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, 2020

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

For the transition period from __________________________

Commission File Number 0-18277

VICOR CORPORATION
(Exact name of registrant as specified in its charter)

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

25 Frontage Road, Andover, Massachusetts 01810
(Address of Principal Executive Office)

(978) 470-2900
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**VICR**	**The NASDAQ Stock Market LLC**

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 every Interactive Data File required to be submitted 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 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	☑	Smaller reporting company	☐
Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☐		

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 26, 2020** was:

Common Stock, $.01 par value	31,517,044
Class B Common Stock, $.01 par value	11,758,218

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Part I – Financial Information
Item 1 – Financial Statements

Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 203,605	$ 84,668
Accounts receivable, less allowance of $82 in 2020 and $59 in 2019	41,136	38,115
Inventories, net	58,169	49,187
Other current assets	6,872	7,096
Total current assets	309,782	179,066
Long-term deferred tax assets, net	189	205
Long-term investments, net	2,591	2,510
Property, plant and equipment, net	65,780	56,952
Other assets	1,777	1,994
Total assets	$ 380,119	$ 240,727
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 11,911	$ 9,005
Accrued compensation and benefits	13,248	10,410
Accrued expenses	2,417	2,690
Short-term lease liabilities	1,563	1,520
Sales allowances	736	741
Income taxes payable	62	57
Short-term deferred revenue and customer prepayments	8,061	5,507
Total current liabilities	37,998	29,930
Long-term deferred revenue	813	1,054
Contingent consideration obligations	265	451
Long-term income taxes payable	575	567
Long-term lease liabilities	2,880	2,855
Total liabilities	42,531	34,857
Commitments and contingencies (Note 11)		
Equity:		
Vicor Corporation stockholders' equity:		
Class B Common Stock: 10 votes per share, $.01 par value, 14,000,000 shares authorized, 11,758,218 shares issued and outstanding in 2020 and 2019	118	118
Common Stock: 1 vote per share, $.01 par value, 62,000,000 shares authorized 43,146,143 shares issued and 31,511,337 shares outstanding in 2020; 40,403,058 shares issued and 28,768,252 shares outstanding in 2019	433	405
Additional paid-in capital	326,026	201,251
Retained earnings	149,815	143,098
Accumulated other comprehensive loss	(203)	(383)
Treasury stock at cost: 11,634,806 shares in 2020 and 2019	(138,927)	(138,927)
Total Vicor Corporation stockholders' equity	337,262	205,562
Noncontrolling interest	326	308
Total equity	337,588	205,870
Total liabilities and equity	$ 380,119	$ 240,727

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,	
	2020	2019	2020	2019
Net revenues	$78,112	$70,772	$212,274	$199,852
Cost of revenues	44,765	37,770	121,278	106,647
Gross margin	33,347	33,002	90,996	93,205
Operating expenses:				
Selling, general and administrative	15,212	15,443	47,036	45,846
Research and development	12,032	11,507	38,197	34,433
Total operating expenses	27,244	26,950	85,233	80,279
Income from operations	6,103	6,052	5,763	12,926
Other income (expense), net:				
Total unrealized gains on available-for-sale securities, net	36	11	81	50
Less: portion of gains recognized in other comprehensive income	(35)	(10)	(78)	(47)
Net credit gains recognized in earnings	1	1	3	3
Other income (expense), net	333	145	712	670
Total other income (expense), net	334	146	715	673
Income before income taxes	6,437	6,198	6,478	13,599
Less: Provision (benefit) for income taxes	651	266	(249)	805
Consolidated net income	5,786	5,932	6,727	12,794
Less: Net income (loss) attributable to noncontrolling interest	1	(5)	10	8
Net income attributable to Vicor Corporation	$ 5,785	$ 5,937	$ 6,717	$ 12,786
Net income per common share attributable to Vicor Corporation:				
Basic	$ 0.13	$ 0.15	$ 0.16	$ 0.32
Diluted	$ 0.13	$ 0.14	$ 0.15	$ 0.31
Shares used to compute net income per common share attributable to Vicor Corporation:				
Basic	43,164	40,332	41,814	40,279
Diluted	44,743	42,194	43,567	41,435

See accompanying notes.

VICOR CORPORATION

Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Consolidated net income	$5,786	$ 5,932	$6,727	$12,794
Foreign currency translation gains (losses), net of tax (1)	84	(11)	110	74
Unrealized gains on available-for-sale securities, net of tax (1)	35	10	78	47
Other comprehensive income (loss)	119	(1)	188	121
Consolidated comprehensive income	5,905	5,931	6,915	12,915
Less: Comprehensive income (loss) attributable to noncontrolling interest	7	(6)	18	13
Comprehensive income attributable to Vicor Corporation	$5,898	$ 5,937	$6,897	$12,902

(1) The deferred tax assets associated with cumulative foreign currency translation gains and cumulative unrealized gains on available-for-sale securities are completely offset by a tax valuation allowance as of September 30, 2020 and 2019. Therefore, there is no income tax benefit (provision) recognized for the three and nine months ended September 30, 2020 and 2019.

See accompanying notes.

VICOR CORPORATION

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

	Nine Months Ended September 30, 2020	2019
Operating activities:		
Consolidated net income	$ 6,727	$12,794
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	8,175	7,647
Stock-based compensation expense, net	4,286	2,292
Provision (benefit) for doubtful accounts	23	(138)
Increase (decrease) in long-term income taxes payable	8	(1)
(Decrease) increase in long-term deferred revenue	(241)	902
Gain on disposal of equipment	(9)	(23)
Deferred income taxes	16	24
Credit gain on available-for-sale securities	(3)	(3)
Change in current assets and liabilities, net	(3,742)	(6,955)
Net cash provided by operating activities	15,240	16,539
Investing activities:		
Additions to property, plant and equipment	(16,837)	(9,122)
Proceeds from sale of equipment	9	23
Decrease (increase) in other assets	135	(37)
Net cash used for investing activities	(16,693)	(9,136)
Financing activities:		
Proceeds from employee stock plans	10,836	3,423
Proceeds from public offering of Common Stock	109,681	—
Payment of contingent consideration obligations	(186)	(198)
Net cash provided by financing activities	120,331	3,225
Effect of foreign exchange rates on cash	59	44
Net increase in cash and cash equivalents	118,937	10,672
Cash and cash equivalents at beginning of period	84,668	70,557
Cash and cash equivalents at end of period	$203,605	$81,229

See accompanying notes.

VICOR CORPORATION

Condensed Consolidated Statements of Equity
(In thousands)
(Unaudited)

Three months ended September 30, 2020	**Class B Common Stock**	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**Total Vicor Corporation Stockholders' Equity**	**Noncontrolling Interest**	**Total Equity**
Balance on June 30, 2020	$ 118	$ 431	$ 320,988	$144,030	$ (316)	$(138,927)	$ 326,324	$ 319	$326,643
Issuance of Common Stock under employee stock plans		2	3,449				3,451		3,451
Additional expenses associated with issuance of Common Stock in public offering (see Note 5)			(51)				(51)		(51)
Stock-based compensation expense			1,640				1,640		1,640
Components of comprehensive income, net of tax:									
Net income				5,785			5,785	1	5,786
Other comprehensive income					113		113	6	119
Total comprehensive income							5,898	7	5,905
Balance on September 30, 2020	$ 118	$ 433	$ 326,026	$149,815	$ (203)	$(138,927)	$ 337,262	$ 326	$337,588

Nine months ended September 30, 2020	**Class B Common Stock**	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**Total Vicor Corporation Stockholders' Equity**	**Noncontrolling Interest**	**Total Equity**
Balance on December 31, 2019	$ 118	$ 405	$ 201,251	$143,098	$ (383)	$(138,927)	$ 205,562	$ 308	$205,870
Issuance of Common Stock under employee stock plans		10	10,826				10,836		10,836
Issuance of Common Stock in public offering, net (see Note 5)		18	109,663				109,681		109,681
Stock-based compensation expense			4,286				4,286		4,286
Components of comprehensive income, net of tax:									
Net income				6,717			6,717	10	6,727
Other comprehensive income					180		180	8	188
Total comprehensive income							6,897	18	6,915
Balance on September 30, 2020	$ 118	$ 433	$ 326,026	$149,815	$ (203)	$(138,927)	$ 337,262	$ 326	$337,588

Three months ended September 30, 2019	**Class B Common Stock**	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**Total Vicor Corporation Stockholders' Equity**	**Noncontrolling Interest**	**Total Equity**
Balance on June 30, 2019	$ 118	$ 403	$ 196,698	$135,849	$ (278)	$(138,927)	$ 193,863	$ 453	$194,316
Issuance of Common Stock under employee stock plans		1	1,715				1,716		1,716
Stock-based compensation expense			753				753		753
Components of comprehensive income, net of tax:									
Net income				5,937			5,937	(5)	5,932
Other comprehensive loss							—	(1)	(1)
Total comprehensive income							5,937	(6)	5,931
Balance on September 30, 2019	$ 118	$ 404	$ 199,166	$141,786	$ (278)	$(138,927)	$ 202,269	$ 447	$202,716

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VICOR CORPORATION

Condensed Consolidated Statements of Equity
(In thousands)
(Unaudited)

Nine months ended September 30, 2019	Class B Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Vicor Corporation Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance on December 31, 2018	$ 118	$ 402	$ 193,457	$129,000	$ (394)	$(138,927)	$ 183,656	$ 434	$184,090
Issuance of Common Stock under employee stock plans		2	3,421				3,423		3,423
Stock-based compensation expense			2,292				2,292		2,292
Other			(4)				(4)		(4)
Components of comprehensive income, net of tax:									
Net income				12,786			12,786	8	12,794
Other comprehensive income					116		116	5	121
Total comprehensive income							12,902	13	12,915
Balance on September 30, 2019	$ 118	$ 404	$ 199,166	$141,786	$ (278)	$(138,927)	$ 202,269	$ 447	$202,716

See accompanying notes.

VICOR CORPORATION

Notes to Condensed Consolidated Financial Statements
September 30, 2020
(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 (the "SEC"). 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, 2020 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2020. The balance sheet at December 31, 2019 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, 2019 filed by the Company with the SEC on February 28, 2020 ("2019 Form 10-K").

2. 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, handling and customs (e.g., tariff) costs incurred in connection with the sale of products are included in cost of revenues.

Inventory that is estimated to be excess, obsolete or unmarketable is written down to net realizable value. The Company's estimation process for assessing net realizable value is based upon forecasted future usage which is derived based on backlog, 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.

Inventories were as follows (in thousands):

	September 30, 2020	December 31, 2019
Raw materials	$ 43,165	$ 35,901
Work-in-process	8,090	5,184
Finished goods	6,914	8,102
	$ 58,169	$ 49,187

3. Long-Term Investments

As of September 30, 2020 and December 31, 2019, 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, 2020, 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, 2020.

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

September 30, 2020	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Failed Auction Security	$3,000	$ —	$ 409	$ 2,591

December 31, 2019	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Failed Auction Security	$3,000	$ —	$ 490	$ 2,510

As of September 30, 2020, the Failed Auction Security had been in an unrealized loss position for greater than 12 months.

The amortized cost and estimated fair value of the Failed Auction Security on September 30, 2020, by contractual maturity, are shown below (in thousands):

	Cost	Estimated Fair Value
Due in twenty to forty years	$3,000	$ 2,591

Based on the fair value measurements described in Note 4, the fair value of the Failed Auction Security on September 30, 2020, with a par value of $3,000,000, was estimated by the Company to be approximately $2,591,000. The gross unrealized loss of $409,000 on the Failed Auction Security consists of two types of estimated loss: an aggregate credit loss of $34,000 and an aggregate temporary impairment of $375,000. 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.

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Notes to Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

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):

	2020	2019
Balance at the beginning of the period	$ 37	$ 41
Reductions in the amount related to credit gain for which other-than- temporary impairment was not previously recognized	(3)	(3)
Balance at the end of the period	$ 34	$ 38

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.

4. 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.

Assets and liabilities measured at fair value on a recurring basis included the following as of September 30, 2020 (in thousands):

	Using			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of September 30, 2020
Cash equivalents:				
Money market funds	$ 9,677	$ —	$ —	$ 9,677
Long-term investments:				
Failed Auction Security	—	—	2,591	2,591
Liabilities:				
Contingent consideration obligations	—	—	(265)	(265)

VICOR CORPORATION

Notes to Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

Assets and liabilities measured at fair value on a recurring basis included the following as of December 31, 2019 (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, 2019
Cash equivalents:				
Money market funds	$ 9,630	$ —	$ —	$ 9,630
Long-term investments:				
Failed Auction Security	—	—	2,510	2,510
Liabilities:				
Contingent consideration obligations	—	—	(451)	(451)

As of September 30, 2020, 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, 2020. The major assumptions used in preparing the DCF model were similar to those described in Note 5—Fair Value Measurements in the Notes to the Consolidated Financial Statements contained in the Company's 2019 Form 10-K.

Quantitative information about Level 3 fair value measurements as of September 30, 2020 is as follows (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Weighted Average
Failed Auction Security	$ 2,591	Discounted cash flow	Cumulative probability of earning the maximum rate until maturity	0.11%
			Cumulative probability of principal return prior to maturity	94.75%
			Cumulative probability of default	5.14%
			Liquidity risk premium	5.00%
			Recovery rate in default	40.00%

VICOR CORPORATION

Notes to Condensed Consolidated Financial Statements
September 30, 2020
(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, 2020 was as follows (in thousands):

Balance at the beginning of the period	$2,510
Credit gain on available-for-sale security included in Other income (expense), net	3
Gain included in Other comprehensive income	78
Balance at the end of the period	$2,591

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, 2020 was as follows (in thousands):

Balance at the beginning of the period	$ 451
Payments	(186)
Balance at the end of the period	$ 265

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the nine months ended September 30, 2020.

5. Stockholders' Equity

In June 2020, the Company completed an underwritten public offering of its Common Stock, resulting in the issuance of a total of 1,769,231 shares of registered Common Stock and net proceeds of approximately $109.7 million, after deduction of underwriting discounts and offering expenses. The Company intends to use the net proceeds from the offering to expand its manufacturing facilities and for other general corporate purposes.

6. Revenues

Revenue from the sale of Advanced Products represents the sum of third-party sales of the products sold under the Advanced Products line, which were sold under the former Picor and VI Chip operating segments during periods prior to the second quarter of 2019. Revenue from the sale of Brick Products represents the sum of third-party sales of the products sold under the Brick Products line, which were also sold under the former Brick Business Unit operating segment, inclusive of such sales of our Vicor Custom Power and Vicor Japan Company, Ltd. subsidiaries.

VICOR CORPORATION

Notes to Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

The following tables present the Company's net revenues disaggregated by geography based on the location of the customer, by product line (in thousands):

	Three Months Ended September 30, 2020		
	Brick Products	Advanced Products	Total
United States	$ 16,905	$ 4,391	$21,296
Europe	4,456	2,050	6,506
Asia Pacific	25,878	23,926	49,804
All other	454	52	506
	$ 47,693	$ 30,419	$78,112

	Nine Months Ended September 30, 2020		
	Brick Products	Advanced Products	Total
United States	$ 57,880	$ 17,205	$ 75,085
Europe	18,451	5,218	23,669
Asia Pacific	60,917	50,076	110,993
All other	2,390	137	2,527
	$ 139,638	$ 72,636	$212,274

	Three Months Ended September 30, 2019		
	Brick Products	Advanced Products	Total
United States	$ 25,265	$ 4,290	$29,555
Europe	5,577	889	6,466
Asia Pacific	14,510	18,875	33,385
All other	1,130	236	1,366
	$ 46,482	$ 24,290	$70,772

	Nine Months Ended September 30, 2019		
	Brick Products	Advanced Products	Total
United States	$ 73,289	$ 16,562	$ 89,851
Europe	17,960	3,517	21,477
Asia Pacific	46,908	37,618	84,526
All other	2,955	1,043	3,998
	$ 141,112	$ 58,740	$199,852

VICOR CORPORATION

Notes to Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

The following tables present the Company's net revenues disaggregated by the category of revenue, by product line (in thousands):

	Three Months Ended September 30, 2020		
	Brick Products	Advanced Products	Total
Direct customers, contract manufacturers and non-stocking distributors	$ 40,916	$ 27,422	$68,338
Stocking distributors, net of sales allowances	6,661	1,463	8,124
Non-recurring engineering	116	1,499	1,615
Royalties	—	17	17
Other	—	18	18
	$ 47,693	$ 30,419	$78,112

	Nine Months Ended September 30, 2020		
	Brick Products	Advanced Products	Total
Direct customers, contract manufacturers and non-stocking distributors	$ 116,127	$ 62,233	$178,360
Stocking distributors, net of sales allowances	23,097	6,101	29,198
Non-recurring engineering	414	4,231	4,645
Royalties	—	17	17
Other	—	54	54
	$ 139,638	$ 72,636	$212,274

	Three Months Ended September 30, 2019		
	Brick Products	Advanced Products	Total
Direct customers, contract manufacturers and non-stocking distributors	$ 39,705	$ 22,574	$62,279
Stocking distributors, net of sales allowances	6,522	1,734	8,256
Non-recurring engineering	163	(36)	127
Royalties	92	—	92
Other	—	18	18
	$ 46,482	$ 24,290	$70,772

VICOR CORPORATION

Notes to Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)

	Nine Months Ended September 30, 2019		
	Brick Products	Advanced Products	Total
Direct customers, contract manufacturers and non-stocking distributors	$ 120,496	$ 49,524	$170,020
Stocking distributors, net of sales allowances	19,750	7,817	27,567
Non-recurring engineering	762	1,319	2,081
Royalties	104	24	128
Other	—	56	56
	$ 141,112	$ 58,740	$199,852

The following table presents the changes in certain contract assets and (liabilities) (in thousands):

	September 30, 2020	December 31, 2019	Change
Accounts receivable	$ 41,136	$ 38,115	$ 3,021
Short-term deferred revenue and customer prepayments	(8,061)	(5,507)	(2,554)
Long-term deferred revenue	(813)	(1,054)	241
Deferred expenses	1,588	1,897	(309)
Sales allowances	(736)	(741)	5

The increase in accounts receivable was primarily due to an increase in net revenues of approximately $5,919,000 in September 2020 compared to December 2019.

Deferred expenses are included in Other current assets in the accompanying Condensed Consolidated Balance Sheets.

The Company records deferred revenue, which represents a contract liability, when cash payments are received or due in advance of performance under a contract with a customer. The Company recognized revenue of approximately $388,000 and $1,736,000 for the three and nine months ended September 30, 2020, respectively, and $23,000 and $53,000 for the three and nine months ended September 30, 2019, respectively, that was included in deferred revenue at the beginning of each respective period.

7. Stock-Based Compensation

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock option awards, whether they possess time-based vesting provisions or performance-based vesting provisions, and awards granted under the Vicor Corporation 2017 Employee Stock Purchase Plan ("ESPP"), as of their grant date. Stock-based compensation expense was as follows (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	$ 296	$ 86	$ 692	$ 228
Selling, general and administrative	846	482	2,313	1,507
Research and development	498	185	1,281	557
Total stock-based compensation	$ 1,640	$ 753	$4,286	$2,292

Compensation expense by type of award was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Stock options	$ 1,420	$ 514	$3,663	$1,556
ESPP	220	239	623	736
Total stock-based compensation	$ 1,640	$ 753	$4,286	$2,292

The increase in stock option compensation expense for the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019, was primarily due to an increase in the number of stock options granted and to the acceleration of recognition of compensation expense on stock options granted to retirement eligible employees, both associated with stock option awards in June 2020.

8. Rental Income

Income, net under the Company's operating lease agreement, for its owned facility leased to a third party in California, was approximately $198,000 and $594,000 for the three and nine months ended September 30, 2020 and 2019, respectively.

9. Income Taxes

The tax provision (benefit) 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.

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The provision (benefit) for income taxes and the effective income tax rates were as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Provision (benefit) for income taxes	$ 651	$ 266	$ (249)	$ 805
Effective income tax rate	10.1%	4.3%	(3.8)%	5.9%

The effective tax rates were lower than the statutory tax rates for the three and nine months ended September 30, 2020 and 2019 due primarily to the utilization of tax credits in 2020 and the combination of utilizing net operating loss carryforwards and tax credits in 2019. The net tax benefit for the nine months ended September 30, 2020 reflects the relatively high volume of stock options exercised during the period and the associated impact of excess benefits (and shortfalls) for those stock options exercised, along with the utilization of available tax credits, noted above. The (benefit) provision for income taxes in the three and nine months ended September 30, 2020 and 2019 also included estimated foreign income taxes and estimated state taxes in jurisdictions in which the Company does not have net operating loss carryforwards.

As of September 30, 2020, the Company had a valuation allowance of approximately $30,363,000 against all domestic deferred tax assets, for which realization cannot be considered more likely than not at this time. Management assesses the need for the valuation allowance on a quarterly basis. In assessing the need for a valuation allowance, the Company considers all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and past financial performance. While positive operating results in 2018, 2019 and 2020 caused the Company to be in a cumulative income position as of September 30, 2020, its overall profitability has been declining since the third quarter of 2018 and the Company recorded an operating loss in the first quarter of 2020, primarily due to overall reduced bookings for both Advanced and Brick products, reflecting U.S.-China trade/tariff dynamics and elements of macro uncertainty. While the Company recorded modest operating income and bookings increased in both the second and third quarters of 2020, the continued uncertain impact of the COVID-19 pandemic on the Company's supply chain, certain process issues with the production of Advanced Products and the unpredictability in certain markets are still contributing to near-term uncertainty. As a result, management has concluded a full valuation allowance against all net domestic deferred tax assets is still warranted as of September 30, 2020. The valuation allowance against these deferred tax assets may require adjustment in the future based on changes in the mix of temporary differences, changes in tax laws, and operating performance. If the positive quarterly earnings continue, and the Company's concerns about industry uncertainty and world events, the impact of the COVID-19 pandemic on the Company's supply chain, process issues with the production of Advanced Products, and order volumes are resolved or alleviated to the point that the Company believes future profits can be more reliably forecasted, the Company may release all or a portion of the valuation allowance in the near-term. Certain state tax credits, though, will likely continue to require a valuation allowance. If and when the Company determines the valuation allowance should be released (i.e., reduced), the adjustment would result in a tax benefit reported in that period's Consolidated Statements of Operations, the effect of which would be an increase in reported net income.

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10. Net Income per Share

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income attributable to Vicor Corporation	$ 5,785	$ 5,937	$ 6,717	$12,786
Denominator:				
Denominator for basic net income per share-weighted average shares (1)	43,164	40,332	41,814	40,279
Effect of dilutive securities:				
Employee stock options (2)	1,579	1,862	1,753	1,156
Denominator for diluted net income per share – adjusted weighted-average shares and assumed conversions	44,743	42,194	43,567	41,435
Basic net income per share	$ 0.13	$ 0.15	$ 0.16	$ 0.32
Diluted net income per share	$ 0.13	$ 0.14	$ 0.15	$ 0.31

(1) Denominator represents weighted average number of shares of Common Stock and Class B Common Stock outstanding.
(2) Options to purchase 265,725 and 130,027 shares of Common Stock for the three and nine months ended September 30, 2020, respectively, and 171,499 and 138,251 shares of Common Stock for the three and nine months ended September 30, 2019, respectively, were not included in the calculations of net income per share as the effect would have been antidilutive.

11. Commitments and Contingencies

At September 30, 2020, the Company had approximately $12,595,000 of capital expenditure commitments, principally for manufacturing equipment. In addition to these commitments, the Company had, in aggregate, approximately $63,800,000 of budgeted capital expenditures associated with the construction of a 90,000 sq. ft. addition to the Company's existing manufacturing facility and the installation of new production equipment.

The Company is the defendant in a patent infringement lawsuit originally filed on January 28, 2011 by SynQor, Inc. ("SynQor") in the U.S. District Court for the Eastern District of Texas (the "Texas Action"). The complaint, as amended, alleges 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, 7,564,702, and 8,023,290 ("the '190 patent", "the '021 patent", "the '702 patent", and "the '290 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. The Company has denied that its products infringe any of the SynQor patents, and has asserted that the SynQor patents are invalid and/or unenforceable. The Company has also asserted counterclaims seeking damages from SynQor for deceptive trade practices and tortious interference with prospective economic advantage arising from SynQor's attempted enforcement of its patents against the Company.

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On May 23, 2016, after extensive discovery, the Texas Action was stayed by the court pending completion of certain inter partes reexamination ("IPRx") proceedings at the United States Patent and Trademark Office ("USPTO") (including any appeals from such proceedings to the Federal Circuit (as defined below)) concerning the SynQor patents, which are described below. That stay remains in force.

In 2011, in response to the filing of the Texas Action, the Company's IPRx proceedings at the USPTO challenged the validity of all claims that were asserted against the Company by SynQor. The current status of these proceedings is as follows. Regarding the '190 patent IPRx, the United States Court of Appeals for the Federal Circuit (the "Federal Circuit") issued a decision on March 13, 2015, determining that certain claims were invalid and remanding the matter to the Patent Trial and Appeal Board ("PTAB") of the USPTO for further proceedings. On February 20, 2019, the PTAB issued a decision finding that all of the remaining challenged claims were unpatentable. SynQor has appealed that decision to the Federal Circuit, and the appeal remains pending. On August 30, 2017, the Federal Circuit issued rulings with regard to the IPRx proceedings 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. On February 20, 2019, the PTAB issued a decision affirming the examiner's rejections of all challenged claims. SynQor has filed an appeal of that decision in the Federal Circuit. That appeal has been stayed pending resolution of the pending appeal regarding the '190 patent IPRx. 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. On February 20, 2019, the PTAB issued a decision reversing its prior affirmance of the examiner's non-adoption of rejections with respect to the '290 patent, and entering rejections of all of the claims of the '290 patent. On May 20, 2019, as permitted by USPTO rules, SynQor requested the USPTO to reopen prosecution of this proceeding to address the new rejections made by the PTAB. On September 28, 2020, the examiner issued a decision reaffirming the PTAB's rejection of all of the claims of the '290 patent.

On October 31, 2017, the Company filed a request with the USPTO for ex parte reexamination ("EPRx") of the asserted claims of the '702 patent, based on different prior art references than had been at issue in the previous IPRx of the '702 patent. On September 12, 2018, a patent examiner found that all of the asserted claims were invalid. SynQor has appealed that ruling to the PTAB, where the appeal remains pending. On August 6, 2018, the Company filed a request with the USPTO for EPRx of the asserted claims of the '190 patent, based on different prior art references than had been at issue in the previous IPRx of the '190 patent. On August 9, 2019, the USPTO issued a final rejection of all of the asserted claims of the '190 patent. SynQor has appealed that ruling to the PTAB, where the appeal remains pending.

On January 23, 2018, the 20-year terms of the '190 patent, the '021 patent, the '702 patent and the '290 patent expired. As a consequence of these expirations, the Company cannot be liable under any of the SynQor patents for allegedly infringing activities occurring after the patents' respective expiration dates. In addition, any amended claims that may issue as a result of any of the still-pending reexamination proceedings will have no effective term and cannot be the basis for any liability by the Company.

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, it continues to vigorously defend itself against SynQor's patent infringement allegations. The Company does not believe a loss is probable for this matter. If a loss were to be incurred, however, the Company cannot estimate the amount of possible loss or range of possible loss at this time.

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

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12. Impact of Recently Issued Accounting Standards

In December 2019, the Financial Accounting Standards Board ("FASB") issued guidance designed to simplify the accounting for income taxes by eliminating certain exceptions to the general principles in Topic 740, Income Taxes, and also improve consistent application of and simplify U.S. GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This new guidance will be effective for the Company for its fiscal year beginning after December 15, 2020, with early adoption permitted. The Company has not yet determined the impact this new guidance will have on its consolidated financial statements and disclosures.

In August 2018, the FASB issued guidance which modifies the disclosure requirements on fair value measurements under Topic 820, Fair Value Measurements, including the consideration of costs and benefits. The new guidance is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted. It is required to be applied on a retrospective approach with certain elements being adopted prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. The Company adopted the new guidance as of January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements and disclosures.

In June 2016, the FASB issued guidance which requires 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. This 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 adopted the new guidance as of January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements and disclosures.

Other new pronouncements issued but not effective until after September 30, 2020 are not expected to have a material impact on the Company's consolidated financial statements.

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

Cautionary Note Regarding Forward-Looking Statements

The Company's consolidated operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability, including the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and the risk factor described in this Quarterly Report on Form 10-Q. As a result of these and other factors, the Company may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect its business, consolidated financial condition, and operating results, and the share price of its Common Stock. This document and other documents filed by the Company with the Securities and Exchange Commission ("SEC") include forward-looking statements regarding future events and the Company's future results that are subject to the safe harbor afforded under the Private Securities Litigation Reform Act of 1995 and other safe harbors afforded under the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements are based on our current beliefs, expectations, estimates, forecasts, and projections for the future performance of the Company and are subject to risks and uncertainties. Forward-looking statements are identified by the use of words denoting uncertain, future events, such as "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "future," "goal," "if," "intend," "may," "plan," "potential," "project," "prospective," "seek," "should," "target," "will," or "would," as well as similar words and phrases, including the negatives of these terms, or other variations thereof. Forward-looking statements also include, but are not limited to, statements regarding: our expectations that the Company has adequate resources to respond to financial and operational risks associated with the novel coronavirus "COVID-19," and our ability to effectively conduct business during the pandemic; ongoing development of power conversion architectures, switching topologies, materials, packaging, and products; the ongoing transition of our business strategically, organizationally, and operationally 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; our intent to enter new market segments; the levels of customer orders overall and, in particular, from large customers and the delivery lead times associated therewith; anticipated new and existing customer wins; the financial and operational impact of customer changes to shipping schedules; the derivation of a portion of our sales in each quarter from orders booked in the same quarter; our intent to expand the percentage of revenue associated with licensing our intellectual property to third parties; our plans to invest in expanded manufacturing capacity, including the expansion of our Andover facility and the introduction of new manufacturing processes, and the timing, location, and funding thereof; our belief that cash generated from operations and the total of our cash and cash equivalents will be sufficient to fund operations and capital investments for the foreseeable future; our outlook regarding tariffs and the impact thereof on our business; our belief that we have limited exposure to currency risks; our intentions regarding the declaration and payment of cash dividends; our intentions regarding protecting our rights under our patents; and our expectation that no current litigation or claims will have a material adverse impact on our financial position or results of operations. These forward-looking statements are based upon our current expectations and estimates associated with prospective events and circumstances that may or may not be within our control and as to which there can be no assurance. Actual results could differ materially from those implied by forward-looking statements as a result of various factors, including but not limited to those described above, as well as those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 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" and those described in this Quarterly Report on Form 10-Q, particularly under Part I, Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A – "Risk Factors." The discussion of our business contained herein, including the identification and assessment of factors that may influence actual results, may not be exhaustive. Therefore, the information presented should be read together with other documents we file with the SEC from time to time, including our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, which may supplement, modify, supersede, or update the factors discussed in this Quarterly Report on Form 10-Q. Any forward-looking statement made in this Quarterly Report on Form 10-Q is based on information currently available to us and speaks only as of the date on which it is made. We do not undertake any obligation to update any forward-looking statements as a result of future events or developments, except as required by law.

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Overview

We design, develop, manufacture, and market modular power components and power systems for converting electrical power for use in electrically-powered devices. Our competitive position is supported by innovations in product design and achievements in product performance, largely enabled by our focus on the research and development of advanced technologies and processes, often implemented in proprietary semiconductor circuitry, materials, and packaging. Many of our products incorporate patented or proprietary implementations of high-frequency switching topologies enabling power system solutions that are more efficient and much smaller than conventional alternatives. Our strategy emphasizes demonstrable product differentiation and a value proposition based on competitively superior solution performance, advantageous design flexibility, and a compelling total cost of ownership. While we offer a wide range of alternating current ("AC") and direct current ("DC") power conversion products, we consider our core competencies to be associated with 48V DC distribution, which offers numerous inherent cost and performance advantages over lower distribution voltages. However, we also offer products addressing other DC voltage standards (e.g., 380V for power distribution in data centers, 110V for rail applications, 28V for military and avionics applications, and 24V for industrial automation).

Based on design, performance, and form factor considerations, as well as the range of evolving applications for which our products are appropriate, we categorize our product portfolios as either "Advanced Products" or "Brick Products." The Advanced Products category consists of our more recently introduced products, which are largely used to implement our proprietary Factorized Power Architecture™ ("FPA"), an innovative power distribution architecture enabling flexible, rapid power system design using individual components optimized to perform a specific conversion function. The Brick Products category largely consists of our broad and well-established families of integrated power converters, incorporating multiple conversion stages, used in conventional power systems architectures.

Given the growth profiles of the markets we serve with our Advanced Products line and our Brick Products line, our strategy involves a transition in organizational focus, emphasizing investment in our Advanced Products line and targeting high growth market segments with a low-mix, high-volume operational model, while maintaining a profitable business in the mature market segments we serve with our Brick Products line with a high-mix, low-volume operational model.

The applications in which our Advanced Products and Brick Products are used are typically in the higher-performance, higher-power segments of the market segments we serve. With our Advanced Products, we generally serve large Original Equipment Manufacturers ("OEMs"), Original Design Manufacturers ("ODMs"), and their contract manufacturers, with sales currently concentrated in the data center and hyperscaler segments of enterprise computing, in which our products are used for voltage distribution on server motherboards, in server racks, and across datacenter infrastructure. We have established a leadership position in the emerging market segment for powering high-performance processors used for acceleration of applications associated with artificial intelligence, with customers including the leading innovators in processor and accelerator design, as well as early adopters in cloud computing and high performance computing. We also target applications in aerospace and aviation, defense electronics, industrial automation, instrumentation, test equipment, solid state lighting, telecommunications and networking infrastructure, and vehicles (notably in the autonomous driving, electric vehicle, and hybrid vehicle niches of the vehicle segment). With our Brick Products, we generally serve a fragmented base of large and small customers, concentrated in aerospace and defense electronics, industrial automation, industrial equipment, instrumentation and test equipment, and transportation (notably in rail and heavy equipment applications). With our strategic emphasis on larger, high-volume customers, we expect to experience over time a greater concentration of sales among relatively fewer customers.

In June 2020, we completed an underwritten public offering of 1,538,462 shares of our Common Stock, at a price to the public of $65.00 per share. Pursuant to our agreement with the underwriters of this offering, the underwriter had a 30-day option to purchase from us up to an additional 230,769 shares of our Common Stock. Including the shares associated with the exercise of this option, we issued a total of 1,769,321 shares of Common Stock in the offering and received net proceeds of approximately $109.7 million, after deduction of underwriting discounts and offering expenses. We intend to use the net proceeds from the offering for the expansion of our manufacturing facilities and other general corporate purposes, including the expected growth of net working capital.

Our quarterly consolidated operating results can be difficult to forecast and have been subject to significant fluctuations. We plan our production and inventory levels based on management's estimates of customer demand, customer forecasts, and other information sources. Customer forecasts, particularly those of OEM, ODM, and contract manufacturing customers to which we supply Advanced Products in high volumes, are subject to scheduling changes on short notice, contributing to operating inefficiencies and excess costs. In addition, external factors such as supply chain uncertainties, which are often associated with the cyclicality of the electronics industry, regional macroeconomic and trade-related circumstances, and *force majeure* events (most recently evidenced by the COVID-19 pandemic) have caused our operating results to vary meaningfully. Our quarterly gross margin as a percentage of net revenues may vary, depending on production volumes, average selling prices, average unit costs, the mix of products sold during that quarter, and the level of importation of raw materials subject to tariffs. Our quarterly operating margin as a percentage of net revenues also may vary with changes in revenue and product level profitability, but our operating costs are largely associated with compensation and related employee costs, which are not subject to sudden or significant changes.

Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for a summary of the Company's critical accounting policies and estimates.

Impact of COVID-19 Pandemic

On January 30, 2020, the World Health Organization designated the COVID-19 outbreak a "Public Health Emergency of International Concern" (i.e., a health emergency requiring coordinated action by the governments of effected countries). On January 31, 2020, the U.S. Department of Health and Human Services declared a public health emergency for the entire United States, thereby facilitating a nationwide public health response. On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization, an indication of its global severity. Governments worldwide have responded with measures intended to contain the further spread of COVID-19, including mandatory closures of businesses, schools, and organizations.

On March 23, 2020, the Commonwealth of Massachusetts ordered non-essential businesses closed and prohibited gatherings of more than 10 people, extending the Commonwealth's emergency declaration made on March 10, 2020. Our headquarters and primary manufacturing facility are located in Massachusetts. However, the Company is designated as essential by the U.S. Department of Homeland Security, given our role in supporting industrial sectors considered "critical infrastructure." As such, we have continued to operate at, or close to, full manufacturing capacity, although there can be no assurance we will be able to continue to operate at such levels of manufacturing capacity.

Widespread uncertainty associated with the pandemic has contributed to reduced business activity worldwide. As described further below, we experienced production constraints during the first, second, and third quarters of 2020 that resulted in inefficiencies and higher costs, which, in the aggregate, had a detrimental influence on our financial results for the periods.

There can be no assurance that our financial performance will not continue to be materially negatively impacted in future quarters as a result of the pandemic, given the continued uncertainty and forecasts of higher infection rates as we enter the Fall season. Since early March 2020, we have taken actions intended to protect the health and safety of our employees, customers, business partners, and suppliers. Following guidance from the U.S. Centers for Disease Control and Prevention, the U.S. Occupational Health and Safety Administration, state and local health authorities, and existing internal crisis management policies, we developed and implemented comprehensive health and safety measures at all of our locations, including: establishing a central response team; distributing information and carrying out education initiatives; implementing social distancing requirements, including the installation of transparent panels to physically separate individuals when in close proximity; distributing breathing masks, disposable gloves, disinfectant wipes, and thermometers to employees; implementing temperature checks at the entrances to our manufacturing facility; extensive and frequent disinfecting of our workspaces; modifying our meal services to minimize physical contact; enabling work-from-home arrangements for those employees who do not need to be physically on premises to perform their work effectively; and suspending travel. We expect to maintain these measures until we determine the pandemic is adequately contained for purposes of our business, and we may take further actions we consider to be in the best interests of our employees, customers, business partners, and suppliers, or in response to further government mandates or requirements.

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Rates of absenteeism associated with employee self-quarantine due to exposure to COVID-19 were steady at a satisfactory level during the third quarter of 2020, after a decline during the second quarter of 2020. As of the date of this report, we continue to operate with three shifts in our factory, and, with few exceptions, our engineering, sales, and administrative personnel are working from the Company's offices. The productivity of our factory may be reduced if absenteeism increases or if an employee is diagnosed with COVID-19, which likely would require further restrictive health and safety measures, including factory closure, to be implemented.

We are closely monitoring the performance and financial health of our customers, business partners, and suppliers, but an extended period of operational constraints brought about by the pandemic could cause financial hardship within our customer base and supply chain. Such hardship may continue to disrupt customer demand and limit our customers' ability to meet their obligations to us. Similarly, such hardship within our supply chain could continue to restrict our access to raw materials or services. Additionally, restrictions or disruptions of transportation, such as reduced availability of cargo transport by ship or air, could result in higher costs and inbound and outbound delays.

Although there is uncertainty regarding the extent to which the pandemic will continue to impact our operational and financial results in the future, the Company's high level of liquidity (supplemented by the approximately $109.7 million of net proceeds from the public offering of shares of our Common Stock during the second quarter of 2020), flexible operational model, existing raw material inventories, and increased use of second-sources for critical manufacturing inputs together support management's belief the Company will be able to effectively conduct business until the pandemic passes.

We are monitoring the rapidly changing circumstances, and may take additional actions to address COVID-19 risks as they evolve. Because much of the potential negative impact of the pandemic is associated with risks outside of our control, we cannot estimate the extent of such impact on our financial or operational performance, or when such impact might occur.

Please refer to Item 1A, "Risk Factors" below for updates to our risk factors associated with the COVID-19 pandemic.

Summary of Third Quarter 2020 Financial Performance

The following summarizes our financial performance for the third quarter of 2020, compared to the second quarter of 2020:

- Net revenues increased 10.4% to $78,112,000 for the third quarter of 2020, from $70,761,000 for the second quarter of 2020, reflecting higher bookings recorded during the first and second quarters of 2020. Total bookings for the third quarter increased 3.4% from the second quarter of 2020.
- For the third quarter of 2020, the percentage of total net revenues generated by sales of Advanced Products rose to 38.9% from 34.4% for the prior quarter, while the percentage of total net revenues generated by sales of Brick Products declined to 61.1% from 65.6% for the prior quarter.
- Export sales represented approximately 72.7% of total net revenues for the third quarter of 2020, as compared to 71.4% in the second quarter of 2020. This sequential increase reflects higher shipments to Asian customers, notably in China and Taiwan.
- Gross margin increased to $33,347,000 for the third quarter of 2020 from $30,318,000 for the second quarter of 2020, while gross margin, as a percentage of net revenues, decreased to 42.7% for the third quarter of 2020 from 42.8% for the second quarter of 2020. Despite sequentially higher unit shipments and production volumes for the third quarter of 2020, higher sales and increased overhead absorption were offset by decreased product-level profitability, which was the consequence of unfavorable product mix and production inefficiencies caused by the ongoing impact of the pandemic on our supply chain partners. Other negative influences on gross margin as a percentage of net revenues included a sustained level of import tariffs, which totaled $1,900,000 for the third quarter of 2020, compared to $2,000,000 in the second quarter of 2020.

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- Operating expenses for the third quarter of 2020 declined 3.7% to $27,244,000 from $28,285,000 for the second quarter of 2020. While sales, general and administrative and research and development expenses all declined sequentially, the third quarter was primarily influenced by lower stock option expense, lower commission expense, and lower spending on prototyping and related engineering activities.
- We reported net income for the third quarter of 2020 of $5,785,000, or $0.13 per diluted share, compared to net income of $2,667,000, or $0.06 per diluted share, for the second quarter of 2020.
- For the third quarter of 2020, depreciation and amortization totaled $2,736,000, and capital additions totaled $8,113,000, as compared to $2,728,000 of depreciation and amortization and $5,725,000 of capital additions, respectively, for the second quarter of 2020.
- Cash and cash equivalents increased by approximately $6,901,000, or 3.5%, to $203,605,000 at September 30, 2020, compared to $196,704,000 at June 30, 2020.

As noted, net revenues for the third quarter of 2020 increased 10.4%, compared to net revenues for the second quarter of 2020. Net revenues of Advanced Products for the third quarter of 2020 increased 25.0%, as compared to the second quarter of 2020, primarily due to increased demand from Asian subcontract manufacturers, reflected by higher bookings from these customers in the first and second quarters of 2020. Bookings for Advanced Products for the third quarter of 2020 increased 9.9% sequentially. Net revenues of Brick Products for the third quarter of 2020 increased 2.7%, as sustained demand from Chinese customers offset continued uncertainty in other geographies, as reflected by booking patterns in the first and second quarters. Bookings for Brick Products for the third quarter of 2020 declined 0.5% sequentially, with increased orders for our legacy converter lines offset by lower orders for our custom systems. After two quarters of declining orders in North America for legacy converters, such bookings rose for the third quarter.

Gross margin as a percentage of revenue declined slightly sequentially, from 42.8% for the second quarter of 2020, to 42.7% for the third quarter of 2020. While supply chain delays were not as pronounced during the third quarter of 2020, certain providers of raw materials and/or services continued to experience delays due to the effect of the pandemic on their own operations. As was the case in the first and second quarters of 2020, our gross margin percentage for the third quarter of 2020 was influenced by an unfavorable product mix and high tariff charges, which totaled $1,900,000 for the third quarter of 2020, compared to $2,000,000 in the second quarter of 2020.

We recorded operating income of $6,103,000 in the third quarter of 2020, due to the higher net revenues and lower operating expenses, compared to the second quarter of 2020. The sequential decline was associated with lower stock option compensation expense, reflecting the approximately $1,200,000 charge taken in the second quarter of 2020 primarily due to the acceleration of compensation expense on stock options granted in June 2020 to retirement eligible employees, lower commission expenses, given the increased volume of direct sales, and reduced prototyping and pre-production costs.

While we recorded a net income tax provision of $651,000 for the third quarter of 2020, primarily due to state and foreign tax expense, the net tax benefit on a year-to date basis reflects the impact of the relatively high volume of stock options exercised during the first nine months of this year and the utilization of available tax credits.

Net income attributable to Vicor Corporation (i.e., after net income or loss attributable to a non-controlling interest) for the third quarter of 2020 was $5,785,000, representing net income per diluted share of $0.13, an increase from net income of $2,667,000, or $0.06 per diluted share, for the second quarter of 2020.

Bookings for the third quarter of 2020 totaled $90.5 million, an increase of 3.4%, compared to the second quarter of 2020. New orders for Advanced Products increased 9.9% sequentially, largely driven by higher orders from Asian contract manufacturers manufacturing on behalf of our OEM customers. Bookings from Chinese customers declined, as OEM customers continue to reduce their exposure to China by relocating production to contract manufacturers located in other countries, notably Taiwan. New orders for

Brick Products essentially were unchanged for the third quarter compared to the second quarter, with improved order volumes from customers and distributors in the U.S. and China offsetting lower sequential volumes from European customers.

At September 30, 2020, order backlog (which represents the total value of orders received for products for which shipment is scheduled within the next 12 months) totaled $140.0 million, an increase of 9.8% over the prior quarter, representing a historic high for the Company.

Three Months Ended September 30, 2020, Compared to Three Months Ended September 30, 2019

The following summarizes our financial performance for the third quarter of 2020, compared to the third quarter of 2019:

- Net revenues increased 10.4% to $78,112,000 for the third quarter of 2020, from $70,772,000 for the third quarter of 2019.
- Export sales represented approximately 72.7% of total net revenues in the third quarter of 2020 as compared to 58.2% in the third quarter of 2019. This increase reflects improved demand across Asia.
- Gross margin increased to $33,347,000 for the third quarter of 2020 from $33,002,000 for the third quarter of 2019, but gross margin, as a percentage of net revenues, decreased to 42.7% for the third quarter of 2020 from 46.6% for the third quarter of 2019. Despite higher unit sales and production volumes for the third quarter of 2020, higher sales and increased overhead absorption were offset by decreased product-level profitability, which was the consequence of unfavorable product mix and production inefficiencies and cost variances caused by the ongoing impact of the pandemic on our supply chain partners.
- Operating expenses for the third quarter of 2020 increased $294,000, or 1.1%, to $27,244,000 from $26,950,000 for the third quarter of 2019, due to an increase in research and development expenses of $525,000, partially offset by a decrease in selling, general, and administrative expenses of $231,000.
- We reported net income for the third quarter of 2020 of $5,785,000, or $0.13 per diluted share, compared to net income of $5,937,000, or $0.14 per diluted share, for the third quarter of 2019.
- For the third quarter of September 30, 2020, depreciation and amortization totaled $2,736,000, and capital additions totaled $8,113,000, as compared to $2,649,000 of depreciation and amortization and $3,258,000 of capital additions, respectively, for the third quarter of September 30, 2019.
- Cash and cash equivalents increased by approximately $122,376,000, or 150.7%, to $203,605,000 compared to $81,229,000 at September 30, 2019 primarily due to the completion of a public offering of our Common Stock in June 2020, resulting in net proceeds of approximately $109,700,000.
- Backlog was approximately $140,029,000 at the end of the third quarter of 2020, as compared to $90,088,000 at the end of the third quarter of 2019, and $104,164,000 at the end of the fourth quarter of 2019.

As noted, net revenues for the third quarter of 2020 were $78,112,000, an increase of $7,340,000, or 10.4%, as compared to $70,772,000 for the third quarter of 2019. Net revenues, by product line, for the three months ended September 30, 2020 and 2019 were as follows (dollars in thousands):

			Increase	
	2020	2019	$	%
Brick Products	$47,693	$46,482	$1,211	2.6%
Advanced Products	30,419	24,290	6,129	25.2%
Total	$78,112	$70,772	$7,340	10.4%

Net revenues of Brick Products for the third quarter of 2020 increased 2.6%, as compared to the third quarter of 2019, primarily due to the recovery of Asian customers, notably in China, from the macroeconomic uncertainty of 2019 and the impact of the pandemic on shipments and bookings during the first quarter of 2020. Net revenues of Advanced Products for the third quarter of 2020 increased 25.2%, as compared to the third quarter of 2019, primarily due to increased demand from Asian subcontract manufacturers, reflected in the bookings patterns of the first and second quarters of 2020.

Total bookings for the third quarter of 2020 increased 49.5 % from the third quarter of 2019, driven by an increase of Advanced Products bookings of 108.0% for the third quarter of 2020 compared to the third quarter of 2019.

Gross margin for the third quarter of 2020 increased $345,000, or 1.0%, to $33,347,000, from $33,002,000 for the third quarter of 2019. Gross margin, as a percentage of net revenues, decreased to 42.7% for the third quarter of 2020, compared to 46.6% for the third quarter of 2019. The increase in gross margin dollars was primarily due to the increase in net revenue. The decrease in gross margin, as a percentage of net revenues, was primarily due to an unfavorable change in product mix shipped (i.e., a higher percentage of lower margin products were produced and shipped during the quarter), a negative influence from production inefficiencies and cost variances, certain supply chain constraints associated with the COVID-19 pandemic, and higher tariff charges.

Selling, general, and administrative expenses were $15,212,000 for the third quarter of 2020, a decrease of $231,000, or 1.5%, from $15,443,000 for the third quarter of 2019. Selling, general, and administrative expenses as a percentage of net revenues decreased to 19.5% for the third quarter of 2020 from 21.8% for the third quarter of 2019, primarily due to the overall increase in net revenues. The components of the $231,000 decrease in selling, general and administrative expenses for the third quarter of 2020 from the third quarter of 2019 were as follows (dollars in thousands):

	Increase (decrease)	
Travel expense	$(690)	(79.4)%(1)
Commissions	(191)	(21.6)%(2)
Outside services	(173)	(25.4)%(3)
Compensation	812	8.6%(4)
Other, net	11	0.4%
	$(231)	(1.5)%

(1) Decrease primarily attributable to reduced travel by our sales and marketing personnel, due to travel restrictions caused by the COVID-19 pandemic.
(2) Decrease primarily attributable to the decline in net revenues subject to commissions.
(3) Decrease primarily attributable to a decrease in the use of outside service providers at our Andover, MA facility.
(4) Increase primarily attributable to higher stock-based compensation expense associated with June 2020 stock option awards.

Research and development expenses were $12,032,000 for the third quarter of 2020, an increase of $525,000, or 4.6%, compared to $11,507,000 for the third quarter of 2019, primarily due to an increase in compensation expenses. As a percentage of net revenues, research and development expenses decreased to 15.4% for the third quarter of 2020 from 16.3% for the third quarter of 2019, primarily due to the overall increase in net revenues. The components of the $525,000 increase in research and development expenses were as follows (dollars in thousands):

	Increase (decrease)	
Compensation	$ 730	8.8%(1)
Facilities allocations	99	16.7%
Deferred costs	(144)	(71.6)%(2)
Project and pre-production materials	(144)	(9.5)%(3)
Other, net	(16)	(1.3)%
	$ 525	4.6%

(1) Increase primarily attributable to higher stock-based compensation expense associated with stock options awarded in June 2020.
(2) Decrease primarily attributable to an increase in the capitalization of costs for certain non-recurring engineering projects for which the related revenues have been deferred.
(3) Decrease primarily attributable to lower prototype development costs for Advanced Products.

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):

	2020	2019	Increase (decrease)
Rental income	$198	$ 198	$ —
Foreign currency gains (losses), net	140	(142)	282
Interest income	7	74	(67)
Gain on disposals of equipment	3	1	2
Other, net	(14)	15	(29)
	$334	$ 146	$ 188

Our exposure to market risk fluctuations in foreign currency exchange rates relates to the operations of Vicor Japan Company, Ltd. ("VJCL"), for which the functional currency is the Japanese Yen, and all other subsidiaries in Europe and Asia, for which the functional currency is the U.S. Dollar. These other subsidiaries in Europe and Asia have experienced more favorable foreign currency exchange rate fluctuations in 2020 compared to 2019. Interest income decreased due to a decrease in interest rates.

Income before income taxes was $6,437,000 for the third quarter of 2020, as compared to $6,198,000 for the third quarter of 2019.

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The provision for income taxes and the effective income tax rates for the three months ended September 30, 2020 and 2019 were as follows (dollars in thousands):

	2020	2019
Provision for income taxes	$ 651	$266
Effective income tax rate	10.1%	4.3%

The effective tax rates were lower than the statutory tax rates for the three months ended September 30, 2020 and 2019 due primarily to the utilization of tax credits in 2020 and the combination of utilizing net operating loss carryforwards and tax credits in 2019. The provisions for income taxes in the three months ended September 30, 2020 and 2019 also included estimated foreign income taxes and estimated state taxes in jurisdictions in which the Company does not have net operating loss carryforwards.

See Note 9 to the Condensed Consolidated Financial Statements for disclosure regarding our current assessment of the valuation allowance against all domestic deferred tax assets, and the possible release (i.e., reduction) of the allowance in the future.

We reported net income for the third quarter of 2020 of $5,785,000, or $0.13 per diluted share, compared to net income of $5,937,000, or $0.14 per diluted share, for the third quarter of 2019.

Nine Months Ended September 30, 2020, Compared to Nine Months Ended September 30, 2019

Net revenues for the nine months ended September 30, 2020 were $212,274,000, an increase of $12,422,000, or 6.2%, from $199,852,000 for the nine months ended September 30, 2019. Net revenues, by product line, for the nine months ended September 30, 2020 and the nine months ended September 30, 2019 were as follows (dollars in thousands):

			Increase (decrease)	
	2020	2019	$	%
Brick Products	$139,638	$141,112	$ (1,474)	(1.0)%
Advanced Products	72,636	58,740	13,896	23.7%
Total	$212,274	$199,852	$12,422	6.2%

The increase in net revenues for the nine months ended September 30, 2020 from the nine months ended September 30, 2019 was primarily due to an overall 32.4% increase in bookings for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, principally due to an increase of 111.9% in new orders for Advanced Products.

Gross margin for the nine months ended September 30, 2020 decreased $2,209,000, or 2.4%, to $90,996,000 from $93,205,000 for the nine months ended September 30, 2019. Gross margin, as a percentage of net revenues, decreased to 42.9% for the nine month period ended September 30, 2020, as compared to 46.6% for the nine month period ended September 30, 2019. Despite higher net revenues for the nine-month period ended September 30, 2020, gross margin dollars and gross margin as a percentage of net revenues both decreased as compared to the nine-month period ended September 30, 2019, primarily due to an unfavorable change in product mix (i.e., a higher percentage of lower margin products were produced and shipped during the nine-month period ended September 30, 2020), a negative influence from production inefficiencies and cost variances, certain supply chain constraints associated with the COVID-19 pandemic, and higher tariff charges.

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Selling, general and administrative expenses were $47,036,000 for the nine months ended September 30, 2020, an increase of $1,190,000, or 2.6%, compared to $45,846,000 for the nine months ended September 30, 2019. Selling, general and administrative expenses as a percentage of net revenues decreased to 22.2% for the nine months ended September 30, 2020 from 22.9% for the nine months ended September 30, 2019, primarily due to the increase in net revenues. The components of the $1,190,000 increase in selling, general and administrative expenses for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 were as follows (dollars in thousands):

	Increase (decrease)	
Compensation	$ 2,349	8.2%(1)
Legal fees	468	46.7%(2)
Depreciation and amortization	241	11.7%(3)
Bad debt expense	161	116.7%
Outside services	(146)	(8.9)%
Facilities allocations	(186)	(14.5)%
Advertising expense	(252)	(11.2)%(4)
Travel expense	(1,397)	(61.8)%(5)
Other, net	(48)	(0.7)%
	$ 1,190	2.6%

(1) Increase primarily attributable to merit-based compensation increases for non-exempt hourly employees, increase in headcount and higher stock-based compensation expense associated with stock options awarded in June 2020.
(2) Increase primarily attributable to higher use of outside legal services associated with the December 2019 ransomware incident, which carried into the first quarter of 2020, and other corporate legal matters.
(3) Increase attributable to net additions of furniture and fixtures and capitalization of building improvements.
(4) Decrease primarily attributed to lower sales support expenses, direct mailings, and advertising in trade publications.
(5) Decrease primarily attributable to reduced travel by our sales and marketing personnel, due to travel restrictions caused by the COVID-19 pandemic.

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Research and development expenses were $38,197,000 for the nine months ended September 30, 2020, an increase of $3,764,000, or 10.9%, from $34,433,000 for the nine months ended September 30, 2019, primarily due to increased compensation expenses and expenses associated with project and pre-production materials. As a percentage of net revenues, research and development expenses increased to 18.0% for the nine month period ended September 30, 2020 from 17.2% for the nine month period ended September 30, 2019. The components of the $3,764,000 increase in research and development expenses for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 were as follows (dollars in thousands):

	Increase (decrease)	
Compensation	$2,088	8.4%(1)
Project and pre-production materials	1,122	23.7%(2)
Deferred costs	516	44.4%(3)
Other, net	38	0.6%
	$3,764	10.9%

(1) Increase primarily attributable to merit-based compensation increases for non-exempt hourly employees, increase in headcount, and higher stock-based compensation expense associated with stock options awarded in June 2020.
(2) Increase primarily attributable to higher spending for new product development of Advanced Products.
(3) Increase primarily attributable to a decrease in the capitalization of costs for certain non-recurring engineering projects for which the related revenues have been deferred.

The significant components of ''Other income (expense), net'' for the nine months ended September 30, 2020 and the nine months ended September 30, 2019 and the changes from period to period were as follows (in thousands):

	2020	2019	Increase (decrease)
Rental income	$594	$ 594	$ —
Interest income	77	236	(159)
Foreign currency gains (losses), net	23	(202)	225
Gain on disposals of equipment	9	23	(14)
Other, net	12	22	(10)
	$715	$ 673	$ 42

Our exposure to market risk fluctuations in foreign currency exchange rates relates to the operations of VJCL, for which the functional currency is the Japanese Yen, and all other subsidiaries in Europe and Asia, for which the functional currency is the U.S. Dollar. These other subsidiaries in Europe and Asia have experienced more favorable foreign currency exchange rate fluctuations in 2020 compared to 2019. Interest income decreased due to a decrease in interest rates.

Income before income taxes was $6,478,000 for the nine months ended September 30, 2020, as compared to $13,599,000 for the nine months ended September 30, 2019.

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The (benefit) provision for income taxes and the effective income tax rates for the nine months ended September 30, 2020 and 2019 were as follows (dollars in thousands):

	2020	2019
(Benefit) provision for income taxes	$(249)	$805
Effective income tax rate	(3.8)%	5.9%

The effective tax rates were lower than the statutory tax rates for the nine months ended September 30, 2020 and 2019 due primarily to the utilization of tax credits in 2020 and the combination of utilizing net operating loss carryforwards and tax credits in 2019. The net tax benefit for the nine months ended September 30, 2020 reflects the relatively high volume of stock options exercised during the period and the associated impact of excess benefits (and shortfalls) for those stock options exercised, and the utilization of available tax credits, noted above. The (benefit) provision for income taxes in the nine months ended September 30, 2020 and 2019 also included estimated foreign income taxes and estimated state taxes in jurisdictions in which the Company does not have net operating loss carryforwards.

See Note 9 to the Condensed Consolidated Financial Statements for disclosure regarding our current assessment of the valuation allowance against all domestic deferred tax assets, and the possible release (i.e., reduction) of the allowance in the future.

We reported net income for the nine months ended September 30, 2020 of $6,717,000, or $0.15 per diluted share, as compared to $12,786,000, or $0.31 per diluted share, for the nine months ended September 30, 2019.

Liquidity and Capital Resources

As of September 30, 2020, we had $203,605,000 in cash and cash equivalents. The ratio of total current assets to total current liabilities was 8.2:1 as of September 30, 2020 and 6.0:1 as of December 31, 2019. Working capital, defined as total current assets less total current liabilities, increased $122,648,000 to $271,784,000 as of September 30, 2020 from $149,136,000 as of December 31, 2019.

The changes in working capital from December 31, 2019 to September 30, 2020 were as follows (in thousands):

	Increase (decrease)
Cash and cash equivalents	$118,937
Accounts receivable	3,021
Inventories, net	8,982
Other current assets	(224)
Accounts payable	(2,906)
Accrued compensation and benefits	(2,838)
Accrued expenses	273
Short-term lease liabilities	(43)
Sales allowances	5
Income taxes payable	(5)
Short-term deferred revenue	(2,554)
	$122,648

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The primary sources of cash for the nine months ended September 30, 2020 were: (i) approximately $109.7 million of cash received in the form of net proceeds from the completion of the public offering of our Common Stock in June 2020, (ii) $15.2 million of cash generated through operating activities, and (iii) $10.8 million of cash received in connection with the exercise of options to purchase our Common Stock awarded under our stock option plans and the issuance of Common Stock under our 2017 Employee Stock Purchase Plan. The primary use of cash during the nine months ended September 30, 2020 was $16.8 million for the purchase of property and equipment.

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, 2020. As of September 30, 2020, we had approximately $8,541,000 remaining available for repurchases of our Common Stock under the November 2000 Plan.

As of September 30, 2020, we had approximately $12,595,000 of capital expenditure commitments, principally for manufacturing equipment, which we intend to fund with existing cash. In addition to these commitments, the Company had, in aggregate, approximately $63,800,000 of budgeted capital expenditures associated with the construction of a 90,000 sq. ft. addition to the Company's existing manufacturing facility and the installation of new production equipment. Our primary needs for liquidity are for making continuing investments in manufacturing equipment and for funding the construction of the additional manufacturing space adjoining our existing Andover manufacturing facility, noted above, including architectural and construction costs. We believe cash generated from operations together with our available cash and cash equivalents will be sufficient to fund planned operational needs, capital equipment purchases, and the planned construction, for the foreseeable future.

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, 2020, 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, 2020.

Our exposure to market risk for fluctuations in foreign currency exchange rates relates 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. The functional currency of all other subsidiaries in Europe and other subsidiaries in Asia is the U.S. Dollar. While we believe the risk of fluctuations in foreign currency exchange rates for these subsidiaries is generally not significant, they can be subject to substantial currency changes, and therefore 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, 2020). 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, 2020, 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.

(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, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Item 1 — Legal Proceedings

See Note 11. 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, 2019, except for the following additional risk factors, which supplement and, in some cases, update those risk factors discussed in our Form 10-K:

Our financial and operational performance has been and may continue to be negatively influenced by the consequences of the COVID-19 pandemic.

The COVID-19 pandemic and the response of governments worldwide to contain its spread negatively influenced our financial and operational performance for the three completed quarters of 2020, and future developments may have a potentially more substantial negative influence on our financial and operational performance over an unknown period of time. During the first quarter of 2020, we experienced certain supply chain constraints associated with COVID-19, and such constraints contributed to lower revenue, reduced shipments, production inefficiencies, reduced productivity, and higher costs. During the second quarter of 2020, we experienced similar pandemic-related circumstances, as the impact of the pandemic shifted from affecting primarily Asian, and principally Chinese, customers, distribution partners, and suppliers during the first quarter of 2020, to affecting primarily domestic customers, distribution partners, and suppliers during the second quarter of 2020. In March 2020, certain U.S. customers began curtailing new order placement, reflecting their own lowered sales or production forecasts, and this lower level of domestic orders continued through the second quarter, contributing to lower revenue from these domestic customers during the second and third quarters of 2020. New orders from domestic customers, notably our stocking distributors, rose during the third quarter of 2020, and new orders remained strong from Asian, notably Chinese, customers, reflecting the relative strength of economic activity across that region. However, given the continued uncertainty surrounding the COVID-19 pandemic, there can be no assurance that future circumstances associated with the pandemic will not have a materially negative influence on our future financial and operational performance.

We have taken action to protect the health and safety of our workforce, the costs of which, to date, have not had a material effect on our financial performance. We expect to maintain the measures put in place until we determine the COVID-19 pandemic is adequately contained for purposes of our business, and we may take further actions we consider to be in the best interests of our employees, customers, business partners, and suppliers or in response to government mandate or requirement. Such further actions may have a negative influence on our costs and productivity and, in turn, our financial and operational performance.

Our customers, business partners, and suppliers have been and may continue to be adversely affected by the COVID-19 pandemic, which also may contribute to a negative influence on our future financial and operational performance.

The expansion of the production area of our Andover manufacturing facility may result in disruptions, delays, or cost increases.

We have been making and will continue to make capital investments for the expansion of manufacturing capacity for the production of Advanced Products at our Andover facility. Based on our extended long-term volume forecast, we anticipate additional capacity will be required to meet expected requirements. We believe the most appropriate manner of meeting our long-term capacity requirements will be to initially expand the production area of our Andover facility by approximately 90,000 square feet, through the addition of a two-story wing. In December 2019, we acquired, for approximately $1.5 million, approximately three acres adjacent to our facility to accommodate our Andover facility expansion. During the second quarter of 2020, we began construction of the approximately 90,000 square feet addition to our existing plant, and that construction continues on schedule.

Construction activity can be difficult to schedule, and construction sites can present management and operational challenges. As such, given the proximity of the addition to our existing operations, this construction activity has the potential to disrupt our current operations, which could cause production to be delayed and costs to increase.

We continue to invest in our production machinery and equipment in order to enhance the efficiency and capacity of our current manufacturing capabilities. However, sustained, uniform, high-volume production levels may not be achievable due to difficulties in planning, implementing, or executing such improvements. In such event, our product-level profitability may not reach the levels necessary to adequately cover manufacturing costs and operating expenses. Similarly, our estimates for revenue capacity generated through capital expenditures on our existing machinery and facility (or the possible construction of any new facilities) may not meet management expectations.

In addition, once the facility expansion is completed, we may not experience the anticipated operating efficiencies as we commence manufacturing operations within the newly-expanded facility. Any delay in achieving anticipated operating efficiencies associated with added capacity may cause manufacturing costs to be higher than expected for some period of time, thereby potentially negatively influencing our operating and financial results.

We may experience challenges in implementing the manufacturing processes we expect to be transitioning from an external third-party partner to a dedicated, internal capability. This transition will require near-term development of new operational competencies, and if such development is delayed, we may experience reduced manufacturing yields, delays in product deliveries, and/or increased expenses as we develop these competencies.

The scheduled facility expansion described above includes installation of certain equipment and implementation of certain manufacturing steps associated with manufacturing processes we currently outsource to a third-party partner. These manufacturing processes are associated with a proprietary packaging approach requiring complex metal surface finishing using advanced, environmentally safe technologies. Given our volume expectations and the proprietary elements of these processes, we have chosen to accelerate the development of a captive capacity that we expect will exceed the capacity currently available from our third-party partner. Today, we own and operate, with our employees, certain equipment on premises at our third-party partner and, as such, have established a level of operational competencies we believe will enable us to successfully install and implement these manufacturing processes internally.

We previously entered into a supply agreement with the third-party partner providing for technology and process transfer, including the purchase of uniquely enabling equipment developed by the third-party partner. We expect to rely on our third-party partner for production requirements through the installation and qualification of the equipment. We also expect to rely on our third-party partner in the future for surge capacity requirements. If we are unable to complete our expansion in a timely manner, or if we are unable to implement the new manufacturing processes, we may not be able to achieve the capacity anticipated and, as a result, may experience reduced manufacturing yields, delays in product deliveries, and/or increased expenses, which would negatively influence our financial condition and results of operations. In addition, any interruptions to or issues with our relationships with third-party partners may negatively influence our manufacturing yields and revenue capacities.

Item 6 — Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, dated February 28, 1990 (1)
3.2	Certificate of Ownership and Merger Merging Westcor Corporation, a Delaware Corporation, into Vicor Corporation, a Delaware corporation, dated December 3, 1990 (1)
3.3	Certificate of Amendment of Restated Certificate of Incorporation, dated May 10, 1991 (1)
3.4	Certificate of Amendment of Restated Certificate of Incorporation, dated June 23, 1992 (1)
3.5	Bylaws, as amended (2)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.

Vicor Corporation
Part II – Other Information
September 30, 2020

32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(1) Filed as an exhibit to the Company’s Annual Report on Form 10-K filed on March 29, 2001 (File No. 000-18277) and incorporated herein by reference.
(2) Filed as an exhibit to the Company’s Current Report on Form 8-K filed on June 4, 2020 (File No. 000-18277) and incorporated herein by reference.

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 30, 2020	By: /s/ Patrizio Vinciarelli Patrizio Vinciarelli Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
Date: October 30, 2020	By: /s/ James A. Simms James A. Simms Vice President, Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Patrizio Vinciarelli, certify:

1. I have reviewed this quarterly report on Form 10-Q of Vicor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: October 30, 2020

/s/ Patrizio Vinciarelli

Patrizio Vinciarelli
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, James A. Simms, certify:

1. I have reviewed this quarterly report on Form 10-Q of Vicor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 30, 2020

/s/ James A. Simms

James A. Simms
Vice President, Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vicor Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Patrizio Vinciarelli, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrizio Vinciarelli
Patrizio Vinciarelli
President, Chairman of the Board and
Chief Executive Officer

October 30, 2020

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vicor Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James A. Simms, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James A. Simms
James A. Simms
Vice President, Chief Financial Officer

October 30, 2020

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.