Auction Security ) since February 2008. While the Failed Auction Security 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, continued failure to sell at its periodic auction dates (i.e., reset dates) could negatively impact the carrying value of the investment, in turn leading to impairment charges in future periods. Periodic changes in the fair value of the Failed Auction Security attributable to credit loss (i.e., risk of the issuer s default) are recorded through earnings as a component of Other income (expense), net , with the remainder of any periodic change in fair value not related to credit loss (i.e., temporary mark-to-market carrying value adjustments) recorded in Accumulated other comprehensive (loss) income , a component of Stockholders Equity. Should we conclude a decline in the fair value of the Failed Auction Security is other than temporary, such losses would be recorded through earnings as a component of Other income (expense), net . We do not believe there was an other-than-temporary decline in value in this security as of September 30, 2016.

Our exposure to market risk for fluctuations in foreign currency exchange rates relates primarily to the operations of VJCL, for which the functional currency is the Japanese Yen, and changes in the relative value of the Yen to the U.S. Dollar. As the functional currency of all other subsidiaries in Europe and other subsidiaries in Asia is the U.S. Dollar, we believe risk to fluctuations in foreign currency exchange rates is not significant, as these operations do not incur material foreign exchange exposures.

Item 4 Controls and Procedures

(a) Disclosure regarding controls and procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act ), management, with the participation of our Chief Executive Officer ( CEO ) (who is our principal executive officer) and Chief Financial Officer ( CFO ) (who is our principal financial officer), conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the last fiscal quarter (i.e., September 30, 2016). The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure information required to be disclosed by a company in the reports it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their

objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our CEO and CFO concluded, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Accordingly, management, including the CEO and CFO, recognizes our disclosure controls or our internal control over financial reporting may not prevent or detect all errors and all fraud. The design of a control system must reflect the fact there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any control s effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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(b) Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II Other Information

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Item 1 Legal Proceedings

See Note 12. Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 Financial Statements.

Item 1A Risk Factors

There have been no material changes in the risk factors described in Part I, Item 1A Risk Factors of the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

Item 6 Exhibits

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following material from the Company s Quarterly Report on Form 10-Q, for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss); (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements. |

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SIGNATURES

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

VICOR CORPORATION

Date: October 28, 2016

By: /s/ Patrizio Vinciarelli
Patrizio Vinciarelli
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Date: October 28, 2016

By: /s/ James A. Simms
James A. Simms
Vice President, Chief Financial Officer
(Principal Financial Officer)