

VICOR CORP  
Form 10-Q  
October 31, 2017  
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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, 2017**

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

**For the transition period from \_\_\_\_\_**

**Commission File Number 0-18277**

**VICOR CORPORATION**

**(Exact name of registrant as specified in its charter)**

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

**04-2742817**  
**(I.R.S. Employer**  
**Identification No.)**

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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 20, 2017** was:

Common Stock, \$.01 par value	27,581,137
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, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 48,936	\$ 56,170
Accounts receivable, less allowance of \$161 in 2017 and \$153 in 2016	33,811	25,216
Inventories, net	33,883	27,136
Other current assets	3,470	3,250
<b>Total current assets</b>	<b>120,100</b>	<b>111,772</b>
Long-term deferred tax assets, net	21	38
Long-term investments, net	2,599	2,508
Property, plant and equipment, net	41,248	37,574
Other assets	2,108	2,175
<b>Total assets</b>	<b>\$ 166,076</b>	<b>\$ 154,067</b>
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable	\$ 11,508	\$ 7,588
Accrued compensation and benefits	8,939	8,965
Accrued expenses	2,311	2,179
Income taxes payable	252	92
Deferred revenue	8,769	3,403
<b>Total current liabilities</b>	<b>31,779</b>	<b>22,227</b>
Long-term deferred revenue	321	374
Contingent consideration obligations	78	253
Long-term income taxes payable	191	196
Other long-term liabilities	90	
<b>Total liabilities</b>	<b>32,459</b>	<b>23,050</b>
Commitments and contingencies (Note 9)		
Equity:		

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Vicor Corporation stockholders' equity:			
Class B Common Stock		118	118
Common Stock		400	397
Additional paid-in capital		180,132	176,344
Retained earnings		91,994	93,438
Accumulated other comprehensive loss		(397)	(561)
Treasury stock, at cost		(138,927)	(138,927)
<b>Total Vicor Corporation stockholders' equity</b>		<b>133,320</b>	<b>130,809</b>
Noncontrolling interest		297	208
<b>Total equity</b>		<b>133,617</b>	<b>131,017</b>
<b>Total liabilities and equity</b>		<b>\$ 166,076</b>	<b>\$ 154,067</b>

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,	
	2017	2016	2017	2016
Net revenues	\$ 56,888	\$ 53,227	\$ 169,059	\$ 152,195
Cost of revenues	31,745	27,304	94,334	82,485
Gross margin	25,143	25,923	74,725	69,710
Operating expenses:				
Selling, general and administrative	14,500	13,312	43,059	41,643
Research and development	10,543	10,338	33,482	31,824
Total operating expenses	25,043	23,650	76,541	73,467
Income (loss) from operations	100	2,273	(1,816)	(3,757)
Other income (expense), net:				
Total unrealized gains on available-for-sale securities, net	34	1	91	54
Portion of losses (gains) recognized in other comprehensive income (loss)	(31)	2	(82)	(44)
Net credit gains recognized in earnings	3	3	9	10
Other income (expense), net	306	208	985	340
Total other income (expense), net	309	211	994	350
Income (loss) before income taxes	409	2,484	(822)	(3,407)
Less: Provision for income taxes	371	133	539	168
Consolidated net income (loss)	38	2,351	(1,361)	(3,575)
Less: Net income (loss) attributable to noncontrolling interest	49	15	83	(16)
Net income (loss) attributable to Vicor Corporation	\$ (11)	\$ 2,336	\$ (1,444)	\$ (3,559)
Net income (loss) per common share attributable to Vicor Corporation:				
Basic	\$ (0.00)	\$ 0.06	\$ (0.04)	\$ (0.09)
Diluted	\$ (0.00)	\$ 0.06	\$ (0.04)	\$ (0.09)

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

Basic	39,288	38,837	39,177	38,811
Diluted	39,288	39,184	39,177	38,811

See accompanying notes.



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## VICOR CORPORATION

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Consolidated net income (loss)	\$ 38	\$ 2,351	\$(1,361)	\$(3,575)
Foreign currency translation (losses) gains, net of tax (1)	(16)	56	88	473
Unrealized gains (losses) on available-for-sale securities, net of tax (1)	31	(2)	82	44
Other comprehensive income	15	54	170	517
Consolidated comprehensive income (loss)	53	2,405	(1,191)	(3,058)
Less: Comprehensive income attributable to noncontrolling interest	47	19	89	20
Comprehensive income (loss) attributable to Vicor Corporation	\$ 6	\$ 2,386	\$(1,280)	\$(3,078)

- (1) The deferred tax assets associated with cumulative foreign currency translation (losses) gains and cumulative unrealized gains (losses) on available for sale securities are completely offset by a tax valuation allowance as of September 30, 2017 and 2016. Therefore, there is no income tax benefit (provision) recognized for the three and nine months ended September 30, 2017 and 2016.

See accompanying notes.

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## VICOR CORPORATION

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
<b>Operating activities:</b>		
Consolidated net loss	\$ (1,361)	\$ (3,575)
Adjustments to reconcile consolidated net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	6,590	6,384
Stock-based compensation expense, net	1,272	171
Increase in other assets		(505)
Increase in other long-term liabilities	90	
Decrease in long-term deferred revenue	(53)	(76)
(Gain) loss on disposal of equipment	(15)	4
Deferred income taxes	17	(51)
Credit gain on available-for-sale securities	(9)	(10)
Provision (benefit) for doubtful accounts	8	(22)
Decrease in long-term income taxes payable	(5)	(10)
Change in current assets and liabilities, net	(5,896)	(3,894)
<b>Net cash provided by (used for) operating activities</b>	<b>638</b>	<b>(1,584)</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(10,164)	(6,368)
Proceeds from sale of equipment	15	2
Increase in other assets	(17)	(18)
<b>Net cash used for investing activities</b>	<b>(10,166)</b>	<b>(6,384)</b>
<b>Financing activities:</b>		
Proceeds from issuance of Common Stock	2,510	455
Payment of contingent consideration obligations	(175)	(64)
Acquisition of noncontrolling interest		(372)
<b>Net cash provided by financing activities</b>	<b>2,335</b>	<b>19</b>
Effect of foreign exchange rates on cash	(41)	35
<b>Net decrease in cash and cash equivalents</b>	<b>(7,234)</b>	<b>(7,914)</b>
Cash and cash equivalents at beginning of period	56,170	62,980
<b>Cash and cash equivalents at end of period</b>	<b>\$ 48,936</b>	<b>\$ 55,066</b>

See accompanying notes.

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## VICOR CORPORATION

## Notes to Condensed Consolidated Financial Statements

September 30, 2017

(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, 2017 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2017. The balance sheet at December 31, 2016 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, 2016 filed by the Company with the Securities and Exchange Commission on March 7, 2017.

**2. Long-Term Investments**

As of September 30, 2017 and December 31, 2016, the Company held one 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. The Failed Auction Security held by the Company is Aaa/AA+ rated by major credit rating agencies, is collateralized by student loans, and is 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, 2017, 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, 2017.

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

		Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2017	Cost			

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Failed Auction Security	\$ 3,000	\$	\$ 401	\$ 2,599	
			Gross Unrealized	Gross Unrealized	Estimated Fair Value
December 31, 2016	Cost		Gains	Losses	
Failed Auction Security	\$ 3,000	\$	\$	492	\$ 2,508

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## VICOR CORPORATION

## Notes to Condensed Consolidated Financial Statements

September 30, 2017

(unaudited)

As of September 30, 2017, the Failed Auction Security had been in an unrealized loss position for greater than 12 months.

Based on the fair value measurements described in Note 3, the fair value of the Failed Auction Security on September 30, 2017, with a par value of \$3,000,000, was estimated by the Company to be approximately \$2,599,000. The gross unrealized loss of \$401,000 on the Failed Auction Security consists of two types of estimated loss: an aggregate credit loss of \$50,000 and an aggregate temporary impairment of \$351,000. 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):

	2017	2016
Balance at the beginning of the period	\$ 59	\$ 72
Reductions in the amount related to credit gain for which other-than-temporary impairment was not previously recognized	(9)	(10)
Balance at the end of the period	\$ 50	\$ 62

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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## VICOR CORPORATION

## Notes to Condensed Consolidated Financial Statements

September 30, 2017

(unaudited)

Assets and liabilities measured at fair value on a recurring basis included the following as of September 30, 2017 (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, 2017
<b>Cash equivalents:</b>				
Money market funds	\$ 9,258	\$	\$	\$ 9,258
<b>Long-term investments:</b>				
Failed Auction Security			2,599	2,599
<b>Liabilities:</b>				
Contingent consideration obligations			(78)	(78)

Assets and liabilities measured at fair value on a recurring basis included the following as of December 31, 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 December 31, 2016
<b>Cash equivalents:</b>				
Money market funds	\$ 10,114	\$	\$	\$ 10,114
<b>Long-term investments:</b>				
Failed Auction Security			2,508	2,508
<b>Liabilities:</b>				
Contingent consideration obligations			(253)	(253)

As of September 30, 2017, 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, 2017. The major assumptions used in preparing the DCF model included: estimates for the amount and timing of future interest and principal payments based on default probability assumptions used to measure the credit loss of 2.0%; 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

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## VICOR CORPORATION

## Notes to Condensed Consolidated Financial Statements

September 30, 2017

(unaudited)

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.

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.

Quantitative information about Level 3 fair value measurements as of September 30, 2017 is as follows (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Failed Auction Security	\$ 2,599	Discounted cash flow	Cumulative probability of earning the maximum rate until maturity	0.04%
			Cumulative probability of principal return prior to maturity	94.81%
			Cumulative probability of default	5.15%
			Liquidity risk premium	5.00%
			Recovery rate in default	40.00%



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## VICOR CORPORATION

## Notes to Condensed Consolidated Financial Statements

September 30, 2017

(unaudited)

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, 2017 was as follows (in thousands):

Balance at the beginning of the period	\$ 2,508
Credit gain on available-for-sale securities included in Other income (expense), net	9
Gain included in Other comprehensive income	82
Balance at the end of the period	\$ 2,599

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, discounted using the Company's estimated cost of capital.

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, 2017 was as follows (in thousands):

Balance at the beginning of the period	\$ 253
Payments	(175)
Balance at the end of the period	\$ 78

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the nine months ended September 30, 2017.

#### 4. Stock-Based Compensation

The Company's Board of Directors approved the Vicor Corporation 2017 Employee Stock Purchase Plan (the Plan or the ESPP) on April 26, 2017. The ESPP became effective on June 16, 2017, the date the Company's stockholders approved the Plan at the 2017 Annual Meeting of Stockholders. The Company has reserved 2,000,000 shares of Common Stock under the Plan for issuance to eligible employees who elect to participate. The ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. The ESPP operates in successive periods of approximately six months, each referred to as an offering period. Generally, offering periods

commence on or around September 1 and March 1 and end on or around the following February 28 or August 31, respectively. Under the ESPP, an option is granted to participating employees on the first day of an offering period to purchase shares of the Company's Common Stock at the end of that offering period at a purchase price equal to 85% of the lesser of the fair market value of a share of Common Stock on either the first day or the last day of that offering period. The purchase of shares is funded by means of periodic payroll deductions, which may not exceed 15.0% of the employee's eligible compensation, as defined in the Plan. Among other provisions, the Plan limits the number of shares that can be purchased by a participant during any offering period and cumulatively for any calendar year.

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## VICOR CORPORATION

## Notes to Condensed Consolidated Financial Statements

September 30, 2017

(unaudited)

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock option awards and options granted under the ESPP 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cost of revenues	\$ 53	\$ (47)	\$ 125	\$ 59
Selling, general and administrative	466	(327)	861	148
Research and development	212	(124)	286	(36)
Total stock-based compensation	\$ 731	\$ (498)	\$ 1,272	\$ 171

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.

Compensation expense by type of award for the three and nine months ended September 30, was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Stock options	\$ 689	\$ (498)	\$ 1,230	\$ 171
ESPP	42		42	

Total stock-based compensation	\$ 731	\$ (498)	\$ 1,272	\$ 171
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## VICOR CORPORATION

## Notes to Condensed Consolidated Financial Statements

September 30, 2017

(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,	
	2017	2016	2017	2016
<b>Numerator:</b>				
Net income (loss) attributable to Vicor Corporation	\$ (11)	\$ 2,336	\$ (1,444)	\$ (3,559)
<b>Denominator:</b>				
Denominator for basic net income (loss) per share-weighted average shares (1)	39,288	38,837	39,177	38,811
<b>Effect of dilutive securities:</b>				
Employee stock options (2)		347		
Denominator for diluted net income (loss) per share adjusted weighted-average shares and assumed conversions	39,288	39,184	39,177	38,811
Basic net income (loss) per share	\$ (0.00)	\$ 0.06	\$ (0.04)	\$ (0.09)
Diluted net income (loss) per share	\$ (0.00)	\$ 0.06	\$ (0.04)	\$ (0.09)

- (1) Denominator represents weighted average number of shares of Common Stock and Class B Common Stock outstanding.
- (2) Options to purchase 1,452,808 shares of Common Stock for the three and nine months ended September 30, 2017 were not included in the calculation of net loss per share as the effect would have been antidilutive. 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.

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, 2017

(unaudited)

Inventories were as follows (in thousands):

	September 30, 2017	December 31, 2016
Raw materials	\$ 26,247	\$ 18,648
Work-in-process	2,774	3,361
Finished goods	4,862	5,127
Net balance	\$ 33,883	\$ 27,136

7. 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. Effective January 1, 2017, the Company extended the warranty period to three years for certain military grade products sold after that date. 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,	
	2017	2016	2017	2016
Balance at the beginning of the period	\$ 244	\$ 496	\$ 214	\$ 584
Accruals for warranties for products sold in the period	126	61	321	291
Fulfillment of warranty obligations	(82)	(106)	(179)	(374)
Revisions of estimated obligations		(109)	(68)	(159)
Balance at the end of the period	\$ 288	\$ 342	\$ 288	\$ 342



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8. 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).

The provision 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,	
	2017	2016	2017	2016
Provision for income taxes	\$ 371	\$ 133	\$ 539	\$ 168
Effective income tax rate	90.7%	5.4%	65.6%	4.9%

The provisions for income taxes in each 2017 and 2016 period were primarily due to estimated foreign income taxes and for 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 connection with the Company's acquisition of 100% ownership of certain operating assets and cash of the Company's consolidated subsidiary, Converpower Corporation, 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.

As described in Note 11- Impact of Recently Issued Accounting Standards, the Company adopted new guidance for employee share-based payment accounting during the first quarter of 2017. The new guidance, among other considerations, requires excess tax benefits and tax deficiencies related to employee share-based compensation to now be recorded in earnings when the awards vest or are settled, rather than in shareholders' equity under previous guidance. In addition, it eliminates the requirement that excess tax benefits be realized with the taxing authority before they can be recognized. In connection with the adoption of this new guidance, the Company recorded a cumulative-effect adjustment as of January 1, 2017 to increase gross deferred tax assets and the related valuation allowance against deferred tax assets by \$3,485,000. This amount was allocated and added to deferred tax assets for research and development tax credit carryforwards, net operating loss carryforwards and the alternative minimum tax credit carryforward but, as noted above, was fully offset by a corresponding increase in the valuation allowance against deferred tax assets, resulting in no net effect on the Company's condensed consolidated financial statements.

As of September 30, 2017, the Company continues to maintain a valuation allowance of approximately \$32,746,000 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.

In May 2017, the Company received notice from the Internal Revenue Service that its federal corporate tax return for tax year 2015 had been selected for examination. The examination is ongoing.

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9. Commitments and Contingencies

At September 30, 2017, the Company had approximately \$3,006,000 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 its products infringe any of the SynQor patents, and asserting that the SynQor patents are invalid. The Company 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 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 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 of the remaining claims of the 190 patent were invalid and remanding the remaining claim to a patent examiner for further examination. On June 22, 2017, the examiner issued a determination under 37 C.F.R. § 41.77(d), finding that the remaining claim of the 190 patent was unpatentable. That decision is expected to be further reviewed by the PTAB pursuant to 37 C.F.R. § 41.77(f).

On May 2, 2016, the PTAB also 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. 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.

On August 30, 2017, the Federal Circuit issued rulings with regard to PTAB's reexamination decisions for the '021, '702 and '290 patents. With respect to the '021 patent, the Federal Circuit affirmed the PTAB's determination that all of the challenged claims of the '021 patent were invalid. The Federal Circuit remanded the case to the PTAB for further consideration of the patentability of certain claims that had been added by amendment during the reexamination. With respect to the '702 patent, the Federal Circuit affirmed the PTAB's determination that all of the challenged claims of the '702 patent were patentable. With respect to the '290 patent, the Federal Circuit vacated the PTAB's decision upholding the patentability of the '290 patent claims, and remanded the case to the PTAB for further consideration.

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. 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.

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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 will have a material adverse impact on the Company's financial position or results of operations.

10. 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
2017:						
Net revenues	\$ 38,529	\$ 14,745	\$ 6,360	\$	\$ (2,746)	\$ 56,888
Income (loss) from operations	2,007	(2,952)	1,359	(314)		100
Total assets	227,408	33,021	11,934	64,864	(171,151)	166,076
Depreciation and amortization	971	712	188	373		2,244
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

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

	BBU	VI Chip	Picor	Corporate	Eliminations (1)	Total
2017:						
Net revenues	\$ 115,141	\$ 42,835	\$ 19,553	\$	\$ (8,470)	\$ 169,059
Income (loss) from operations	5,962	(10,761)	3,825	(842)		(1,816)
Total assets	227,408	33,021	11,934	64,864	(171,151)	166,076
Depreciation and amortization	2,944	2,000	558	1,088		6,590
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

- (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.



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11. Impact of Recently Issued Accounting Standards

In May 2017, the Financial Accounting Standards Board ( FASB ) issued guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718, *Compensation – Stock Compensation*. The new guidance is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of the new guidance will have a material impact on its consolidated financial statements and related disclosures.

In August 2016, the 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 does not expect the adoption of the new guidance will have a material impact on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued new guidance which will require measurement and recognition of expected credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. It is required to be applied on a modified-retrospective approach with certain elements being adopted prospectively. The Company has not yet determined the impact this new guidance will have on its consolidated financial statements and related disclosures.

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. In terms of the accounting for forfeitures, the new guidance allows an option for them to either be estimated, as currently required, or recognized when they occur. The Company will continue to estimate forfeitures. The Company adopted the new standard on January 1, 2017. (See Note 8 – Income Taxes for additional details on the impact of the adoption).

In February 2016, the FASB issued new guidance for lease accounting, which will require lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new guidance establishes a right-of-use model ( ROU ) that will require a lessee to recognize a ROU asset and a lease liability on the balance sheet for all leases with a term longer than twelve months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. 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 plans to adopt the new guidance effective January 1, 2019. The new standard must be adopted using a modified retrospective transition which includes certain practical expedients. The majority of the Company's leases are for certain of its office and manufacturing space. The Company has not yet determined the impact this new guidance will have 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, which includes several amendments, will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles when it becomes effective, which will be January 1, 2018 for the Company. The new standard permits the use of either the retrospective or cumulative effect transition method. The Company has established an implementation team to assess the potential impact of the new standard which includes identifying appropriate changes to the business processes, systems and controls to support revenue recognition and disclosure requirements under the new standard. While the implementation team is still in the process of completing its evaluation of the new standard, it has reached preliminary conclusions on substantially all key accounting assessments, and currently believes the most significant impact will be related to the timing of recognition of sales to its stocking distributors. The Company currently defers revenue and the related cost of sales on shipments to stocking distributors until the distributors resell the products to their customers. Upon adoption of the new guidance, the Company will no

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longer be permitted to defer revenue until sale by the stocking distributor to the end customer, but rather, will be required to estimate the effects of returns and allowances provided to stocking distributors and record revenue at the time of sale to the stocking distributor. The Company currently plans to utilize the retrospective transition method for adoption of the standard. Upon adoption under that method, the Company will recognize the cumulative effect of adopting this guidance as an adjustment to the balance of retained earnings as of January 1, 2016. The implementation team is continuing to evaluate the method of adoption and the future impact the new guidance will have on its consolidated financial statements and related disclosures and expects to complete its assessment of those financial statement impacts during the fourth quarter of 2017. The other principal remaining implementation items include completing the identification and documentation of key transition controls and, later, the identification and documentation of any new or revised key ongoing process controls. The implementation team expects to complete those tasks by the end of the fourth quarter of 2017. The implementation team has reported its findings and status to the Audit Committee on a regular basis over the last year.

Other new pronouncements issued but not effective until after September 30, 2017 are not expected to have a material impact on the Company's consolidated financial statements.

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VICOR CORPORATION

Management's Discussion and Analysis of  
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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, plans, assumes, may, will, would, should, continue, prospective, project, and other similar words or expressions are used to identify 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. 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, 2016, under Part I, Item 1 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, 2016 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.

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 VI Chip business conducted in Japan through VJCL. VI Chip generally 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, and markets integrated circuits and related solid-state products for use in a variety of power management and power system applications. Picor is a fabless manufacturer, as its products are manufactured, assembled, packaged, and tested by third parties. Picor develops integrated circuits 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 for the third quarter of 2017 showed sequential bottom-line improvement, with a reduced net loss despite a slight decline in net revenues, yet our operating performance continues to reflect the general weakness of demand for our legacy products, as well as increased customer price sensitivity for these products. Customer interest in our expanding portfolio of recently-introduced advanced products continues to increase, as evidenced by the third quarter's higher bookings and sequentially higher quarter-end backlog, both reflecting market uptake of our new products, notably our 48 volt to point-of-load solutions for datacenters and supercomputers.

While improved third quarter bookings reflected increasing demand for our advanced products, with shipments scheduled well into 2018, global demand for our legacy brick converters, configurable products, and associated components remains at volumes lower than historical trend, which we attribute to the ongoing macroeconomic conditions specific to the industries and geographies we serve, as well as increased customer price sensitivity in certain industries and geographies in which commoditized products have established a strong competitive position. Our legacy products commonly are used in defense electronics, high-value capital goods, and sizeable infrastructure projects, the end demand for which has been unpredictable, reflecting budgetary uncertainty and low-growth economies.



Although the number of identified opportunities for our new products continues to expand, as evidenced by booking patterns, the sales cycles associated with these products continue to be longer than we anticipated, in part due to the same macroeconomic trends and industry-specific conditions influencing bookings and sales of our legacy product lines. In many mature markets, existing and potential customers remain risk-averse and have slowed or curtailed their own new product development. We believe such caution has limited their near-term interest in our new products, although we are experiencing increasing interest in our new products as replacements for legacy power modules, whether our own or those of competitors, when customers are refreshing or upgrading existing designs.

In more robust markets, such as those we are targeting with our new products, existing and potential customers are actively pursuing their own growth strategies, developing products with higher performance enabled by our new products and the modular component approach of our Factorized Power Architecture. As such, we increasingly are asked by existing and potential customers to collaborate on the development of new or highly modified implementations of our new products. While such collaborations are attractive opportunities to enhance customer relationships and gain competitive advantage, they also are resource and time intensive. Additionally, when we have successfully designed-in our new product solutions, we may encounter delays and uncertainty associated with scheduling production of such solutions. For example, we are collaborating with several large-scale OEMs in the datacenter segment of the computing market and have been engaged with these potential customers on development and design work for multiple quarters. However, only in the third quarter did we begin to receive pre-production prototype orders or early production orders associated with certain engagements. Given the number of such opportunities and the progress being made on associated development and design work, we expect to receive more such early-stage orders from additional customers in the coming quarters.

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We believe the following considerations may influence our performance over the fourth quarter of 2017 and into 2018:

*Operational Considerations*

We operate a highly automated electronics manufacturing facility in Andover, Massachusetts, and our profitability is closely aligned with production unit volumes. We have invested significantly in state-of-the-art systems, equipment, and robotics, which allow us to generate relatively higher profitability when operating at or near factory capacity, even with a high mix of products produced. However, periods of low volume production and/or brief, low volume production runs contribute to lower profitability, largely due to lower absorption of relatively high manufacturing overhead costs associated with our manufacturing model. While direct labor and associated variable costs correlate with volume, manufacturing overhead costs are inflexible and, therefore, problematic during periods of low volume or brief production runs. We have invested in the production capacity to meet our internal volume projections, and believe these projections are reasonable. However, if sustained, uniform, high volume production levels are not achieved, our product-level profitability likely will not reach the levels necessary to cover our fixed spending, consisting of manufacturing overhead costs and operating costs.

Our ability to achieve sustained, high volume production levels is tied to our ability to forecast manufacturing requirements of a range of inputs, notably raw material inventories. Because we utilize a number of components and other materials of proprietary design, our ability to sustain targeted production schedules and meet customer delivery requirements has been vulnerable to delays or shortages of such inventories. Over the last two years, we have made progress in reducing potential vulnerabilities to stock-outs, vendor shortages, and similar supply chain disruptions. We also have reorganized our supply chain management effort, strengthened with new hires. We have implemented safety-stock programs for certain critical components and materials and have established second-source supply relationships in order to reduce these vulnerabilities. However, our product-level profitability and overall performance could be negatively influenced by an unplanned shortage of a particular component or material.

We expect our operating expenses, notably in engineering and sales, to remain relatively high, as percentages of revenue, for the foreseeable future. If revenue reaches our forecasted levels, these percentages are expected to decline, although we do not expect such expenses to decline on an absolute basis from current levels. We have expanded and focused our engineering and sales organizations to pursue the promising opportunities afforded by our innovative, advanced products, and we believe our current level of

spending is necessary to achieve our strategic goals. However, many of these opportunities are in early phases of development, and near-term revenue growth may not be sufficient to reduce the percentages of revenue represented by our operating expenses to forecast levels or levels comparable to our high volume competitors.

*Market and Macroeconomic Considerations*

Customer adoption of certain new products has been delayed by unanticipated 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 customers and opportunities. However, delays in the transition of processor generations and associated supply chain disruption caused repeated delays in customer purchase orders well into 2016.

Based on current customer activity, an expanding customer list, and an expanding backlog, we believe the 48 volt to point-of-load opportunity has entered an accelerated, second phase of development, with a broadening of interest, notably associated with our Power on Package solution, as well as the entry of new vendors. As such, we face a more complex competitive landscape, with additional challenges. We continue to believe our new products will be adopted in volume by multiple, leading customers. However, we cannot control the actions by, or the timing of, our customers, their contract manufacturers, or the significant vendors also participating in the market. Many of these vendors possess resources far greater than Vicor and have operational and financial flexibility we do not.

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We anticipate aggregate demand for the mature markets we serve will grow, at best, only at the rate of the overall economy (i.e., in the United States, for example, at the rate of growth of gross domestic product) for the foreseeable future. Given our long-standing customer relationships and the status of our legacy products in long-lived customer applications, we anticipate maintaining our share in many of these mature markets.

In 2016, we completed two years of restructuring initiatives to reduce our exposure to certain problematic market segments, notably the custom systems portion of the defense electronics market, and have experienced improved resource allocation, operating efficiencies, and asset utilization. We also have substantially restructured our distribution channels, notably across Europe, with the goal of improving our breadth of presence across important geographies and targeted market segments. However, while we expect these undertakings will contribute to improved performance of the BBU, we do not expect the BBU's financial results will significantly improve until macroeconomic conditions improve in industries and geographies served by the BBU.

Financial Highlights:

Net revenues increased 6.9% to \$56,888,000 for the third quarter of 2017, from \$53,227,000 for the third quarter of 2016, primarily due to an overall 19.4% increase in bookings in the third quarter of 2017, compared to the third quarter of 2016, with significant increases in VI Chip and Picor.

Net revenues for the nine months ended September 30, 2017 increased by 11.1% to \$169,059,000 from \$152,195,000 for the nine months ended September 30, 2016, primarily due to an overall 16.9% increase in bookings for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016, with significant increases in VI Chip and Picor.

Export sales, as a percentage of total revenues, represented approximately 62.0% in the third quarter of 2017 and 59.3% in the third quarter of 2016. Export sales, as a percentage of total revenues, for the nine months ended September 30, 2017 and 2016 were approximately 63.6% and 59.7%, respectively.

Gross margin decreased to \$25,143,000 for the third quarter of 2017, from \$25,923,000 for the third quarter of 2016. Gross margin, as a percentage of net revenues decreased to 44.2% for the third quarter of 2017 from 48.7% for the third quarter of 2016. Both decreases, despite the increase in net revenues, were primarily due to a less favorable product mix.

Gross margin increased to \$74,725,000 for the nine months ended September 30, 2017 from \$69,710,000 for the nine months ended September 30, 2016, primarily due to the increase in net revenues. Gross margin, as a percentage of revenues, despite the increase in net revenues, decreased to 44.2% for the nine months ended September 30, 2017, compared to 45.8% for the nine months ended September 30, 2016, primarily due to a less favorable product mix.

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Backlog, representing the total of orders for products received for which shipment is scheduled within the next 12 months, was approximately \$60,074,000 at the end of the third quarter of 2017, as compared to \$53,157,000 at the end of the second quarter of 2017.

Operating expenses for the third quarter of 2017 increased \$1,393,000, or 5.9%, to \$25,043,000 from \$23,650,000 for the third quarter of 2016, due to an increase in selling, general, and administrative expenses of \$1,188,000 and an increase in research and development expense of \$205,000.

Operating expenses for the nine months ended September 30, 2017 increased \$3,074,000, or 4.2%, to \$76,541,000 from \$73,467,000 for the nine months ended September 30, 2016, due to an increase in research and development expense of \$1,658,000 and an increase in selling, general, and administrative expenses of \$1,416,000.

We reported a net loss for the third quarter of 2017 of \$(11,000), or \$(0.00) per share, compared to net income of \$2,336,000, or \$0.06 per diluted share, for the third quarter of 2016.

We reported a net loss for the nine months ended September 30, 2017, of \$(1,444,000), or \$(0.04) per share, compared to \$(3,559,000), or \$(0.09) per share, for the nine months ended September 30, 2016.

For the nine months ended September 30, 2017, depreciation and amortization totaled \$6,590,000, and capital additions totaled \$10,164,000, compared to \$6,384,000 and \$6,368,000, respectively, for the nine months ended September 30, 2016.

Inventories increased by approximately \$6,747,000, or 24.9%, to \$33,883,000 at September 30, 2017, compared to \$27,136,000 at December 31, 2016. This increase was primarily associated with increases in VI Chip and Picor inventories of \$4,780,000 and \$2,362,000, respectively, to meet increased bookings for the two segments, partially offset by a decrease in BBU inventories of \$395,000.

**Critical Accounting Policies and Estimates**

Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for a summary of the Company's critical accounting policies and estimates.

Three months ended September 30, 2017, compared to three months ended September 30, 2016

Consolidated net revenues for the third quarter of 2017 were \$56,888,000, an increase of \$3,661,000, or 6.9%, as compared to \$53,227,000 for the third quarter of 2016, and a decrease of \$821,000, or 1.4%, on a sequential basis from \$57,709,000 for the second quarter of 2017.

Net revenues, by segment, for the third quarter of 2017 and the third quarter of 2016 were as follows (dollars in thousands):

	2017	2016	Increase	
			\$	%
BBU	\$ 38,529	\$ 38,518	\$ 11	0.0%
VI Chip	14,112	11,539	2,573	22.3%
Picor	4,247	3,170	1,077	34.0%
Total	\$ 56,888	\$ 53,227	\$ 3,661	6.9%

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The increase in consolidated net revenues for the third quarter of 2017 from the third quarter of 2016 was primarily due to an overall 19.4% increase in bookings in the third quarter of 2017, compared to the third quarter of 2016. BBU, VI Chip, and Picor bookings increased by 16.3%, 20.9%, and 41.4%, respectively. Increases in revenues recorded by VI Chip and Picor for the third quarter of 2017 were associated largely with fulfillment of increased orders for our 48 volt to point-of-load solutions. Customer bookings and scheduling patterns continue to be unpredictable, particularly for the VI Chip and Picor segments.

Gross margin for the third quarter of 2017 decreased \$780,000, or 3.0%, to \$25,143,000, from \$25,923,000 for the third quarter of 2016. Gross margin as a percentage of net revenue decreased to 44.2% for the third quarter of 2017 compared to 48.7% for the third quarter of 2016. Both decreases, despite the increase in net revenues, were primarily due to a less favorable product mix.

Selling, general, and administrative expenses were \$14,500,000 for the third quarter of 2017, an increase of \$1,188,000, or 8.9%, from \$13,312,000 for the third quarter of 2016. Selling, general, and administrative expenses as a percentage of net revenues increased to 25.5% for the third quarter of 2017 from 25.0% for the third quarter of 2016, primarily due to an increase in compensation expense.

The components of the \$1,188,000 increase in selling, general and administrative expenses for the third quarter of 2017 from the third quarter of 2016 were as follows (dollars in thousands):

	Increase (decrease)		
Compensation	\$ 1,089	13.7%	(1)
Advertising expenses	183	44.7%	(2)
Computer expenses	63	28.4%	
Depreciation and amortization	(48)	(6.9)%	
Outside services	(64)	(12.6)%	
Commissions expense	(101)	(11.2)%	(3)
Other, net	66	2.5%	
	\$ 1,188	8.9%	

- (1) Increase primarily attributable to the reversal of VI Chip performance-based stock compensation expense in the third quarter of 2016 and annual compensation adjustments in May 2017.



- (2) Increase primarily attributed to increases in sales support expenses, direct mailings, and advertising in trade publications.
- (3) Decrease primarily attributable to the decrease in net revenues subject to commissions.

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Research and development expenses were \$10,543,000 for the third quarter of 2017, an increase of \$205,000, or 2.0%, compared to \$10,338,000 for the third quarter of 2016. As a percentage of net revenues, research and development expenses decreased to 18.5% for the third quarter of 2017 from 19.4% for the third quarter of 2016, primarily due to the increase in net revenues.

The components of the \$205,000 increase in research and development expenses were as follows (dollars in thousands):

	Increase (decrease)		
Compensation	\$ 727	10.3%	(1)
Facilities expenses	70	14.4%	(2)
Supplies expense	(119)	(45.5)%	(3)
Project and pre-production materials	(528)	(35.1)%	(4)
Other, net	55	5.6%	
	\$ 205	2.0%	

- (1) Increase primarily attributable to the reversal of VI Chip performance-based stock compensation expense in the third quarter of 2016 and annual compensation adjustments in May 2017.
- (2) Increase primarily attributable to an increase in utilities and building maintenance expenses.
- (3) Decrease primarily attributable to a decrease in spending by the VI Chip segment.
- (4) Decrease primarily attributable to decreases in spending for new product development by the VI Chip segment.

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):

	2017	2016	Increase (decrease)
Rental income	\$ 198	\$ 198	\$
Foreign currency gains (losses), net	57	(14)	71
Interest income	42	21	21
Gain on disposals of equipment	(8)		(8)

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Credit gains on available-for-sale securities	3	3	
Other, net	17	3	14
	\$ 309	\$ 211	\$ 98

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 \$409,000 for the third quarter of 2017, as compared to \$2,484,000 for the third quarter of 2016.

The provision for income taxes and the effective income tax rates for the third quarter of 2017 and the third quarter of 2016 were as follows (dollars in thousands):

	2017	2016
Provision for income taxes	\$ 371	\$ 133
Effective income tax rate	90.7%	5.4%

The provisions for income taxes in each 2017 and 2016 period were primarily due to estimated foreign income taxes and for 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 periods due to a full valuation allowance against all net domestic deferred tax assets.

Net loss per share attributable to Vicor Corporation was \$(0.00) for the third quarter of 2017 as compared to net income per diluted share of \$0.06 for the third quarter of 2016.

Nine months ended September 30, 2017, compared to nine months ended September 30, 2016

Consolidated net revenues for the nine months ended September 30, 2017 were \$169,059,000, an increase of \$16,864,000, or 11.1%, from \$152,195,000 for the nine months ended September 30, 2016.

Net revenues, by segment, for the nine months ended September 30, 2017 and the nine months ended September 30, 2016 were as follows (dollars in thousands):

	2017	2016	Increase (decrease)	
			\$	%
BBU	\$ 115,141	\$ 115,963	\$ (822)	(0.7)%
VI Chip	41,063	28,958	12,105	41.8%
Picor	12,855	7,274	5,581	76.7%
Total	\$ 169,059	\$ 152,195	\$ 16,864	11.1%

The overall increase in consolidated net revenues for the nine months ended September 30, 2017 from the nine months ended September 30, 2016 was primarily due to an overall 16.9% increase in bookings for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016. BBU, VI Chip, and Picor bookings increased by 3.3%, 52.6% and 63.8%, respectively. The decrease in BBU revenues was primarily attributable to a decrease in BBU module and configurable product revenues of approximately \$2,892,000, partially offset by an increase in Vicor Custom Power revenues of \$2,534,000. Increases in revenues recorded by VI Chip and Picor for the nine months ended September 30, 2017 were associated largely with fulfillment of increased orders for our 48 volt to point-of-load solutions. Customer bookings and scheduling patterns continue to be unpredictable, particularly for the VI Chip and Picor segments.

Gross margin for the nine months ended September 30, 2017 increased \$5,015,000, or 7.2%, to \$74,725,000 from \$69,710,000 for the nine months ended September 30, 2016, primarily due to the increase in net revenues. Despite the increase in net revenues, gross margin as a percentage of net revenues decreased to 44.2% for the nine month period ended September 30, 2017 compared to 45.8% for the nine month period ended September 30, 2016, primarily due to a less favorable product mix.

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Selling, general and administrative expenses were \$43,059,000 for the nine months ended September 30, 2017, an increase of \$1,416,000, or 3.4%, compared to \$41,643,000 for the nine months ended September 30, 2016. Selling, general and administrative expenses as a percentage of net revenues decreased to 25.5% for the nine month period ended September 30, 2017 from 27.4% for the nine month period ended September 30, 2016, primarily due to the increase in net revenues.

The components of the \$1,416,000 increase in selling, general and administrative expenses for the nine months ended September 30, 2017 from the nine months ended September 30, 2016 were as follows (dollars in thousands):

	Increase (decrease)		
Compensation	\$ 1,485	5.9%	(1)
Advertising expenses	515	35.0%	(2)
Stockholder reporting	69	42.9%	
Telephone expense	(118)	(14.4)%	(3)
Outside services	(137)	(9.2)%	(4)
Commissions expense	(180)	(6.5)%	(5)
Depreciation and amortization	(181)	(8.6)%	(6)
Legal fees	(185)	(14.9)%	(7)
Other, net	148	2.4%	
	\$ 1,416	3.4%	

- (1) Increase primarily attributable to the reversal of VI Chip performance-based stock compensation expense in the third quarter of 2016 and annual compensation adjustments in May 2017.
- (2) Increase primarily attributed to increases in sales support expenses, direct mailings, and advertising in trade publications.
- (3) Decrease attributable to reduced service provider costs.
- (4) Decrease primarily attributable to a decrease in the use of outside consultants at certain international locations.
- (5) Decrease primarily attributable to the decrease in net revenues subject to commissions.
- (6) Decrease attributable to certain BBU segment fixed assets becoming fully depreciated during 2016.
- (7) 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 9 to the Condensed Consolidated Financial Statements.

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Research and development expenses were \$33,482,000 for the nine months ended September 30, 2017, an increase of \$1,658,000, or 5.2%, from \$31,824,000 for the nine months ended September 30, 2016. As a percentage of net revenues, research and development expenses decreased to 19.8% for the nine month period ended September 30, 2017 from 20.9% for the nine month period ended September 30, 2016, primarily due to the increase in net revenues for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

The components of the \$1,658,000 increase in research and development expenses for the nine months ended September 30, 2017 from the nine months ended September 30, 2016 were as follows (dollars in thousands):

	Increase (decrease)		
Compensation	\$ 1,618	7.4%	(1)
Project and pre-production materials	796	18.5%	(2)
Facilities expenses	261	18.0%	(3)
Depreciation and amortization	(101)	(6.4)%	(4)
Supplies expense	(130)	(18.8)%	(5)
Outside services	(152)	(24.5)%	(6)
Deferred costs	(724)	(209.2)%	(7)
Other, net	90	5.3%	
	<b>\$ 1,658</b>	<b>5.2%</b>	

- (1) Increase primarily attributable to the reversal of VI Chip performance-based stock compensation expense in the third quarter of 2016 and annual compensation adjustments in May 2017.
- (2) Increase primarily attributable to increases in spending for new product development by the VI Chip segment.
- (3) Increase primarily attributable to an increase in utilities and building maintenance expenses.
- (4) Decrease attributable to certain BBU segment fixed assets becoming fully depreciated during 2016.
- (5) Decrease primarily attributable to a decrease in spending by the VI Chip segment.
- (6) Decrease primarily attributable to decreased use of outside contractors associated with the development of certain VI Chip and Picor products.
- (7) Decrease primarily attributable to an increase in deferred costs capitalized for certain non-recurring engineering projects for which the related revenues have been deferred.

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The significant components of Other income (expense), net for the nine months ended September 30, 2017 and the nine months ended September 30, 2016 and the changes from period to period were as follows (in thousands):

	2017	2016	Increase (decrease)
Rental income	\$ 594	\$ 264	\$ 330
Foreign currency gains, net	261	34	227
Interest income	88	47	41
Gain (loss) on disposals of equipment	15	(4)	19
Credit gains on available-for-sale securities	9	10	(1)
Other, net	27	(1)	28
	\$ 994	\$ 350	\$ 644

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.

Loss before income taxes was \$(822,000) for the nine months ended September 30, 2017, as compared to loss before taxes \$(3,407,000) for the nine months ended September 30, 2016.

The provision for income taxes and the effective income tax rates for the nine months ended September 30, 2017 and the nine months ended September 30, 2016 were as follows (dollars in thousands):

	2017	2016
Provision for income taxes	\$ 539	\$ 168
Effective income tax rate	65.6%	4.9%

The provisions for income taxes in each 2017 and 2016 period were primarily due to estimated foreign income taxes and for 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 periods 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 our consolidated subsidiary, Converpower Corporation, 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.

As described in Note 11- Impact of Recently Issued Accounting Standards, we adopted new guidance for employee share-based payment accounting during the first quarter of 2017. The new guidance, among other considerations, requires excess tax benefits and tax deficiencies related to employee share-based compensation to now be recorded in earnings when the awards vest or are settled, rather than in shareholders' equity under previous guidance. In addition, it eliminates the requirement that excess tax benefits be realized with the taxing authority before they can be recognized. In connection with the adoption of this new guidance, we recorded a cumulative-effect adjustment as of January 1, 2017 to increase gross deferred tax assets and the related valuation allowance against deferred tax assets by \$3,485,000. This amount was allocated and added to deferred tax assets for research and development tax credit carryforwards, net operating loss carryforwards and the alternative minimum tax credit carryforward but, as noted above, was fully offset by a corresponding increase in the valuation allowance against deferred tax assets, resulting in no net effect on our condensed consolidated financial statements.

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Net loss per share attributable to Vicor Corporation was \$(0.04) for the nine months ended September 30, 2017, compared to net loss per share of \$(0.09) for the nine months ended September 30, 2016.

Liquidity and Capital Resources

As of September 30, 2017, we had \$48,936,000 in cash and cash equivalents. The ratio of total current assets to total current liabilities was 3.8:1 as of September 30, 2017 and 5.0:1 as of December 31, 2016. Working capital, defined as total current assets less total current liabilities, decreased \$1,224,000 to \$88,321,000 as of September 30, 2017 from \$89,545,000 as of December 31, 2016.

The changes in working capital from December 31, 2016 to September 30, 2017 were as follows (in thousands):

	Increase (decrease)
Cash and cash equivalents	\$ (7,234)
Accounts receivable	8,595
Inventories, net	6,747
Other current assets	220
Accounts payable	(3,920)
Accrued compensation and benefits	26
Accrued expenses	(132)
Income taxes payable	(160)
Deferred revenue	(5,366)
	\$ (1,224)

The primary sources of cash for the nine months ended September 30, 2017 was from operating activities of \$638,000 and proceeds from the issuance of Common Stock associated with the exercise of options for the purchase of shares of our Common Stock of \$2,510,000. The primary uses of cash for the nine months ended September 30, 2017 was for the purchase of equipment of \$10,164,000.

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,

2017. As of September 30, 2017, 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 \$3,006,000 of capital expenditure commitments, principally for manufacturing equipment, as of September 30, 2017.

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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, 2017, 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, 2017.

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, 2017). 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, 2017, 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, 2017, 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

September 30, 2017

**Item 1 Legal Proceedings**

See Note 9. 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, 2016.

**Item 6 Exhibits**

Exhibit Number	Description
10.1	<u>Vicor Corporation Amended and Restated 2000 Stock Option and Incentive Plan, as amended and restated (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on May 1, 2017 (SEC file no. 000-18277)).</u>
10.2	<u>VI Chip Corporation Amended and Restated 2007 Stock Option and Incentive Plan (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on May 1, 2017 (SEC file no. 000-18277)).</u>
10.3	<u>Picor Corporation Amended and Restated 2001 Stock Option and Incentive Plan (incorporated by reference to Appendix C to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on May 1, 2017 (SEC file no. 000-18277)).</u>
10.4	<u>Vicor Corporation 2017 Employee Stock Purchase Plan (incorporated by reference to Appendix D to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on May 1, 2017 (SEC file no. 000-18277)).</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.</u>
32.1	<u>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.</u>
32.2	<u>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.</u>
101	The following material from the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2017, 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 31, 2017

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

Date: October 31, 2017

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

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