VICOR CORP
Form 10-Q
August 03, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________________

Commission File Number 0-18277
VICOR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	04-2742817
(State of Incorporation)	(I.R.S. Employer Identification No.)

25 Frontage Road, Andover, Massachusetts 01810
(Address of Principal Executive Office)
(978) 470-2900
(Registrant s telephone number)

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

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

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

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

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

The number of shares outstanding of each of the issuer s classes of common stock as of July 31, 2010 was:

Common Stock, $.01 par value	29,921,267
Class B Common Stock, $.01 par value	11,767,052

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

Item 1. Financial Statements

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 46,604	$ 40,224
Restricted cash equivalents	-	192
Short-term investments	9,097	2,583
Accounts receivable, less allowance of $286 in 2010 and $260 in 2009	34,435	26,565
Inventories, net	25,686	21,357
Deferred tax assets	181	181
Other current assets	5,237	4,345
Total current assets	121,240	95,447
Restricted cash and cash equivalents	-	223
Long-term investments, net	18,380	29,995
Auction rate securities rights	-	962
Property, plant and equipment, net	48,775	49,009
Other assets	4,828	4,941
	$ 193,223	$ 180,577
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 11,613	$ 9,458
Accrued compensation and benefits	7,128	5,740
Accrued expenses	3,164	2,618
Accrued severance charges	-	259
Income taxes payable	427	60
Dividends payable	12,506	-
Deferred revenue	4,076	2,521
Total current liabilities	38,914	20,656
Long-term deferred revenue	2,064	2,196
Long-term income taxes payable	434	384
Deferred income taxes	1,355	1,275
Equity:		
Vicor Corporation stockholders equity:		
Class B Common Stock	118	118
Common Stock	384	384
Additional paid-in capital	162,273	161,746

Retained earnings	107,165	112,972
Accumulated other comprehensive loss	(1,711)	(1,608)
Treasury stock, at cost	(121,827)	(121,827)
Total Vicor Corporation stockholders equity	146,402	151,785
Noncontrolling interest	4,054	4,281
Total equity	150,456	156,066
	$ 193,223	$ 180,577

See accompanying notes.

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net revenues	$ 57,377	$ 50,627	$ 109,086	$ 101,075
Cost of revenues	31,638	28,029	60,023	56,646
Gross margin	25,739	22,598	49,063	44,429
Operating expenses:				
Selling, general and administrative	12,061	12,019	23,941	24,842
Research and development	9,037	7,611	17,905	15,362
Severance charges	-	859	-	3,957
Total operating expenses	21,098	20,489	41,846	44,161
Income from operations	4,641	2,109	7,217	268
Other income, net:				
Total other than temporary impairment gains (losses) on available-for-sale securities	121	869	(358)	703
Portion of (gain) loss recognized in other comprehensive income (loss)	(120)	(1,342)	316	(1,176)
Net impairment gains (losses) recognized in earnings	1	(473)	(42)	(473)
Other income, net	424	666	534	784
Total other income, net	425	193	492	311
Income before income taxes	5,066	2,302	7,709	579
Provision for income taxes	319	544	957	972
Consolidated net income (loss)	4,747	1,758	6,752	(393)
Less: Net income attributable to noncontrolling interest	-	417	53	809
Net income (loss) attributable to Vicor Corporation	$ 4,747	$ 1,341	$ 6,699	$ (1,202)
Net income (loss) per common share attributable to Vicor Corporation:				
Basic	$ 0.11	$ 0.03	$ 0.16	$ (0.03)

Diluted	$	0.11	$	0.03	$	0.16	$	(0.03)
Shares used to compute net income (loss) per share attributable to Vicor Corporation:								
Basic		41,686		41,665		41,676		41,665
Diluted		41,752		41,665		41,726		41,665
Cash dividends declared per share	$	0.30	$	-	$	0.30	$	-

See accompanying notes.

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

	Six Months Ended	
	June 30, 2010	June 30, 2009
Operating activities:		
Consolidated net income (loss)	$ 6,752	$ (393)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,957	5,234
Unrealized gain on trading securities	(970)	(425)
Unrealized loss on auction rate security rights	962	145
Stock compensation expense	298	363
Gain on disposals of equipment	(248)	(25)
(Decrease) increase in long-term deferred revenue	(132)	196
Deferred income taxes	44	94
Credit loss on available for sale securities	42	473
Severance charges	-	3,957
Change in current assets and liabilities, net	(7,158)	1,788
Net cash provided by operating activities	4,547	11,407
Investing activities:		
Purchases of investments	(538)	(1,515)
Sales and maturities of investments	6,314	1,549
Additions to property, plant and equipment	(4,814)	(2,749)
Proceeds from sale of equipment	420	5
Change in restricted cash	415	173
Decrease (increase) in other assets	49	(435)
Net cash provided by (used in) investing activities	1,846	(2,972)
Financing activities:		
Proceeds from exercise of stock options	229	-
Noncontrolling interest dividends paid	(297)	(612)
Net cash used in financing activities	(68)	(612)
Effect of foreign exchange rates on cash	55	(33)
Net increase in cash and cash equivalents	6,380	7,790
Cash and cash equivalents at beginning of period	40,224	22,639
Cash and cash equivalents at end of period	$ 46,604	$ 30,429

See accompanying notes.

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VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
June 30, 2010
(unaudited)

1. Basis of Presentation

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

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2010. The balance sheet at December 31, 2009, 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, 2009, (File No. 0-18277) filed by the Company with the Securities and Exchange Commission.

2. Short-Term and Long-Term Investments

The Company s principal sources of liquidity are its existing balances of cash, cash equivalents and short-term investments, as well as cash generated from operations. Consistent with the Company s investment policy guidelines, the Company can and has historically invested its substantial cash balances in demand deposit accounts, money market funds and auction rate securities meeting certain quality criteria. All of the Company s investments are subject to credit, liquidity, market, and interest rate risk.

The Company s short-term and long-term investments are classified as either trading or available-for-sale securities. Available-for-sale securities are recorded at fair value, with unrealized gains and losses, net of tax, attributable to credit loss recorded through the statement of operations and unrealized gains and losses, net of tax, attributable to other non-credit factors recorded in Accumulated other comprehensive loss , a component of Stockholders Equity. 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 securities, considering credit default risk probabilities and changes in credit ratings as significant inputs, among other factors. Trading securities are recorded at fair value, with unrealized gains and losses recorded through the Condensed Consolidated Statements of Operations each reporting period. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, along with interest and realized gains and losses, are included in Other income, net in the Condensed Consolidated Statements of Operations. The Company periodically evaluates investments to determine if impairment is required, whether an impairment is other than temporary, and the measurement of an impairment loss. The Company considers a variety of impairment indicators such as, but not limited to, a significant deterioration in the earnings performance, credit rating, or asset quality of the investment.

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

June 30, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Auction rate securities - student loans	$ 19,300	$ -	$ 2,892	$ 16,408
Certificates of deposit	2,428	41	-	2,469
	$ 21,728	$ 41	$ 2,892	$ 18,877

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
June 30, 2010
(unaudited)

December 31, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Auction rate securities - student loans	$ 19,700	$ -	$ 2,590	$ 17,110
Certificates of deposit	2,504	34	-	2,538
	$ 22,204	$ 34	$ 2,590	$ 19,648

All of the auction rate securities - student loans as of June 30, 2010 have been in an unrealized loss position for greater than 12 months.

The amortized cost and estimated fair value of available-for-sale securities on June 30, 2010, by contractual maturities, are shown below (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	$ 1,128	$ 1,135
Due in two to ten years	1,350	1,384
Due in ten to twenty years	-	-
Due in twenty to forty years	19,250	16,358
	$ 21,728	$ 18,877

The following is a summary of trading securities (in thousands):

June 30, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Auction rate securities - student loans	$ 8,600	$ -	$ -	$ 8,600
December 31, 2009				
Auction rate securities - student loans	$ 13,900	$ -	$ 970	$ 12,930

The amortized cost and estimated fair value of trading securities on June 30, 2010 by contractual maturities, are shown below (in thousands):

	Cost	Estimated Fair Value

Due in one year or less	$	-	$	-
Due in two to ten years		-		-
Due in ten to twenty years		-		-
Due in twenty to forty years		8,600		8,600
	$	8,600	$	8,600

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
June 30, 2010
(unaudited)

As of June 30, 2010, the Company held $27,900,000 of auction rate securities at par value, of which $19,300,000 are held by a broker-dealer affiliate of Bank of America (the BofA ARS) and $8,600,000 were held by a broker-dealer affiliate of UBS AG (the UBS ARS). These auction rate securities consist of collateralized debt obligations, supported by pools of student loans, sponsored by state student loan agencies and corporate student loan servicing firms. The interest rates for these securities are reset at auction at regular intervals ranging from seven to 90 days. The auction rate securities held by the Company traded at par prior to February 2008 and are callable at par at the option of the issuer. On June 30, 2010, the majority of the auction rate securities held by the Company were AAA/Aaa rated by the major credit rating agencies, with all of the securities collateralized by student loans, of which most are guaranteed by the U.S. Department of Education under the Federal Family Education Loan Program.

Until February 2008, the auction rate securities market was liquid, as the investment banks conducting the periodic Dutch auctions by which interest rates for the securities had been established had committed their capital to support such auctions in the event of insufficient third-party investor demand. Starting the week of February 11, 2008, a substantial number of auctions failed, as demand from third-party investors weakened and the investment banks conducting the auctions chose not to commit capital to support such auctions (i.e., investment banks chose not to purchase securities themselves in order to balance supply and demand, thereby facilitating a successful auction, as they had done in the past). The consequences of a failed auction are (a) an investor must hold the specific security until the next scheduled auction (unless that investor chooses to sell the security to a third party outside of the auction process) and (b) the interest rate on the security generally resets to an interest rate set forth in each security s indenture.

As of June 30, 2010, the Company held auction rate securities that had experienced failed auctions totaling $27,900,000 at par value (the Failed Auction Securities), of which $50,000 of the BofA ARS were redeemed by the issuer at par subsequent to June 30, 2010. The Company s remaining $8,600,000 of UBS ARS were purchased by UBS at par on June 30, 2010, pursuant to an earlier rights agreement with UBS, with a trade settlement date of July 1, 2010. Accordingly, the UBS ARS were recorded at par and classified as short-term investments as of June 30, 2010.

Management is not aware of any reason to believe any of the issuers of the Failed Auction Securities held by the Company are presently at risk of default. Through June 30, 2010, the Company has continued to receive interest payments on the Failed Auction Securities in accordance with the terms of their respective indentures. Management believes the Company ultimately should be able to liquidate all of its auction rate security investments without significant loss primarily due to the overall quality of the issues held and the collateral securing the substantial majority of the underlying obligations. However, current conditions in the auction rate securities market have led management to conclude the recovery period for the Failed Auction Securities exceeds 12 months. As a result, the Company continued to classify the Failed Auction Securities as long-term as of June 30, 2010, except for the $8,650,000 in redemptions, noted above, which were reclassified to short-term.

Based on the fair value measurements described in Note 3, the fair value of the BofA ARS on June 30, 2010, with a par value of $19,300,000, was estimated by the Company to be approximately $16,408,000, a decrease in fair value of $260,000, net of $400,000 of redemptions from December 31, 2009. The gross unrealized loss of $2,892,000 on the BofA ARS consists of two types of estimated loss: an aggregate credit loss of $506,000 and an aggregate temporary impairment of $2,386,000. For the six months ended June 30, 2010, the aggregate credit loss on the BofA ARS increased by a net amount of $42,000, which was recorded in Net impairment losses recognized in earnings in the Condensed Consolidated Statement of Operations. 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 securities, considering credit default risk probabilities and changes in credit ratings as significant inputs, among other factors (See Note 3).

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Notes to Condensed Consolidated Financial Statements
June 30, 2010
(unaudited)

The following table sets forth activity related to the estimated credit loss on the BofA ARS recognized in earnings on available-for-sale auction rate securities held by the Company for the three and six months ended June 30, 2010 (in thousands):

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Balance at the beginning of the period	$ 507	$ 464
Reductions for securities sold during the period		(12)
Reduction for accretion of subsequent credit loss recovery		
Additions for the amount related to credit (gain) loss for which other-than-temporary impairment was not previously recognized	(1)	54