VICOR CORP
Form 10-K
March 19, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2007
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

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

Delaware	**04-2742817**
(State or other jurisdiction of incorporation or organization)	*(IRS employer identification no.)*
25 Frontage Road, Andover, Massachusetts	**01810**
(Address of principal executive offices)	*(Zip code)*

Registrant s telephone number, including area code:
(978) 470-2900

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

Common Stock, $.01 par Value	**The NASDAQ Stock Market, LLC**
(Title of Class)	*(Name of Each Exchange on Which Registered)*

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $260,538,271 as of June 30, 2007.

On February 29, 2008, there were 29,851,286 shares of Common Stock outstanding and 11,785,052 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive proxy statement (the Definitive Proxy Statement) to be filed with the Securities and Exchange Commission pursuant to Regulation 14A and relating to the Company s 2008 annual meeting of stockholders are incorporated by reference into Part III.

TABLE OF CONTENTS

Table of Contents

PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words believes, expects, anticipates, intend, estimate, plans, assumes, may, will, would, should, cor project, and other similar expressions identify forward-looking statements. Forward-looking statements also include statements regarding the derivation of a substantial portion of the Company s sales in each quarter from orders booked in the same quarter, the Company s plans to invest in research and development and manufacturing equipment, the Company s belief regarding market risk being mitigated because of limited foreign exchange fluctuation exposure, the Company s continued success depending in part on its ability to attract and retain qualified personnel, the Company s belief that cash generated from operations and the total of its cash and cash equivalents and short-term investments will be sufficient for the foreseeable future, the Company s intention regarding protecting its rights under its patents and the Company s expectation that no current litigation or claims will have a material adverse impact on its financial position or results of operations. These statements are based upon the Company s current expectations and estimates as to the prospective events and circumstances which may or may not be within the Company s control and as to which there can be no assurance. Actual results could differ materially from those projected in the forward-looking statements as a result of various factors, including our ability to develop and market new products and technologies cost effectively, to leverage design wins into increased product sales, to continue to make progress with key customers and prospects, to decrease manufacturing costs, to enter into licensing agreements that amplify the market opportunity and accelerate market penetration, to realize significant royalties under license agreements, to achieve a sustainable increased bookings rate over a longer period, to hire key personnel and to continue to build our three business units, to successfully enforce our intellectual property rights, to successfully defend outstanding litigation, to successfully leverage the V*I Chips in standard products to promote market acceptance of Factorized Power, to develop or maintain an effective system of internal controls, to obtain required financial information for certain investments on a timely basis, and factors impacting the Company s various end markets, the impact of write-downs in the value of assets, the effects of equity accounting with respect to certain affiliates, the failure of auction rate securities to sell at their reset dates as well as those factors described in the risk factors set forth in this Annual Report on Form 10-K under Part I, Item I Business, Competition, Patents, and Licensing, under Part I, Item 1A Risk Factors, Item 3 Legal Proceedings, and under Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations. The risk factors contained in this report may not be exhaustive. Therefore, the information contained in this report should be read together with other reports and documents that the Company files with the Securities and Exchange Commission from time to time, including Forms 10-Q, and 8-K, which may supplement, modify, supersede or update those risk factors. The Company does not undertake any obligation to update any forward-looking statements as a result of future events or developments.

ITEM 1 *BUSINESS*

The Company

Vicor Corporation was incorporated in Delaware in 1981. Unless the context indicates otherwise, the term Company or Vicor mean Vicor Corporation and its consolidated subsidiaries. The Company designs, develops, manufactures and markets modular power components and complete power systems, many of which use an innovative, high frequency electronic power conversion technology called zero current and zero voltage switching. In April 2003, the Company announced the introduction of a new power system architecture based on an array of proprietary power conversion technologies called Factorized Power Architecture (FPA). The Company believes FPA will provide power system designers with enhanced performance at a lower cost than attained with conventional Distributed Power Architecture (DPA). The Company s principal product lines are covered by one or more United States and foreign patents. Power systems, a central element in any electronic system, convert power from a primary power source (e.g., a wall outlet or battery source) into the stable DC voltages that are required by most contemporary electronic circuits.

Table of Contents

In 1986, the Company formed Westcor Corporation (Westcor). During 1990, Westcor was merged into the Company and became a division. Westcor manufactures configurable products at its location in Sunnyvale, California. In 1987, the Company formed VLT Corporation as its licensing subsidiary. During 2000, the Company reincorporated VLT Corporation in California by merging it with and into VLT, Inc., a wholly owned subsidiary of the Company. In 1990, the Company established a Technical Support Center in Germany. In 1995, the Company established Technical Support Centers in France, Italy, Hong Kong, and England. Also in 1995, the Company established Vicor Integration Architects (VIAs), most of which are majority-owned subsidiaries. VIAs provide customers with local design and manufacturing services for turnkey custom power solutions. At December 31, 2007 there were six (6) VIAs operating in the United States. In 1996, the Company established Vicor B.V., a Netherlands company, which serves as a European Distribution Center. In 1998, the Company acquired the principal assets of the switching power supply businesses owned by the Japan Tobacco, Inc. group and established a direct presence in Japan through a new subsidiary called Vicor Japan Company, Ltd. (VJCL). VJCL markets and sells the Company s products and provides customer support in Japan. In 2001, the Company established Picor Corporation (Picor), a subsidiary which designs, develops and markets Power Management Integrated Circuits and related products for use in a variety of power system applications. Picor develops these products to be sold as part of Vicor s products or to third parties for separate applications. In 2007, the Company established V*I Chip Corporation as a wholly-owned subsidiary of Vicor which designs, develops, manufactures and markets the Company s FPA products. The Company s Common Stock became publicly traded on the NASDAQ National Market System in April 1990. All of the above named entities are consolidated in the Company s financial statements.

The Company maintains a website with the address www.vicorpower.com. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. The information contained on our website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K.

The Products

Power systems are incorporated into virtually all electronic products, such as computers and telecommunications equipment, to convert electric power from a primary source, for example a wall outlet or battery source, into the stable DC voltages required by electronic circuits. Because power systems are arranged in a myriad of application-specific configurations, the Company s basic strategy is to exploit the density and performance advantages of its technology by offering comprehensive families of economical, component-level building blocks which can be used to configure a power system specific to a user s needs. In addition to component-level power converters, which serve as modular power system building blocks, the Company also manufactures and sells complete configurable power systems, accessory products, and custom power solutions. The Company has organized its business segments according to its key product lines. The Brick Business Unit segment (BBU or Brick) designs, develops, manufactures and markets the Company s modular power converters and configurable products, and includes the operations of the Company s Westcor division, VIAs and VJCL. The V*I Chip segment consists of V*I Chip Corporation, a wholly owned subsidiary which designs, develops, manufactures and markets the Company s FPA products. The Picor segment consists of Picor Corporation, a majority-owned subsidiary of Vicor, which designs, develops, manufactures and markets Power Management Integrated Circuits and related products for use in a variety of power system applications. Picor develops these products to be sold as part of Vicor s products or to third parties for separate applications. The Company s principal product lines include:

Brick Products

Modular Power Converters

The Company currently offers seven families of component-level DC-DC power converters: the VI-200, VI-J00, MI-200, MI-J00, Maxi, Mini and Micro families. Designed to be mounted directly on a printed circuit board assembly and soldered in place using contemporary manufacturing processes, each family comprises a

Table of Contents

comprehensive set of products which are offered in a wide range of input voltage, output voltage and power ratings. This allows end users to select products appropriate to their individual applications. The product families differ in maximum power ratings, performance characteristics, package size and, in certain cases, in target market.

Since 1998, the Company has introduced four input series of its high power density, component-level DC-DC converters in three standard packages: the full size (Maxi), the half size (Mini) and the quarter size (Micro), along with military-commercial-off-the-shelf (MIL-COTS) products. In 1998, the 48 Volt input series was introduced, which was designed for the telecommunications market as well as for distributed power systems. Output power levels from 50 to 500 Watts are covered by these products. In 1999, this was followed by two additional series: a 300 Volt input for off-line (rectified 115 or 230 Volt ac) and distributed power applications, and a 375 Volt input specifically designed for use in power factor corrected systems. This latter series increased the power available to 600 Watts. In 2001, a 24 Volt input series was added to the standard product line to address additional telecommunications, industrial and defense market opportunities. The Company has undergone a process of converting these products to the new FasTrak platform that was completed in the first quarter of 2006. The conversion to FasTrak has resulted in lower unit costs, improved manufacturing yields, improved field reliability and improved gross margins.

The Vicor Design Assistance Computer (VDAC), a core component of the Vicor PowerBench tool suite, was introduced for general use in 2000 and is a proprietary system, which enables Vicor s customers to specify on-line, and verify in real time, the performance and attributes of its Maxi, Mini, Micro and MIL-COTS DC-DC converters. Using patented technology, VDAC enables the design of DC-DC converters with any output voltage between 2 and 48 Volts and with any input voltage from 18 to 425 Volts, with an input voltage range of up to 2.1:1, available in all of the Vicor established brick standards, full-, half- and quarter-size. Output power is selectable over a continuous range of 20 to 500 Watts per module and modules can be configured in fault-tolerant arrays capable of delivering several kilowatts.

Configurable Products

Utilizing its standard converters as core elements, the Company has developed several product families, which provide complete power solutions configured to a customer s specific needs. These products exploit the benefits of the component-level approach to offer higher performance, higher power densities, lower costs, greater flexibility and faster delivery than traditional competitive offerings.

Most process control, information technology (IT) and industrial electronic products operate directly off of AC lines. Off-line power systems require front end circuitry to convert AC line voltage into DC voltage for the core converters. The Company s off-line AC-DC products incorporate a set of modular front-end subassemblies to offer a complete power solution from AC line input to highly regulated DC output. The product selection includes a low-profile modular design in various sizes and power levels, and a choice of alternatives to conventional box switchers, high power, off-line bulk supplies in industry-standard packages. Voltage and power levels can be either factory or field configurable.

Many telecommunications, defense and transportation electronic products are powered from central DC sources (battery plants or generators). The Company s DC-DC power system choices include a low-profile modular design similar to the corresponding AC-DC system and a rugged, compact assembly for chassis-mounted, bulk power applications.

In February 2001, the Company introduced the VIPAC family of power systems, a class of user defined, modular power solutions. VIPAC is a type of integrated power system leveraging the latest advances in Maxi, Mini, and Micro DC-DC converter technology and modular front ends. VIPAC combines application specific front end units, a choice of chassis styles and, in AC input versions, remotely located hold-up capacitors to provide fast, flexible and highly reliable power solutions for a wide range of demanding applications.

The web-based Vicor Computer Aided Design tool, also a component of Vicor PowerBench, can be utilized by the customer to specify and verify, in real time, that customer s desired VIPAC configuration. The

Table of Contents

Vicor PowerBench system enables the design of a custom configured VIPAC product from all available combinations of inputs, outputs, chassis and optional features.

Accessory Power System Components

Accessory power system components, used with the Company s component-level power converters, integrate other important functions of the power system, facilitating the design of complete power systems by interconnecting several modules. In general, accessory products are used to condition the inputs and outputs of the Company s modular power components.

VI-HAMs (Harmonic Attenuator Modules) are universal-AC-input, power-factor-correcting front ends for use with compatible power converters. VI-AIMs (AC Input Modules) provide input filtering, transient protection and rectification of the AC line. VI-IAMs (Input Attenuator Modules) provide the DC input filtering and transient protection required in industrial and telecommunications markets. VI-RAMs (Ripple Attenuator Modules) condition converter module outputs for extremely low noise systems. In 1998, the Company doubled the power capability of its component-level AC front end, the VI-ARM (AC Rectifier Module). This front end product is packaged in the same Micro package and includes a microcontroller that tracks the AC line to ensure correct operation for domestic or international line voltages. In addition, two accessory products for the 48 Volt input Maxi, Mini, and Micro family were introduced in 1999: the FiltMod for input filtering and the IAM48 for transient and spike protection. In 2000, the FARM and FIAM were introduced. The FARM combines autoranging AC input capability with filtering to simplify the design of AC-DC systems. The FIAM combines filtering and transient suppression for 48 volt input applications. In 2005, the High-Boost HAM was introduced. This product can be combined with standard Maxi, Mini and Micro DC-DC converters, greatly improving power density and cost effectiveness in AC-DC designs.

Customer Specific Products

Since its inception, the Company has accepted a certain amount of custom power supply business. In most cases, the customer was unable to obtain a conventional solution that could achieve the desired level of performance in the available space. By utilizing its component-level power products as core elements in developing most of these products, the Company was able to meet the customer s needs with a reliable, high power density, total solution. However, in keeping with the Company s strategy of focusing on sales of standard families of component-level power building blocks, custom product sales have not been directly pursued. The Company has traditionally pursued these custom opportunities through Value-Added-Resellers (VARs) and a network of VIAs (see Part I, Item 1 Business The Company). Most of the VIAs are majority owned by the Company, while VARs are independent businesses. Both VIAs and VARs are distributed geographically and are in close proximity to many of their customers.

V*I Chip Products

In April 2003, the Company announced the introduction of a new power system architecture based on an array of proprietary power conversion technologies called Factorized Power Architecture (FPA). The Company believes FPA will provide power system designers with enhanced performance at a lower cost than attained with conventional DPA. Factorized Power maximizes the competitiveness of a power system with a high degree of systems flexibility, power density, conversion efficiency, transient responsiveness, noise performance and reliability. FPA is enabled by power conversion components called V*I Chips or VICs . V*I Chips deliver up to 320 Watts of power in a surface-mount (SMD) J-lead package occupying less than 0.3 cubic-inch of space, with power densities up to 1,100 Watts per cubic-inch, which represents a seven to eight times improvement over the Company s Maxi, Mini and Micro products.

In May 2003, the Company introduced the first family of products based on this new technology, 48 Volt to 12 Volt Bus Converter Modules (BCM) for conventional Intermediate Bus Architecture applications. In July 2003, the

Company introduced its first V*I Chip^{tm} Voltage Transformation Module (VTM). VTMs are designed to meet the demands of advanced Digital Signal Processors (DSP), Field Programmable Gate Arrays (FPGA), Application Specific Integrated Circuits (ASIC), processor cores and microprocessor

Table of Contents

applications at the point of load (POL) while providing isolation from input to output. They may be paralleled to deliver hundreds of Amperes. In January 2004, the Company announced the availability of the first members of its 48 Volt Intermediate Bus Converter Modules (IBCs). Offered in standard 1/4 brick format and operating from a 38-55 Volt DC input, the IBC family consists of ten fixed ratio standard models with nominal outputs from 3 to 48 Volt DC delivering up to 100 Amperes or 600 Watts. Additional VTM and BCM products were introduced throughout 2004.

In 2005, the Company completed the matrix of 48 Volt V*I Chips: the 36-75 Volt input Pre-Regulator Module (PRM), which can operate from the wide DC input voltages normally encountered in telecommunications systems and the complete line of VTMs compatible with this PRM. With these devices, 48 Volt FPA systems can be implemented with regulated and isolated outputs between 0.8-55 Volt DC. In addition, several V I Chip specialty products were designed for and delivered to specific customers for them to evaluate for use in potential applications where V I Chips can enable significant market advantages. High voltage (380 volts) BCM products were introduced to provide power factor correction to processor down conversion. MIL COTS rated products for defense applications were qualified and released for production in 2007.

Picor Products

In 2002, the MicroRAM (µRAM) was introduced. This product, designed by the Company s Picor subsidiary, performs a function similar to the VI-RAM product in a smaller package at a lower price. In 2003, Picor introduced two new families of products, the QPO (QuietPower^{tm} Output Ripple Attenuation SiP) and QPI (QuietPower^{tm} 12 Amp Active EMI Filter for DC-DC Converters). The QPO performs a similar function to the µRAM in a smaller, lower cost surface mount package. Different QPO models allow customers to solve unique output noise problems. The QPI filters unwanted Electro-Magnetic Interference (EMI) from the input supply bus. The product is targeted at the telecom market and the emerging Advanced Telecommunication Computing Architecture (ATCA) segment. In 2004, Picor expanded its QPI product offerings to include several new products targeted at 24 Volt industrial and military COTS voltage bus supplies. In 2005, Picor introduced the QPI-8, the industry s first System-in-a-Package (SiP) device designed to integrate the total hot-swap function with an active EMI filter. This integrated device enables live insertion of plug-in cards and simultaneous EMI noise suppression for DC-DC converter applications.

Sales and Marketing

The Company sells its products through a network of 28 independent sales representative organizations in North and South America and internationally, through 36 independent distributors. Sales activities are managed by a staff of Area Directors and Regional and National Account Sales Managers and sales personnel based at the Company s world headquarters in Andover, Massachusetts, its Westcor division in Sunnyvale, California, a Technical Support Center in Lombard, Illinois, a VIA location in Oceanside, California, in its Technical Support Center subsidiaries in Munich, Germany; Camberley Surrey, England; Milan, Italy; Paris, France; Hong Kong and in its subsidiary in Tokyo, Japan.

Export sales, as a percentage of total net revenues, were approximately 37% in 2007 and 2006, and 42%, in 2005, respectively.

Because of the technical nature of the Company s product lines, the Company engages a staff of Field Applications Engineers to support the Company s sales activities. Field Application Engineers provide direct technical sales support worldwide to existing and potential customers by reviewing new applications and technical matters with existing and potential customers. Product Specialists (Product Line Engineers) located in Andover , Massachusetts support field application engineers assigned to all company locations. The Company generally warrants its products for a period of two years.

The Company also sells directly to customers through Vicor Express, an in-house distribution group. Through advertising and periodic mailing of its catalogs, Vicor Express generally offers customers rapid delivery on small quantities of many standard products. The Company, through Vicor B.V., has Vicor Express operations in Germany, France, Italy and England.

Table of Contents

Customers and Applications

The Company s customer base is comprised of large Original Equipment Manufacturers (OEMs) and smaller, lower-volume users that are broadly distributed across several major market areas.

Some examples of the diverse applications of the Company s products are:

Telecommunications:
Central Office Systems
Fiber Optic Systems
Cellular Telecommunications
Microwave Communications
ATM Switches
Paging Equipment
Broadcast Equipment
Remote Telemetry Equipment
Cable Head End Equipment
Power Amplifiers

Industrial:
Process Control Equipment
Medical Equipment
Seismic Equipment
Test Equipment
Transportation Systems
Agricultural Equipment
Material Handling Equipment
Marine Products
Commercial Avionics

Military/Defense:
Secure Communications Equipment
Unmanned Airborne/Remotely Piloted Vehicles
Aircraft/Weapons Test Equipment
Ruggedized Computers
Electronic Warfare Equipment
Reconnaissance/Targeting Systems
Global Positioning Systems
Missile Defense Systems
Radio/Telemetry Systems
NBC Detection Equipment

Information Technology:
RAID Systems
Parallel Processors
Data Storage Systems
Network Servers
Enterprise Servers
File Servers
Optical Switches

For the years ended December 31, 2007, 2006 and 2005, no single customer accounted for more than 10% of net revenues.

Backlog

As of December 31, 2007, the Company had a backlog of approximately $46.7 million compared to $36.4 million at December 31, 2006. Backlog is comprised of orders for products, which have a scheduled shipment date within the next 12 months. The Company believes that a substantial portion of sales in each quarter is, and will continue to be, derived from orders booked in the same quarter.

Research and Development

As a basic element of its long-term strategy, the Company is committed to the continued advancement of power conversion technology and power component product development. The Company s research and development efforts are focused in four areas: continued enhancement of the Company s patented technology; expansion of the Company s families of component level DC-DC converter products; development of the new FPA products and power management integrated circuits; and continued development of configurable products based upon market opportunities. The Company invested approximately $30.4 million, $31.4 million and $29.5 million in research and development in 2007, 2006 and 2005, respectively. Investment in research and development represented 15.5%, 16.3% and 16.4% of net revenues in 2007, 2006 and 2005, respectively. The Company plans to continue to invest a significant percentage of revenues into research and development.

Table of Contents

Manufacturing

The Company s principal manufacturing processes consist of assembly of electronic components onto printed circuit boards, automatic testing of components, wave, reflow and infrared soldering of assembled components, encapsulation of converter subassemblies, final environmental stress screening of certain products and product test using automatic test equipment.

The Company continues to pursue a strategy based upon the phased acquisition and/or fabrication, qualification and integration of automated manufacturing equipment to reduce manufacturing costs, increase product quality and reliability and enable rapid and effective expansion of capacity, as needed. The Company plans to make continuing investments in manufacturing equipment, particularly for the Company s new FPA products (see Part I, Item I The Products Factorized Power Architecture) and replacement of aging manufacturing equipment utilized by the Brick Business Unit.

Components used in the Company s products are purchased from a variety of vendors. Most of the components are available from multiple sources. In instances of single source items, the Company maintains levels of inventories it considers to be appropriate to enable it to meet delivery requirements of customers. Incoming components, assemblies and other parts are subjected to several levels of inspection procedures.

Compliance by the Company with applicable environmental laws has not had a material effect on the financial condition or results of operations of the Company.

Competition

The power conversion industry is highly competitive. Many power supply manufacturers target markets similar to those of the Company. Representative examples of these manufacturers are: Lambda Electronics, a subsidiary of TDK Corporation; Lineage Power (formerly Tyco Electronics Power Systems, now owned by the Gores Group); Artesyn Technologies and Astec Power, subsidiaries of Emerson Electric Co., Power-One, Inc., and Murata Power Solutions, a subsidiary of Murata Manufacturing Co. Although certain of the Company s competitors have significantly greater financial and marketing resources and longer operating histories than the Company, the Company believes that it has a strong competitive position, particularly with customers who need small, high density power system solutions requiring a variety of input-output configurations. The Company bases its competitive strategy on technical innovation, product performance, service and technical support, and in offering a broad product line. The principal methods of competition in the markets in which the Company s products compete are price, performance and the level of service and technical support offered.

Patents

The Company believes that its patents afford advantages by building fundamental and multilayered barriers to competitive encroachment upon key features and performance benefits of its principal product families. The Company s patents cover the fundamental conversion topologies used to achieve the performance attributes of its converter product lines; converter array architectures which are the basis of the products parallelability ; product packaging design; product construction; high frequency magnetic structures; and automated equipment and methods for circuit and product assembly.

The Company has been issued 105 patents in the United States (which expire between 2008 and 2025), and 2 in Far East (which expire in 2008). The Company also has a number of patent applications pending in the United States, Europe and the Far East. The Company intends to vigorously protect its rights under its patents. Although the Company believes that patents are an effective way of protecting its technology, there can be no assurances that the

Company s patents will prove to be enforceable (see, e.g., Part I, Item 3 Legal Proceedings). While some of the Company s patents are deemed materially important to the Company s operations, the Company believes that no one patent is essential to the success of the Company.

Licensing

In addition to generating revenue from product sales, licensing is an element of the Company s strategy for building worldwide product and technology acceptance and market share. In granting licenses, the

Table of Contents

Company generally retains the right to use its patented technologies, and manufacture and sell its products, in all licensed geographic areas and fields of use. Licenses are granted and administered through the Company s wholly-owned subsidiary, VLT, Inc., which owns the Company s patents. Revenues from licensing arrangements have not exceeded 10% of the Company s consolidated revenues in any of the last three fiscal years.

Employees

As of December 31, 2007, the Company employed approximately 1,036 full time and 78 part time people. The Company believes that its continued success depends, in part, on its ability to attract and retain qualified personnel. Although there is strong demand for qualified technical personnel, the Company has not to date experienced difficulty in attracting and retaining sufficient engineering and technical personnel to meet its needs (see Part I, Item IA Risk Factors).

None of the Company s employees are subject to a collective bargaining agreement.

ITEM 1A ***RISK FACTORS***

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, the risk factors set forth below.

Our future operating results are subject to fluctuations.

Our future operating results may be materially affected by a number of factors, including the level of orders and demand from customers, the timing of new product announcements or introductions by us or our competitors, the ability to achieve and/or maintain yield improvements and cost reductions particularly with Maxi, Mini, Micro and FPA products, achieving increased sales of FPA products, changes in the product mix, and changes in economic conditions in the United States and international markets. As a result of these and other factors, we cannot assure you that we will not experience significant fluctuations in future operating results on a quarterly or annual basis.

Our future success depends upon our ability to develop and market leading-edge, cost effective products.

The power supply industry and the industries in which many of our customers operate are characterized by intense competition, rapid technological change, product obsolescence and price erosion for mature products, each of which could have an adverse effect on our results of operations. If we fail to continue to develop and commercialize leading-edge technologies and products that are cost effective and maintain high standards of quality, our competitive position and results of operations could be materially adversely affected. Specifically, we may not be successful in leveraging the V*I Chips in standard products to promote market acceptance of Factorized Power.

Our future operating results are dependent on the growth in our customers businesses.

We manufacture modular power components and power systems that are incorporated into our customers electronic products. Our growth is therefore dependent on the growth in the sales of our customers products as well as the development by our customers of new products. If we fail to anticipate changes in our customers businesses and their changing product needs, our results of operations and financial position could be negatively impacted.

If we were unable to use our manufacturing facility in Andover, Massachusetts, we would not be able to manufacture for an extended period of time.

All modular power components, whether for direct sale to customers or for sale to our subsidiaries for incorporation into their respective products, are manufactured at our Andover, Massachusetts production facility. Damage to this facility due to fire, natural disaster, power loss or other events could cause us to cease manufacturing. Any prolonged inability to utilize all or a significant portion of this facility could have a material adverse effect on our results of operations.

We may not be able to procure necessary key components for our products, or we may purchase too much inventory or the wrong inventory.

The power supply industry, and the electronics industry as a whole, can be subject to business cycles. During periods of growth, key components required to build our products may become unavailable in the timeframe required for us to meet our customers demands. Our inability to secure sufficient components to build products for our customers could negatively impact our sales and operating results. We may choose to mitigate this risk by increasing the levels of inventory for certain key components. Increased inventory levels can increase the potential risk for excess and obsolescence should our forecasts fail to materialize or if there are negative factors impacting our customers end markets. If we purchase too much inventory or the wrong inventory, we may have to record additional inventory reserves or write-off the inventory, which could have a material adverse effect on our gross margins and on our results of operations.

Our revenues may not increase enough to offset the expense of additional capacity.

We have made significant additions to our manufacturing equipment and capacity over the past several years, including equipment for FPA products and the FasTrak platform. If overall revenue levels do not increase enough to offset the increased fixed costs, or significant revenues do not materialize for the FPA products or if there is deterioration in our business, our future operating results could be adversely affected. In addition, asset values could be impaired if the additional capacity is underutilized for an extended period of time resulting in a material adverse effect on our financial position and results of operations.

We rely on third-party suppliers and subcontractors for components and assemblies and, therefore, cannot control their availability or quality.

We depend on third party suppliers and subcontractors to provide components and assemblies used in our products, some of which are sole-sourced. If suppliers or subcontractors cannot provide their products or services on time or to our specifications, we may not be able to meet the demand for our products and our delivery times may be negatively affected. In addition, we cannot directly control the quality of the products and services provided by third parties. In order to grow, we may need to find new or change existing suppliers and subcontractors. This could cause disruptions in production, delays in the shipping of product or increases in prices paid to third-parties.

We are exposed to economic, political and other risks through our foreign sales and distributors.

International sales have been and are expected to be a significant component of total sales. Dependence on foreign third parties for sales and distribution is subject to special risks, such as foreign economic and political instability, foreign currency controls and market fluctuations, trade barriers and tariffs, foreign regulations and exchange rates. Sudden or unexpected changes in the foregoing could have a material adverse effect on our results of operations.

Our ability to successfully implement our business strategy may be limited if we do not retain our key personnel and attract and retain skilled and experienced personnel.

Our success depends on our ability to retain the services of our executive officers. The loss of one or more members of senior management could materially adversely affect our business and financial results. In particular, we are dependent on the services of Dr. Patrizio Vinciarelli, our founder, Chairman, President and Chief Executive Officer. The loss of the services of Dr. Vinciarelli could have a material adverse effect on our development of new products and on our results of operations. In addition, we depend on highly skilled engineers and other personnel with technical skills that are in high demand and are difficult to replace. Our continued operations and growth depend on our ability to attract and retain skilled and experienced personnel

Table of Contents

in a very competitive employment market. If we are unable to attract and retain these employees, our ability to successfully implement our business strategy may be harmed.

We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively.

We operate in an industry in which the ability to compete depends on the development or acquisition of proprietary technologies which must be protected to preserve the exclusive use of such technologies. We devote substantial resources to establish and protect our patents and proprietary rights, and we rely on patent and intellectual property law to protect such rights. This protection, however, may not prevent competitors from independently developing products similar or superior to our products. We may be unable to protect or enforce current patents, may rely on unpatented technology that competitors could restrict, or may be unable to acquire patents in the future, and this may have a material adverse affect on our competitive position. In addition, the intellectual property laws of foreign countries may not protect our rights to the same extent as those of the United States. We have been and may need to continue to defend or challenge patents. We have incurred and expect to incur significant costs in and devote significant resources to these efforts which, if unsuccessful, may have a material adverse effect on our results of operations and financial position.

We may face intellectual property infringement claims that could be costly to resolve.

We may in the future receive communications from third parties asserting that our products or manufacturing processes infringe on a third party s patent or other intellectual property rights. In the event a third party makes a valid intellectual property claim against us and a license is not available to us on commercially reasonable terms, or at all, we could be forced to either redesign or stop production of products incorporating that technology, and our operating results could be materially and adversely affected. In addition, litigation may be necessary to defend us against claims of infringement, and this litigation could be costly and divert the attention of key personnel. An adverse outcome in these types of matters could have a material adverse impact on the results of our operations and financial condition.

We may face legal claims and litigation that could be costly to resolve.

We may in the future encounter legal action from customers, vendors or others concerning product warranty or other claims. We have ongoing litigation with several customers and vendors over product warranty matters, which are fully described in Part I, Item 3 Legal Proceedings . Such litigation is costly and diverts the attention of key personnel. An adverse outcome in these current or future matters could have a material adverse impact on the results of our operations and financial condition.

If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud or to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified.

Our management determined that we did not maintain effective internal control over financial reporting as of December 31, 2007 and 2006 because a material weakness in internal control over financial reporting existed. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Specifically, we determined that our accounting department did not have sufficient experienced personnel and resources with the requisite technical skills to address complex and judgmental accounting, tax and financial reporting matters within the financial statement close process, including accounting for the Company s related-party investment in Great Wall Semiconductor Corporation, accounting for income taxes, accounting for complex revenue transactions, and accounting for judgmental accrued liabilities.

Our plans to improve the effectiveness of our internal controls and processes are in process. We cannot assure you that the measures we have taken to date or any future measures will remediate the material

Table of Contents

weaknesses reported by our management. Further, additional deficiencies in our internal controls may be discovered in the future. If we fail to achieve and maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our financial results, prevent or detect fraud, or provide timely and reliable financial information, which could have a material adverse effect on our business, results of operations or financial condition. In fact, the Company did not file its June 30, 2007 and September 30, 2007 quarterly reports on Form 10-Q within the time period specified under the Exchange Act. In addition, in December 2007, the Company s former Chief Financial Officer transitioned to the position of Vice President of Treasury Services. The Company s Vice President, Chief Accounting Officer has assumed the role of Interim Chief Financial Officer. The Company is in the process of a search for a new Chief Financial Officer. However, we cannot assure you if or when a new Chief Financial Officer will be hired. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our common stock.

If we are unable to obtain required financial information for certain investments on a timely basis, we may not be able to accurately report our financial results in the reports we file or submit under the Exchange Act, within the time periods specified.

The Company is required to account for an investment under the equity method of accounting. The Company has developed processes and controls to ensure proper accounting and reporting for the investment. We cannot assure you that those procedures, processes and controls will be adequate to ensure that we obtain the required information in order to properly account for this investment under the equity method of accounting and allow us to file our reports under the Exchange Act on a timely basis. The lack of timely filing could prevent continued listing of the Company s common stock on the Nasdaq Global Select Market and could have a significant impact on the trading price of our Common Stock.

The failure of auction rate securities to sell at their reset dates could impact the liquidity of the investment and could negatively impact the carrying value of the investment.

The Company s short-term investments consist mainly of municipal and corporate debt securities in which a significant portion are invested in auction rate securities, the significant majority of which are student loan backed securities. Auction rate securities are securities that are structured with short-term interest rate reset dates of generally less than ninety days but with longer contractual maturities that range, for our holdings, from 13 to 39 years. At the end of each reset period, investors can typically sell at auction or continue to hold the securities at par. These securities are subject to fluctuations in fair value depending on the supply and demand at each auction. Through March 14, 2008, auctions held for the Company s auction rate securities with a total aggregate value of approximately $38.0 million failed. As of March 14, 2008, the Company was holding a total of approximately $43.0 million in auction rate securities. While these debt securities are all highly-rated investments, generally with AAA/Aaa ratings, continued failure to sell at their reset dates could impact the liquidity of the investment which in turn could negatively impact the liquidity requirements of the Company. In addition, continued failure to sell at their reset dates could also negatively impact the carrying value of the investment which could lead to impairment charges in future periods should a decline in the value of those securities be other than temporary, which could have a material adverse effect on our financial position and results of operations.

ITEM 1B *UNRESOLVED STAFF COMMENTS*

The Company has not received written comments from the Securities and Exchange Commission regarding its periodic or current reports under the Securities Exchange Act of 1934, as amended, that were received 180 days or more before December 31, 2007 and remain unresolved. There are no unresolved comments from the Securities and Exchange Commission as of December 31, 2007.

11

Table of Contents

ITEM 2 *PROPERTIES*

The Company s corporate headquarters building, which the Company owns and which is located in Andover, Massachusetts, provides approximately 90,000 square feet of office space for its sales, marketing, engineering and administration personnel.

The Company also owns a building of approximately 230,000 square feet in Andover, Massachusetts, which houses all Massachusetts manufacturing activities.

The Company s Westcor division owns and occupies a building of approximately 31,000 square feet in Sunnyvale, California.

ITEM 3 *LEGAL PROCEEDINGS*

Vicor and VLT, Inc. (VLT), a wholly owned subsidiary of the Company, had been pursuing Reset Patent infringement claims directly against Artesyn Technologies (Artesyn), Lucent Technologies and Tyco Electronics Power Systems, Inc. (Lucent / Tyco) in the United States District Court in Boston, Massachusetts. The lawsuit against Lucent was filed in May 2000 and in April 2001, the Company added Tyco Electronics as a defendant in that lawsuit. The lawsuit against Artesyn was filed in February 2001. In the second quarter of 2007, the Company entered into separate settlement agreements with Artesyn and Lucent/Tyco, under which the Company received payments of $1,770,000 in full settlement of the Company s Patent infringement claims against Lucent/Tyco and Artesyn, and which settled the lawsuits that the Company had filed against Lucent/Tyco in May 2000 and in April 2001, and the lawsuit that the Company had filed against Artesyn in February 2001. The full amount of the payment, net of a $177,000 contingency fee accrued by the Company for its litigation counsel, has been included in (Gain) loss from litigation-related settlements, net in the accompanying condensed consolidated statement of operations.

On February 22, 2007, the Company announced that it had reached an agreement in principle with Ericsson, Inc., to settle a lawsuit brought by Ericsson against the Company in California state court. Under the terms of the settlement agreement entered into on March 29, 2007, after a Court ordered mediation, the Company paid $50.0 million to Ericsson, of which $12.8 million was paid by the Company s insurance carriers. Accordingly, the Company recorded a net loss of $37.2 million from the litigation-related settlements in the fourth quarter of 2006. The Company is seeking further recoveries from the insurance carriers. The Company s decision to enter into the settlement followed an adverse ruling by the Court in January, 2007 in connection with a settlement between Ericsson and co-defendants Exar Corporation (Exar) and Rohm Device USA, LLC (Rohm), two of the Company s component suppliers prior to 2002. The Company s writ of mandate appeal of this ruling was denied in April, 2007. In September 2007, the Company filed a notice of appeal of the Court s decision upholding the Ericsson-Exar-Rohm settlement, which is pending. In December 2007, the Court awarded Exar and Rohm amounts for certain statutory and discovery costs associated with this ruling. Since this matter was outstanding as of June 30, 2007, the Company accrued $240,000 in the second quarter of 2007 as a result of the Court s decision, which is included in Accrual for litigation settlements in the condensed consolidated balance sheet and in (Gain) loss from litigation-related settlements, net in the condensed consolidated statement of operations.

On August 18, 2005, the Company filed an action in The Superior Court of the Commonwealth of Massachusetts, County of Essex (the Massachusetts Court) against Concurrent Computer Corporation (Concurrent) in response to a demand made by Concurrent in connection with breach of contract and breach of product warranty claims against the Company. On August 1, 2007, the Company reached an agreement in principle to settle the lawsuit with Concurrent for $2,350,000, all of which would be paid by the Company s insurance carriers. The settlement agreement was finalized effective August 28, 2007, upon which the Company made the settlement payment of $2,350,000 to Concurrent and in turn received payment for that same amount from its insurance carriers. There was no impact on the consolidated statement of operations for the year ended December 31, 2007 as a result of the settlement.

In addition, 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,

Table of Contents

management does not expect any current litigation or claims to have a material adverse impact on the Company s financial position or results of operations.

ITEM 4 *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

None.

PART II

ITEM 5 *MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS*

The Common Stock of the Company is listed on The Nasdaq Stock Market under the trading symbol VICR. The Class B Common Stock of the Company is not traded on any market and is subject to restrictions on transfer under the Company s Restated Certificate of Incorporation, as amended.

The following table sets forth the quarterly high and low sales prices for the Common Stock as reported by The Nasdaq Stock Market for the periods indicated:

2007	**High**	**Low**
First Quarter	$ 11.62	$ 8.78
Second Quarter	13.54	9.06
Third Quarter	14.99	10.81
Fourth Quarter	15.60	12.05

2006	**High**	**Low**
First Quarter	$ 20.50	$ 15.09
Second Quarter	23.38	14.80
Third Quarter	16.70	9.54
Fourth Quarter	13.29	10.79

As of February 29, 2008, there were approximately 274 holders of record of the Company s Common Stock and approximately 17 holders of record of the Company s Class B Common Stock. These numbers do not reflect persons or entities that hold their stock in nominee or street name through various brokerage firms.

Dividend Policy

Dividends are declared at the discretion of the Company s Board of Directors and depend on actual cash from operations, the Company s financial condition and capital requirements and any other factors the Company s Board of Directors may consider relevant.

On February 4, 2006, the Company s Board of Directors approved a cash dividend of $.12 per of the Company s stock. The total dividend of approximately $5,030,000 was paid on March 20, 2006 to shareholders of record at the close of business on February 28, 2006.

On June 23, 2006, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,313,000 was paid on August 7, 2006 to shareholders of record at the close of business on July 17, 2006.

On February 16, 2007 the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,235,000 was paid on March 27, 2007 to shareholders of record at the close of business on March 9, 2007.

On July 25, 2007, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,242,000 was paid on August 30, 2007 to shareholders of record at the close of business on August 14, 2007.

Table of Contents

During the second quarter of 2007, two subsidiaries paid a total of $180,000 in dividends, of which $92,000 was paid to outside shareholders.

On March 14, 2008, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,245,000 will be paid on April 18, 2008 to shareholders of record at the close of business on April 2, 2008.

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
October 1 31, 2007		$		$ 8,541,000
November 1 30, 2007				8,541,000
December 1 31, 2007				8,541,000
Total		$		$ 8,541,000

In November 2000, the Board of Directors of the Company authorized the repurchase of up to $30,000,000 of the Company s Common Stock.

Table of Contents

Stockholder Return Performance Graph

The graph set forth below presents the cumulative, five-year stockholder return for each of the Corporation s Common Stock, the Standard & Poor s 500 Index (S&P 500 Index) and an index of peer group companies selected by the Company (the Peer Group). The Peer Group consists of the following ten (10) publicly-traded companies in the specialty electronic component industry: Analog Devices Incorporated; Intel Corporation; Linear Technology Corporation; LSI Logic Corporation; Xilinx Incorporated; Maxim Integrated Products, Inc.; Semtech Corporation; Intersil Corporation; RF Micro Devices, Inc. and Altera Corporation.

The graph assumes an investment of $100 on December 31, 2002 in each of the Company s Common Stock, the S&P 500 Index and the Peer Group, and assumes reinvestment of all dividends. The peer group indices used in the graph are market capitalization-weighted. The historical information set forth below is not necessarily indicative of future performance.

Comparison of Five Year Cumulative Return
Among Vicor Corporation, S&P 500 Index
and Peer Group Companies

	2002	2003	2004	2005	2006	2007
Vicor Corporation	$ 100.00	$ 138.32	$ 158.93	$ 191.67	$ 136.45	$ 196.83
S&P 500 Index	$ 100.00	$ 128.68	$ 142.67	$ 149.65	$ 173.28	$ 182.81
Peer Group Companies	$ 100.00	$ 196.12	$ 149.03	$ 154.87	$ 132.97	$ 161.85

Table of Contents

ITEM 6 *SELECTED FINANCIAL DATA*

The following selected consolidated financial data with respect to the Company s statements of operations for the years ended December 31, 2007, 2006 and 2005 and with respect to the Company s balance sheets as of December 31, 2007 and 2006 are derived from the Company s consolidated financial statements, which appear elsewhere in this report and which have been audited by Ernst & Young LLP, the Company s independent registered public accounting firm. The following selected consolidated financial data with respect to the Company s statements of operations for the years ended December 31, 2005 and 2004 and with respect to the Company s balance sheets as of December 31, 2005, 2004 and 2003 are derived from the Company s consolidated financial statements, which are not included herein. As described in Note 7. in the Notes to the Consolidated Financial Statements, due to an additional investment in Great Wall Semiconductor Corporation (GWS) in May 2007, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for years ended December 31, 2003, 2004, 2005 and 2006 have been retroactively restated to reflect the equity method of accounting, in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock . The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

	Year Ended December 31,				
Statement of Operations Data	2007	2006 (restated)	2005 (restated)	2004 (restated)	2003 (restated)
	(In thousands except per share data)				
Net revenues	$ 195,827	$ 192,047	$ 179,351	$ 171,580	$ 151,421
Income (loss) from operations	1,071	(33,182)	3,380	(4,035)	(25,703)
Net income (loss)	5,335	(29,059)	3,493	(4,692)	(19,996)
Net income (loss) per share basic	.13	(.69)	.08	(.11)	(.48)
Net income (loss) per share diluted	.13	(.69)	.08	(.11)	(.48)
Weighted average shares basic	41,597	41,839	41,923	42,022	41,896
Weighted average shares diluted	41,687	41,839	42,089	42,022	41,896
Cash dividends per share	$ .30	$ .27	$ .12	$ .08	$

	At December 31,				
Balance Sheet Data	2007	2006 (restated)	2005 (restated)	2004 (restated)	2003 (restated)
	(In thousands)				
Working capital	$ 115,924	$ 123,467	$ 150,385	$ 148,419	$ 141,547
Total assets	192,458	247,461	243,902	243,452	251,003
Long-term debt					
Total liabilities	28,018	77,289	28,965	24,259	24,806
Stockholders equity	164,440	170,172	214,937	219,193	226,197

ITEM 7 *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Overview

Vicor Corporation designs, develops, manufactures and markets modular power components and complete power systems based upon a portfolio of patented technologies. The Company sells its products primarily to the telecommunications, electronic data processing, industrial control and military electronics markets, through a network of 28 independent sales representative organizations in North and South America and, internationally, through 36 independent distributors. Export sales as a percentage of total revenues were approximately 37% in 2007 and 2006 and 42% in 2005, respectively. The Company has organized its business segments according to its key product lines. The Brick Business Unit segment (BBU or Brick) designs, develops, manufactures and markets the Company s modular power converters and configurable products, and includes the operations of the Company s Westcor division, Vicor Integration Architects (VIAs) and Vicor Japan

Table of Contents

Company, Ltd. (VJCL). The V*I Chip segment consists of V*I Chip Corporation, a wholly owned subsidiary which designs, develops, manufactures and markets the Company s Factorized Power Architecture (FPA) products. The Picor segment consists of Picor Corporation, a majority-owned subsidiary of Vicor, which designs, develops, manufactures and markets Power Management Integrated Circuits and related products for use in a variety of power system applications. Picor develops these products to be sold as part of Vicor s products or to third parties for separate applications.

For the year ended December 31, 2007 revenues increased to $195,827,000 from $192,047,000 in 2006. The Company had income before taxes of $5,459,000 in 2007 as compared to a loss before taxes of $28,090,000 in 2006. The Company reported net income in 2007 of $5,335,000 as compared to a net loss of $29,059,000 in 2006, and a diluted income per share of $.13 in 2007 as compared with diluted loss per share of $.69 in 2006. The net loss in 2006 was primarily due to a loss from a litigation-related settlement described below.

The book to bill ratio for the third and fourth quarters of 2007 was 1.17:1 and 0.96:1, respectively. The book to bill ratio for the year ended December 31, 2007 was 1.05:1 compared with 0.99:1 in 2006. In light of the fact that bookings and sales can vary significantly from quarter to quarter, the Company does not believe that this quarterly and annual change in the book to bill ratio is indicative of a trend at this time. The Company ended 2007 with approximately $46.7 million in backlog compared to $36.4 million at the end of 2006.

The gross margin for 2007 decreased to 40.3% compared with 42.6% in 2006. The primary components of the decrease in gross margin dollars and percentage were due to product mix and an issue with certain product returns and warranty expense.

As described in Note 7. in the Notes to the Consolidated Financial Statements, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for the years ended December 31, 2006, 2005 and 2004 have been retroactively restated to reflect the equity method of accounting, in accordance with APB 18. Loss from equity method investment (net of tax) increased $818,000 to $1,139,000 from $321,000 for 2006. This was principally due to the equity method investment in GWS being adjusted for a decline in value judged to be other than temporary of $620,000 in the second quarter and due to higher equity method investment losses allocated to the Company. Additionally, the Company made an additional $1,000,000 investment in GWS in February 2008. The Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008 due to the additional investment.

In 2007, depreciation and amortization was $11.6 million, a decrease of approximately $2.5 million from 2006, and capital additions were $9.9 million, an increase of approximately $4.3 million from 2006. Due to assets which either are now or will be fully depreciated in 2008, the Company expects depreciation and amortization to be less in 2008 than 2007.

Inventories increased by approximately $1.1 million or 4.9% to $23.1 million as compared with $22.0 million at the end of 2006, primarily to meet the increased demand.

On February 22, 2007, the Company announced that it had reached an agreement in principle with Ericsson, Inc., to settle a lawsuit brought by Ericsson against the Company in California state court. Under the terms of the settlement agreement entered into on March 29, 2007, after a Court ordered mediation, the Company paid $50.0 million to Ericsson, of which $12.8 million was paid by the Company s insurance carriers. Accordingly, the Company recorded a net loss of $37.2 million from the litigation-related settlements in the fourth quarter of 2006.

Table of Contents

The following table sets forth certain items of selected consolidated financial information as a percentage of net revenues for the periods indicated. This table and the subsequent discussion should be read in conjunction with the selected financial data and the Consolidated Financial Statements and related footnotes of the Company contained elsewhere in this report.

	Year Ended December 31,		
	2007	**2006**	**2005**
Net revenues	100.0%	100.0%	100.0%
Gross margin	40.3%	42.6%	39.8%
Selling, general and administrative expenses	25.0%	24.2%	22.8%
Research and development expenses	15.5%	16.3%	16.4%
Income (loss) before income taxes (as restated)	2.8%	(14.6)%	2.7%

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts, inventories, investments, intangible assets, income taxes, impairment of long-lived assets, contingencies and litigation. Management bases its estimates and judgments on historical experience, knowledge of current conditions and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following accounting policies involve its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments, based on assessments of customers credit-risk profiles and payment histories. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

The Company employs a variety of methodologies to estimate allowances for its inventory for estimated obsolescence or unmarketable inventory, based upon its known backlog and historical usage, and assumptions about future demand and market conditions. For the Company s brick products produced at the Andover location, its principal manufacturing location, the model used is based upon a comparison of on-hand quantities to projected demand, such that amounts on hand in excess of three-year projected usage are fully reserved for inventories of those products. Since V*I Chip products are at a relatively early stage, a one-year projected usage assumption is used. While we have used our best efforts and believe we have used the best available information to estimate future demand, due to uncertainty in the economy and our business and the inherent difficulty in predicting future demand, it is possible that actual demand for our products will differ from our estimates. If actual future demand or market conditions are less favorable than those projected by management, additional inventory reserves for existing inventories may need to be recorded in future periods.

Short-term and long-term investments

The Company s short-term and long-term investments are classified as available-for-sale securities and are recorded at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of stockholders equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, along with interest and realized gains and losses, are included in other income (expense), net. The Company has no trading securities or held-to-maturity securities.

Through March 14, 2008, auctions held for the Company s auction rate securities with a total aggregate value of approximately $38.0 million failed. As of March 14, 2008, the Company was holding a total of approximately $43.0 million in auction rate securities, the significant majority of which are student loan backed securities. These municipal and corporate debt securities have their interest rates reset at auction at regular intervals ranging from seven to ninety days. Because of these short term intervals between interest reset dates, the Company monitors the auctions to ensure they are successful, which provides evidence that the recorded values of these investments approximate their fair values. As discussed above, auctions related to substantially all our auction rate securities have failed and if auctions continue to fail such that the securities were deemed to be not liquid, the Company would need to seek other alternatives to determine the fair value of these securities, which may not be based on the quoted market transaction. In addition, due to the Company s inability to quickly liquidate these investments, the Company may reclassify those investments with failed auctions as long-term assets in its consolidated balance sheet.

Other Investments

The accounting for investment transactions is reviewed for compliance with Accounting Principles Board Opinion No. 18, The Equity Method for Accounting for Investments in Common Stock (APB 18) and/or FASB Interpretation No. 46 Revised (FIN 46R), Consolidation of Variable Interest Entities . As discussed in Note 7. in the Notes to Consolidated Financial Statements, the Company previously accounted for the investment in Great Wall Semiconductor Corporation (GWS) under APB 18 as a cost method investment as management believed it did not have significant influence over GWS. An additional investment in GWS in May 2007 resulted in the Company owning approximately 24% of GWS which management believes, along with other qualitative factors considered, gives the Company significant influence over GWS. As a result of the additional investment, the Company is required to account for the investment in GWS under the equity method of accounting and to retroactively restate its previously issued consolidated financial statements to reflect the equity method of accounting, in accordance with APB 18.

The Company periodically evaluates the investment in GWS to determine if there are any events or circumstances that are likely to have a significant adverse effect on the fair value of the investment, including the net book value of acquired intangible assets and goodwill. Examples of such impairment indicators include, but are not limited to: GWS actual results of operations, actual results of operations compared to forecast, working capital requirements, additional third-party equity investment, if any, and other considerations. If we identify an impairment indicator, we will estimate the fair value of the investment and compare it to its carrying value. If the fair value of the investment is less than its carrying value, the investment is impaired and we make a determination as to whether the impairment is other-than-temporary. For other-than-temporary impairments, we recognize an impairment loss equal to the difference between an investment s carrying value and its fair value. In the second quarter of 2007, the investment was adjusted for a decline in value judged to be other than temporary of $620,000. Deterioration or changes in GWS business in the future could lead to such impairment adjustments in future periods and the impairment adjustments may be material. In fact, the Company made an additional $1,000,000 investment in GWS in February 2008, which will increase its ownership in GWS to approximately 30%, for which the Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008.

Long-Lived Assets

Management evaluates the recoverability of the Company s identifiable intangible assets, goodwill and other long-lived assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142) and Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), which generally requires that the recoverability of these assets be assessed when events or circumstances indicate a potential impairment. The Company periodically assesses the remaining use of fixed assets based upon operating results and cash flows

Table of Contents

from operations. Equipment has been written-down as a result of these assessments as necessary. Goodwill is tested for potential impairment at least annually at the reporting unit level.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment (FAS 123R), which requires that stock-based compensation expense associated with stock options and related awards be recognized in the statement of income. Determining the amount of stock-based compensation requires us to develop estimates to be used in calculating the grant-date fair value of stock options. We calculate the grant-date fair values using the Black-Scholes valuation model. The use of this model requires us to make estimates for the following assumptions: expected volatility, expected term, risk-free interest rate, expected dividend yield and forfeiture rate. Changes in any of these assumptions may have an impact on the amount of stock-based compensation recorded.

Product Warranties

The Company generally warrants its products for a period of two years. Vicor maintains allowances for estimated product returns under warranty based upon a review of known or potential product failures in the field and upon historical patterns of product returns. If unforeseen product issues arise or product returns increase above expected rates, additional allowances may be required.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (FAS 109), which requires that deferred tax assets and liabilities be recognized using enacted rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. FAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has assessed the need for a valuation allowance against these deferred tax assets and concluded that a valuation allowance for a significant portion of the deferred tax assets is warranted at December 31, 2007. In reaching this conclusion, the Company evaluated all relevant criteria including the existence of significant temporary differences reversing in the carryforward period, primarily depreciation. 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. In addition, the assessment of the valuation allowance requires the Company to make estimates of future taxable income and to estimate reversals of temporary differences. Changes in the assumptions or other circumstances may require additional valuation allowances if actual reversals of temporary differences differ from those estimates.

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . FIN 48 prescribes a two-step process to determine the amount of tax benefit to recognize. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination by a tax authority. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. If the tax position does not meet the more-likely-than-not threshold then it is not recognized in the financial statements. In accordance with FIN 48, the Company accrues interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The Company s adoption of FIN 48 as of January 1, 2007 did not have a material impact on the Company s financial position or results of operations.

20

Table of Contents

Contingencies

From time to time, we receive notices for product failure claims or that our products or manufacturing processes may be infringing the patent or intellectual property rights of others or for other matters. We periodically assess each matter to determine if a contingent liability should be recorded in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (FAS 5). In making this assessment, we may, depending on the nature of the matter, consult with external legal counsel and technical experts. Based on the information we obtain, combined with our judgment regarding all the facts and circumstances of each matter, we determine whether it is probable that a contingent loss may be incurred and whether the amount of such loss can be reasonably estimated. Should a loss be probable and reasonably estimable, we record a loss in accordance with FAS 5. In determining the amount of the loss, we consider advice received from experts in the specific matter, current status of legal proceedings, if any, prior case history and other factors. Should the judgments and estimates made by us be incorrect, we may need to record additional contingent losses that could materially adversely impact our results of operations and financial position.

Year Ended December 31, 2007 compared to Year Ended December 31, 2006

Net revenues for fiscal 2007 were $195,827,000, an increase of $3,780,000, or 2.0%, as compared to $192,047,000 for the same period a year ago. The increase in net revenues from the prior year resulted primarily from an increase in V*I Chip revenues of $6,099,000 and Picor revenues of $340,000, partially offset by decreases in Brick segment shipments of standard and custom products of $2,657,000. Orders for fiscal year 2007 increased by 8.5% compared with 2006. Subject to continuing demand, the Company expects modest growth in revenues in 2008. The book-to-bill ratio for 2007 was 1.05:1 as compared to 0.99:1 for 2006.

Gross margin for fiscal 2007 decreased $2,827,000, or 3.5%, to $79,009,000 from $81,836,000 in 2006 and decreased as a percentage of net revenues to 40.3% from 42.6%. The primary components of the decrease in gross margin dollars and percentage were due to the product mix and an issue with certain product returns and warranty expense. During the year ended 2007, the Company replaced certain products and established reserves for future replacements of these products, which were manufactured with a purchased component that exhibited an unacceptable failure rate. As a result, gross margin in the year ended December 31, 2007 were negatively impacted by approximately $980,000 from a combination of product returns which affected net revenues and charges to cost of revenues for warranty costs. In addition, cost of revenues increased approximately $713,000 due to the allocation of a portion of Picor non-recurring engineering charges being charged to cost of revenues in 2007 and not research and development.

Selling, general and administrative expenses were $48,919,000 for 2007, an increase of $2,482,000, or 5.3%, over the same period in 2006. As a percentage of net revenues, selling, general and administrative expenses increased to 25.0% from 24.2%. The principal components of the $2,482,000 increase were $1,666,000, or 8.6.%, of increased compensation expense primarily due to annual compensation adjustments in May 2007, $689,000, or 60.1%, of increased audit and tax expenses, $546,000, or 44.6%, of increased travel expenses, $271,000, or 5.8%, of increased commissions due to the increase in net revenues and due to changes in the mix of revenues subject to commissions, $193,000, or 57.3%, of increased outside services and $130,000, or 6.1%, in increased legal fees due to the litigation with Ericsson Wireless Communications, Inc., Exar Corporation and Rohm Device USA, LLC, and Concurrent Computer Corporation (Concurrent), which were partially offset by a $718,000 reimbursement payment from its insurance carriers received in the fourth quarter of 2007 in connection with the Concurrent litigation (see Part II Item 1 Legal Proceedings). The principal components partially offsetting the above increases were $424,000, or 10.5%, of decreased depreciation and amortization costs, $295,000, or 10.6%, of decreased advertising costs, $151,000, or 35.4%, in decreased employment recruiting expenses and $115,000, or 9.2%, of decreased training expenses.

Research and development expenses decreased $1,009,000, or 3.2%, to $30,372,000 in 2007 from $31,381,000 in 2006 and decreased as a percentage of net revenues to 15.5% from 16.3%. The principal components of the $1,009,000 decrease were $713,000, or 100%, of decreased costs due to the allocation of a portion of Picor non-recurring engineering charges being charged to cost of revenues and not research and development, $425,000, or 16.8%, of decreased costs associated with the VIAs, $155,000, or 8.7%, of decreased facility costs, $119,000, or 7.9%, of decreased depreciation and amortization costs, and $64,000, or 26.6%, of decreased travel expenses. The principal component partially offsetting the above decreases was $529,000, or 2.7%, in increased compensation expense primarily due to annual compensation adjustments in May 2007. The decreased costs associated with the VIAs was primarily due to $397,000 of decreased sub-contract labor costs.

In the second quarter of 2007, the Company entered into separate settlement agreements with Artesyn and Lucent/Tyco, under which, the Company received total payments of $1,770,000 in full settlement of the Company s Patent infringement claims against Lucent/Tyco and Artesyn, and which settled the lawsuits that the Company had filed against Lucent/Tyco in May 2000 and in April 2001, and the lawsuit that the Company had filed against Artesyn in February 2001. The full amount of the payments, net of a $177,000 contingency fee accrued by the Company for its litigation counsel, has been included in (Gain) loss from litigation-related settlements, net in the accompanying condensed consolidated statement of operations. In December 2007, the Court awarded Exar and Rohm amounts for certain statutory and discovery costs associated with this ruling. The Company accrued $240,000 in the second quarter of 2007 as a result of the Court s decision, which is included in (Gain) loss from litigation-related settlement, net in the accompanying condensed consolidated statement of operations.

On February 22, 2007, the Company announced that it had reached an agreement in principle with Ericsson, Inc., to settle a lawsuit brought by Ericsson against the Company in California state court. Under the terms of the settlement agreement entered into on March 29, 2007, after a Court ordered mediation, the Company paid $50.0 million to Ericsson, of which $12.8 million was paid by the Company s insurance carriers. Accordingly, the Company recorded a net loss of $37.2 million from the litigation-related settlements in the fourth quarter of 2006.

The changes in the major components of other income (expense), net were as follows (in thousands):

	2007	2006 (As restated)	Increase (Decrease)
Interest income	$ 4,484	$ 5,389	$ (905)
Minority interest in net income of subsidiaries	(539)	(562)	23
Foreign currency gains	186	139	47
Gain on disposal of equipment	129	67	62
Other	128	59	69
	$ 4,388	$ 5,092	$ (704)

The decrease in interest income is due to lower average balances on the Company s cash equivalents and short-term investments, principally due to the $37,200,000 net payment to Ericsson made at the end of March 2007 (see Part II Item 3- Legal Proceedings). The increase in foreign currency gains is due to favorable exchange rates in 2007 as compared to 2006. The Company s exposure to market risk for fluctuations in foreign currency exchange rates relates primarily to the operations of Vicor Japan Co. Ltd. (VJCL) and changes in the dollar/yen exchange rate. In addition, the functional currency of the Company s subsidiaries in Europe and Hong Kong is the U.S. dollar.

Income before income taxes was $5,459,000 in 2007 compared to a loss before income taxes of $28,090,000 for 2006.

The benefit for income taxes totaled $(1,015,000) in 2007 as compared to a provision of $648,000 in 2006. The Company s effective tax rate was (18.6%) and 2.3% in 2007 and 2006, respectively. In 2007, the tax provision includes estimated federal, state and foreign income taxes on the Company s pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, and increases in accrued interest for potential liabilities, offset by the expected utilization of foreign net operating loss carryforwards and the release of certain valuation allowances related to temporary book versus tax differences. During the second quarter of 2007 and year ended December 31, 2007, the Company reversed approximately $300,000 of previously unidentified excess

Table of Contents

tax reserves identified during the quarter. The impact on the second quarter of 2007 and the year ended December 31, 2007, as well as on prior periods, was not material. The expense was also offset by a discrete item of $169,000 representing refunds of interest received and recorded as a benefit during the first quarter of 2007 as final settlement related to the audit of the Company s federal tax returns for tax years 1994 though 2002 by the Internal Revenue Service and the reduction in the tax reserves discussed below. In 2006, the tax provision included estimated federal, state and foreign income taxes on the Company s projected annual pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, offset by the expected utilization of remaining net operating loss carryforwards and certain tax credit carryforwards. For the year ended December 31, 2007 and 2006, the Company reduced its tax reserves by $1,517,000 and $468,000, respectively, due to closing tax periods in certain jurisdictions and other tax reserves no longer considered necessary. The decreases in 2007 and 2006 were partially offset by increases in reserves during the year of approximately $205,000 and $133,000, respectively.

Loss from equity method investment (net of tax) for fiscal year 2007 increased $818,000 to $1,139,000 from $321,000 for 2006. This was principally due to the equity method investment in GWS being adjusted for a decline in value judged to be other than temporary of $620,000 in the second quarter and due to higher equity method investment losses allocated to the Company. As described in Note 7. in the Notes to the Consolidated Financial Statements, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for the years ended December 31, 2006 and December 31, 2005 have been retroactively restated to reflect the equity method of accounting, in accordance with APB 18. The Company made an additional $1,000,000 investment in GWS in February 2008. The Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008 due to the additional investment.

Basic and diluted loss per share was $0.13 for the year ended December 31, 2007, compared to basic and diluted loss per share of $0.69 for the year ended December 31, 2006.

Year Ended December 31, 2006 compared to Year Ended December 31, 2005

Net revenues for fiscal 2006 were $192,047,000, an increase of $12,696,000, or 7.1%, as compared to $179,351,000 for the same period a year ago. The increase in net revenues resulted primarily from an increase in Brick segment shipments of standard and custom products of $11,018,000, along with increases in V*I Chip and Picor revenues of $1,376,000 and $299,000, respectively. Orders for fiscal year 2006 increased by 4.6% compared with 2005. The book-to-bill ratio for 2006 was 0.99:1 as compared to 1.01:1 for 2005.

Gross margin for fiscal 2006 increased $10,429,000, or 14.6%, to $81,836,000 from $71,407,000 in 2005 and increased as a percentage of net revenues from 39.8% to 42.6%. The primary components of the increase in gross margin dollars and percentage were due to the increase in net revenues, an increase in manufacturing efficiencies resulting in lower average unit costs and significant inventory reserves recorded in 2005. During the second quarter of 2005, the Company provided additional reserves of approximately $1,600,000 for potential obsolete inventory arising primarily from the European Union RoHS initiative and the conversion of Maxi, Mini, Micro and MIL-COTS product families to the FasTrak platform. In addition, the Company identified other slow-moving and potential obsolete inventory of approximately $1,200,000, of which $300,000 was related to raw material inventory in support of pilot production of V*I Chips.

Selling, general and administrative expenses were $46,437,000 for 2006, an increase of $5,626,000, or 13.8%, over the same period in 2005. As a percentage of net revenues, selling, general and administrative expenses increased to 24.2% from 22.8%. The principal components of the $5,626,000 increase were $1,550,000, or 8.7%, of increased compensation primarily due to annual compensation adjustments in May 2006 and increases in headcount, $982,000 or 88.0% of increased legal fees due to litigation with Ericsson Wireless Communications, Inc. (See Part I, Item 3

Legal Proceedings), $725,000, or 39.2%, of increased depreciation and amortization expense principally due to the accelerated amortization for and the write-off of certain patent costs, $698,000, or 17.8%, increase in commissions due to the increase in net revenues, $323,000, or 306.1%, increase in employment advertising, recruiting and relocation expense, $256,000, or

Table of Contents

12.2%, in increased advertising expense, and a $216,000, or 177.3%, increase in outside services expense. The increase in compensation expense also includes $385,000 of non-cash stock-based compensation recorded under FAS 123(R). See Note 3 to the consolidated financial statements for further discussion.

Research and development expenses increased $1,915,000, or 6.5%, to $31,381,000 in 2006 from $29,466,000 in 2005 but decreased as a percentage of net revenues to 16.3% from 16.4%. The principal components of the $1,915,000 increase were $1,676,000, or 9.4%, of increased compensation expense primarily due to annual compensation adjustments in May 2006 and increases in headcount, $224,000, or 15.5%, of increased expenses related to the Vicor Integration Architects (VIAs), $162,000, or 10.1%, of increased facilities costs and $152,000, or 110.9%, in increased industrial gas costs. These items were partially offset by a decrease in production materials of $542,000, or 13.5%. The increase in compensation expense also includes $281,000 of non-cash stock-based compensation recorded under FAS 123(R). See Note 3 to the consolidated financial statements for further discussion.

On February 22, 2007, the Company announced that it has reached an agreement in principle with Ericsson, Inc., to settle a lawsuit brought by Ericsson against the Company in California state court. Under the terms of the settlement agreement, reached on February 16, 2007 after a Court ordered mediation, the Company agreed to pay $50.0 million to Ericsson, of which $12.8 million will be paid by the Company s insurance carriers. Accordingly, the Company recorded a net loss of $37.2 million from litigation-related settlement in the fourth quarter of 2006.

In the second quarter of 2005, the Company entered into a settlement agreement with Lambda Americas, Inc., successor to Lambda Electronics, Inc., under which the Company received a payment of $2,500,000 in full settlement of the Company s Reset Patent claims against Lambda and which settled the lawsuit that the Company had filed against Lambda in June 2001. The full amount of the payment, net of a $250,000 contingency fee paid by the Company to its litigation counsel, has been included in gain from litigation-related settlement, net in the accompanying condensed consolidated statement of operations.

The changes in the major components of other income (expense), net were as follows (in thousands):

	2006 (As restated)	2005	Increase (Decrease)
Interest income	$ 5,389	$ 3,124	$ 2,265
Minority interest in net income of subsidiaries	(562)	(807)	245
Foreign currency gains (losses)	139	(771)	910
Gain (loss) on disposal of equipment	67	(41)	108
Other	59	(5)	64
	$ 5,092	$ 1,500	$ 3,592

The increase in interest income is due to higher interest rates and higher average balances on the Company s cash equivalents, short-term and long-term investments. The increase in foreign currency gains is due to the favorable exchange rates in 2006 as compared to 2005. The Company s exposure to market risk for fluctuations in foreign currency exchange rates relates primarily to the operations of Vicor Japan Co. Ltd. (VJCL) and changes in the dollar/yen exchange rate. In addition, the functional currency of the Company s subsidiaries in Europe and Hong Kong is the U.S. dollar. The decrease in minority interest in the net income of subsidiaries was due to lower income at certain minority interest entities.

Loss before income taxes was $28,090,000 in 2006 compared to income before income taxes of $4,880,000 for 2005.

The provision for income taxes totaled $648,000 in 2006 as compared to a provision of $964,000 in 2005. The Company s effective tax rate was 2.3% and 19.8% for 2006 and 2005, respectively. Tax provisions in 2006 and 2005 have been provided for federal and state taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, for the federal alternative minimum tax and for estimated income taxes due in various state and international taxing jurisdictions. In the third quarter of 2006 and 2005, the Company reduced its tax reserves by $468,000 and $770,000, respectively, due to closing tax periods in certain jurisdictions and other tax reserves no longer considered necessary. The decreases in 2006 and 2005 were partially offset by increases in reserves during the year of approximately $133,000 and $412,000, respectively, for potential liabilities.

Loss from equity method investment (net of tax) for fiscal year 2006 decreased $102,000 to $321,000 from $423,000 for 2005. This was principally due lower equity method investment losses allocated to the Company. As described in Note 7. in the Notes to the Consolidated Financial Statements, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for the years ended December 31, 2006 and December 31, 2005 have been retroactively restated to reflect the equity method of accounting, in accordance with APB 18. The Company made an additional $1,000,000 investment in GWS in February 2008. The Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008 due to the additional investment.

Basic and diluted loss per share was $0.69 for the year ended December 31, 2006, compared to basic and diluted income per share of $0.08 for the year ended December 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007 the Company had $20,017,000 in unrestricted cash and cash equivalents. The ratio of current assets to current liabilities was 6.5:1 at December 31, 2007 compared to 2.9:1 at December 31, 2006. Working capital decreased $7,543,000, from $123,467,000 at December 31, 2006 to $115,924,000 at December 31, 2007. The primary factors affecting the working capital decrease was a decrease in cash and cash equivalents and short-term investments of $40,034,000, a decrease in insurance receivable for a litigation payment of $12,800,000, and a decrease in deferred tax assets of $2,961,000. The decreases were partially offset by a decrease in total current liabilities of $45,693,000, which was primarily due to the decrease in accrual for litigation settlement of $50,000,000, an increase in accounts receivable of $1,655,000 and an increase in inventories of $1,077,000. The decrease in cash and cash equivalents and short-term investments was principally due to a net payment of $37,200,000 related to the Ericsson litigation settlement, which had been accrued for as of December 31, 2006. The primary source of cash for the year ended December 31, 2007 were $24,656,000 in net sales of short-term investments and $19,381,000 of net cash provided by operating activities (after adjusting for the net payment for litigation settlement of $37,200,000). The primary uses of cash for the twelve months ended December 31, 2007 were $37,200,000, net, for the litigation settlement, $12,569,000 for the payments of dividends, $9,856,000 for the purchase of equipment and $1,000,000 invested in GWS.

In November 2000, the Board of Directors of the Company authorized the repurchase of up to $30,000,000 of the Company s Common Stock (the November 2000 Plan). The November 2000 Plan authorizes the Company to make such repurchases from time to time in the open market or through privately negotiated transactions. The timing and amounts of stock repurchases are at the discretion of management based on its view of economic and financial market conditions. The Company did not repurchase shares of Common Stock during the year ended December 31, 2007. As of December 31, 2007, the Company had approximately $8,541,000 remaining under the plan.

On July 25, 2007, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,242,000 was paid on August 30, 2007 to shareholders of record at the close of business on August 14, 2007. On February 16, 2007, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,235,000 was paid on March 27, 2007 to shareholders of record at the close of business on March 9, 2007. On March 14, 2008, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,245,000 will be paid on April 18, 2008 to shareholders of record at the close of business on April 2, 2008. The Board of Directors anticipates reviewing its dividend policy on a semi-annual basis.

During the second quarter of 2007, two subsidiaries paid a total of $180,000 in dividends, of which $92,000 was paid to outside shareholders.

Table of Contents

The table below summarizes the Company s contractual obligations as of December 31, 2007 (in thousands):

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	Years 2 & 3	Years 4 & 5	More Than 5 Years
Operating lease obligations	$ 3,861	$ 1,398	$ 1,453	$ 239	$ 771
Purchase obligations	2,248	291	600	624	733
Total	$ 6,109	$ 1,689	$ 2,053	$ 863	$ 1,504

In addition to the amounts shown in the table above, approximately $511,000 of unrecognized tax benefits have been recorded as liabilities in accordance with FIN 48, and we are uncertain as to if or when such amounts may be settled. Related to these unrecognized tax benefits, we have also recorded a liability for potential interest and penalties of approximately $833,000 at December 31, 2007.

The Company s primary liquidity needs are for making continuing investments in manufacturing equipment, particularly equipment for the Company s new FPA products and replacement of aging manufacturing equipment utilized by the Brick Business Unit. The Company believes that cash generated from operations and the total of its cash and cash equivalents and short-term investments will be sufficient to fund planned operations and capital equipment purchases for the foreseeable future. During the quarter ended June 30, 2007, the Company made an additional investment of $1,000,000 in GWS and agreed to a further investment of $1,000,000 if certain conditions were met by November 2007. Those conditions were not met by November 2007. However, the Company did make the additional $1,000,000 investment in February 2008. The additional $1,000,000 investment was approved by the Audit Committee of the Company s Board of Directors. Additionally, the Company had approximately $2,047,000 of capital expenditure commitments, principally for manufacturing equipment as of December 31, 2007.

Through March 14, 2008, auctions held the Company s auction rate securities with a total aggregate value of approximately $38.0 million failed. As of March 14, 2008, the Company was holding a total of approximately $43.0 million in auction rate securities, the significant majority of which are student loan backed securities. These municipal and corporate debt securities have their interest rates reset at auction at regular intervals ranging from seven to ninety days. The funds associated with our auction rate securities that fail auction may not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the security is called, or the underlying securities have matured. Based on our ability to access our cash and other short-term investments and our expected operating cash flows, we do not anticipate the current lack of liquidity will affect our ability to execute our current operating plan.

The Company does not consider the impact of inflation and changing prices on its business activities or fluctuations in the exchange rates for foreign currency transactions to have been material during the last three fiscal years.

ITEM 7A *QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK*

The Company is exposed to a variety of market risks, including changes in interest rates affecting the return on its cash and cash equivalents and short-term investments and fluctuations in foreign currency exchange rates.

As the Company s cash and cash equivalents consist principally of money market securities, which are short-term in nature, the Company s exposure to market risk on interest rate fluctuations for these investments is not significant. The Company s short-term investments consist mainly of municipal and corporate debt securities, in which a significant portion are invested in auction rate securities, the significant majority of which are student loan backed securities. These auction rate securities have interest rates reset at auction at regular intervals. Through March 14, 2008, auctions held for the Company s auction rate securities with a total aggregate value of approximately $38.0 million failed. As of March 14, 2008, the Company was holding a total of approximately $43.0 million in auction rate securities. While those debt securities are all highly rated investments, generally with AAA/Aaa ratings, continued failure to sell at their reset dates could negatively

Table of Contents

impact the carrying value of the investment which could lead to impairment charges in future periods, should a decline in the value of these securities be other than temporary. The Company does not believe there was any impairment to these investments as of December 31, 2007. Our annual interest income would change by approximately $600,000 in 2007 for each 100 basis point increase or decrease in interest rates.

The Company s exposure to market risk for fluctuations in foreign currency exchange rates relates primarily to the operations of Vicor Japan Company, Ltd. (VJCL) and changes in the dollar/yen exchange rate. In addition, the functional currency of the Company s subsidiaries in Europe and Hong Kong is the U.S. Dollar. Therefore, the Company believes that market risk is mitigated since these operations are not materially exposed to foreign exchange fluctuations. Relative to foreign currency exposure against the yen existing at December 31, 2007, a 10% unfavorable movement in the dollar/yen exchange rate would increase foreign currency loss by approximately $200,000.

Table of Contents

ITEM 8 *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

INDEX

FINANCIAL STATEMENTS

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Vicor Corporation

We have audited the accompanying consolidated balance sheets of Vicor Corporation as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vicor Corporation at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2 and 7 to the consolidated financial statements, in 2007, the Company changed its method of accounting for its related-party investment in Great Wall Semiconductor Corporation. As discussed in Notes 2 and 12 to the consolidated financial statements, on January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. As discussed in Notes 2 and 3 to the consolidated financial statements, on January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Vicor Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2008 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 14, 2008

Table of Contents

VICOR CORPORATION

CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

	2007	2006
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,017	$ 35,860
Restricted cash and short-term investments	952	1,045
Short-term investments	57,490	81,681
Accounts receivable, less allowance of $398 in 2007 and $583 in 2006	32,054	30,399
Insurance receivable for litigation settlements		12,800
Inventories, net	23,078	22,001
Deferred tax assets	741	3,702
Other current assets	2,629	2,709
Total current assets	136,961	190,197
Property, plant and equipment, net	50,257	51,573
Other assets	5,240	5,691
	$ 192,458	$ 247,461
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,062	$ 7,273
Accrued compensation and benefits	6,003	5,192
Accrued expenses	3,471	4,189
Accrual for litigation settlements	240	50,000
Income taxes payable	278	
Deferred revenue	983	76
Total current liabilities	21,037	66,730
Long-term income taxes payable	1,344	2,577
Deferred income taxes	1,597	4,389
Minority interests	4,040	3,593
Stockholders equity:		
Preferred Stock, $.01 par value, 1,000,000 shares authorized; no shares issued or outstanding in 2007 and 2006		
Class B Common Stock: 10 votes per share, $.01 par value, 14,000,000 shares authorized, 11,824,952 shares issued and outstanding (11,854,952 shares issued and outstanding in 2006)	118	119
Common Stock: 1 vote per share, $.01 par value, 62,000,000 shares authorized, 38,209,486 shares issued and 29,811,088 shares outstanding (38,106,377 shares	384	382

issued and 29,707,979 shares outstanding in 2006)		
Additional paid-in capital	159,332	158,021
Retained earnings	126,263	133,405
Accumulated other comprehensive income (loss)	170	72
Treasury stock at cost: 8,398,398 shares in 2007 and 2006	(121,827)	(121,827)
Total stockholders equity	164,440	170,172
	$ 192,458	$ 247,461

See accompanying notes

30

Table of Contents

VICOR CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2007, 2006 and 2005

	2007	2006 (As restated)	2005 (As restated)
	(In thousands, except per share amounts)		
Net revenues	$ 195,827	$ 192,047	$ 179,351
Cost of revenues	116,818	110,211	107,944
Gross margin	79,009	81,836	71,407
Operating expenses:			
Selling, general and administrative	48,919	46,437	40,811
Research and development	30,372	31,381	29,466
(Gain) loss from litigation-related settlements, net	(1,353)	37,200	(2,250)
Total operating expenses	77,938	115,018	68,027
Income (loss) from operations	1,071	(33,182)	3,380
Other income (expense), net	4,388	5,092	1,500
Income (loss) before income taxes	5,459	(28,090)	4,880
(Benefit) provision for income taxes	(1,015)	648	964
Loss from equity method investment (net of tax)	1,139	321	423
Net income (loss)	$ 5,335	$ (29,059)	$ 3,493
Net income (loss) per common share:			
Basic	$ .13	$ (.69)	$ .08
Diluted	$ .13	$ (.69)	$ .08
Shares used to compute net income (loss) per share:			
Basic	41,597	41,839	41,923
Diluted	41,687	41,839	42,089
Cash dividends per share	$ .30	$ .27	$ .12

See accompanying notes

Table of Contents

VICOR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2007, 2006 and 2005

	2007	2006 (As restated) (In thousands)	2005 (As restated)
Operating activities:			
Net income (loss)	$ 5,335	$ (29,059)	$ 3,493
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	11,619	14,158	17,082
Loss from equity method investment (net of tax)	1,139	321	423
Loss on litigation related settlement		37,200	
Stock compensation expense	667	751	
Minority interest in net income of subsidiaries	539	562	807
(Accretion) amortization of bond (discount) premium	(465)	(167)	573
Deferred income taxes	104	86	(133)
(Gain) loss on disposal of equipment	(129)	(67)	41
Change in assets and liabilities, net	(36,628)	(9,455)	6,985
Net cash (used by) provided by operating activities	(17,819)	14,330	29,271
Investing activities:			
Purchases of investments	(138,642)	(189,683)	(116,114)
Sales and maturities of investments	163,298	199,901	100,746
Additions to property, plant and equipment	(9,856)	(5,603)	(8,944)
Proceeds from sale of equipment	129	88	
Purchase of equity method investment	(1,000)		
Increase in other assets	(120)	(176)	(573)
Decrease (increase) in restricted cash and short term investments	93	(139)	210
Net cash provided by (used in) investing activities	13,902	4,388	(24,675)
Financing activities:			
Proceeds from exercise of stock options	645	5,577	3,578
Dividends paid	(12,569)	(11,343)	(5,025)
Acquisitions of treasury stock		(10,835)	(5,544)
Net cash used in financing activities	(11,924)	(16,601)	(6,991)
Effect of foreign exchange rates on cash	(2)	40	170
Net (decrease) increase in cash and cash equivalents	(15,843)	2,157	(2,225)
Cash and cash equivalents at beginning of year	35,860	33,703	35,928
Cash and cash equivalents at end of year	$ 20,017	$ 35,860	$ 33,703

Change in assets and liabilities:			
Accounts receivable	$ (1,546)	$ (2,363)	$ (4,941)
Insurance receivable for litigation	12,800		
Inventories, net	(997)	(4,854)	8,913
Other current assets	83	395	(279)
Accounts payable and accrued liabilities	2,840	303	3,545
Accrual for litigation settlement	(49,760)		
Income taxes payable	(955)	(2,869)	(90)
Deferred revenue	907	(67)	(163)
	$ (36,628)	$ (9,455)	$ 6,985
Supplemental disclosures:			
Cash paid during the year for income taxes, net of refunds	$ (380)	$ 3,590	$ 1,085

See accompanying notes

Table of Contents

VICOR CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
Years ended December 31, 2007, 2006 and 2005

	Class B Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (as restated)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
				(In thousands)			
Balance at December 31, 2004 (as restated)	$ 119	$ 373	$ 148,821	$ 175,339	$ (11)	$ (105,448)	$ 219,193
Sales of Common Stock		4	3,574				3,578
Conversion of Class B Common Stock to Common Stock							
Purchase of treasury stock						(5,544)	(5,544)
Common stock dividends				(5,025)			(5,025)
Minority interest adjustment			(697)				(697)
Net income for 2005 (as restated)				3,493			3,493
Unrealized gain on investments					33		33
Currency translation adjustments					(94)		(94)
Comprehensive income (as restated)							3,432
Balance at December 31, 2005 (as restated)	119	377	151,698	173,807	(72)	(110,992)	214,937
Sales of Common Stock		5	5,572				5,577
Purchase of treasury stock						(10,835)	(10,835)
Common stock dividends				(11,343)			(11,343)
Stock-based compensation expense			751				751
Net loss for 2006 (as restated)				(29,059)			(29,059)
Unrealized gain on investments					164		164
Currency translation adjustments					(20)		(20)
							(28,915)

Comprehensive loss (as restated)							
Balance at December 31, 2006 (as restated)	119	382	158,021	133,405	72	(121,827)	170,172
Sales of Common Stock		1	644				645
Conversion of Class B Common Stock to Common Stock	(1)	1					
Purchase of treasury stock							
Common stock dividends				(12,477)			(12,477)
Stock-based compensation expense			667				667
Net income for 2007				5,335			5,335
Unrealized gain on investments					5		5
Currency translation adjustments					93		93
Comprehensive income							5,433
Balance at December 31, 2007	$ 118	$ 384	$ 159,332	$ 126,263	$ 170	$ (121,827)	$ 164,440

See accompanying notes

33

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Vicor Corporation (the Company or Vicor) designs, develops, manufactures and markets modular power converters, power system components, and power systems using a patented, high frequency power conversion technology designated zero current switching. The Company also licenses certain rights to its technology in return for ongoing royalties. The principal markets for the power converters and systems are large Original Equipment Manufacturers and smaller, lower volume users which are broadly distributed across several major market areas.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation. Certain of the Company s Vicor Integration Architects (VIAs) are not majority owned by the Company. These entities are consolidated by the Company as management believes that the Company has the ability to exercise control over their activities and operations. During 2005, the Company increased the minority interests balance by $697,000, with a corresponding offset to additional paid-in capital, to adjust the balance to reflect the minority interest ownership percentage in the net equity of these subsidiaries.

Basis of presentation

As described in Note 7., due to an additional investment in Great Wall Semiconductor Corporation (GWS) in May 2007, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for the year ended December 31, 2006 and December 31, 2005 have been retroactively restated to reflect the equity method of accounting, in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock .

Revenue recognition

Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determinable, and collection is considered probable. License fees are recognized as earned. The Company recognizes revenue on such arrangements only when the contract is signed, the license term has begun, all obligations have been delivered to the customer, and collection is probable. The Company evaluates revenue arrangements with potential multi-element deliverables in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21 Revenue Arrangements with Multiple Deliverables (EITF 00-21).

Foreign currency translation

The financial statements of Vicor Japan Company, Ltd. (VJCL), for which the functional currency is the Japanese yen, have been translated into U.S. dollars in accordance with FASB Statement No. 52, Foreign Currency Translation. All balance sheet accounts have been translated using the exchange rate in effect at the balance sheet date. Income statement amounts have been translated at the average exchange rates in effect during the year. The gains and losses resulting from the changes in exchange rates from year to year have been reported in other comprehensive income.

Transaction gains and losses, and translation gains (losses) resulting from the remeasurement of foreign currency denominated assets and liabilities of the Company s foreign subsidiaries where the functional currency is the U.S. dollar are included in other income (expense), net. Foreign currency gains (losses), included in other income (expense), net, were approximately $186,000, $139,000, and ($771,000) in 2007, 2006 and 2005, respectively.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents include funds held in checking and money market accounts with banks, certificates of deposit and debt securities with maturities of less than three months when purchased and money market securities. Cash and cash equivalents are valued at cost which approximates market value. The Company s money market securities, which are classified as cash equivalents on the balance sheet, are purchased and redeemed at par. The estimated fair value is equal to the cost of the securities and due to the nature of the securities there are no unrealized gains or losses at the balance sheet dates.

Restricted cash and short-term investments

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

Short-term and long-term investments

The Company s short-term and long-term investments are classified as available-for-sale securities and are recorded at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of stockholders equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, along with interest and realized gains and losses, are included in other income (expense), net. The Company has no trading securities or held-to-maturity securities.

Through March 14, 2008, auctions held for the Company s auction rate securities with a total aggregate value of approximately $38.0 million failed. As of March 14, 2008, the Company was holding a total of approximately $43.0 million in auction rate securities, the significant majority of which are student loan backed securities. These municipal and corporate debt securities have their interest rates reset at auction at regular intervals ranging from seven to ninety days. Because of these short term intervals between interest reset dates, the Company monitors the auctions to ensure they are successful, which provides evidence that the recorded values of these investments approximate their fair values. As discussed above, auctions related to substantially all our auction rate securities have failed and if auctions continue to fail such that the securities were deemed to be not liquid, the Company would need to seek other alternatives to determine the fair value of these securities, which may not be based on the quoted market transaction. In addition, due to the Company s inability to quickly liquidate these investments, the Company may reclassify those investments with failed auctions as long-term assets in its consolidated balance sheet.

Allowance for doubtful accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments, based on assessments of customers credit-risk profiles and payment histories. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

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

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short-term and long-term investments and trade accounts receivable. The Company maintains cash and cash equivalents and certain other financial instruments with various high credit, quality financial institutions. The Company s short-term and long-term investments consist of highly rated (AAA/Aaa) municipal and corporate debt securities in which a significant portion are invested in auction rate securities. As of March 14, 2008, the Company was holding a total of approximately $43.0 million in auction rate securities, the significant majority of which are student loan backed securities. Through March 14, 2008, auctions held for the Company s auction rate securities with a total aggregate value of approximately $38.0 million failed. The funds associated with our auction rate securities that fail auction may not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the security is called, or the underlying securities have matured. If the credit rating of the issuer of any auction rate security held by us deteriorates, we may be required to adjust the carrying value of the investment for an other than temporary decline in value through an impairment charge. The Company s investment policy, approved by the Board of Directors, limits the amount the Company may invest in any issuer, thereby reducing credit risk concentrations. Concentrations of credit risk with respect to trade accounts receivable are limited due to the number of entities comprising the Company s customer base. Credit losses have consistently been within management s expectations.

Goodwill and intangible assets

The Company accounts for its goodwill and other intangible assets in accordance with FASB Statement No. 142, Goodwill and Other Intangible Assets (FAS 142), which resulted in the elimination of goodwill amortization beginning in fiscal 2002. The Company performs a test of goodwill for potential impairment at least annually. Values assigned to patents are amortized using the straight-line method over periods ranging from three to twenty years.

Long-lived assets

In accordance with FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , long-lived assets such as property, plant and equipment and intangible assets, are included in impairment evaluations when events or circumstances exist that indicate the carrying amount of those assets may not be recoverable. If the impairment evaluation indicates the affected asset is not recoverable, the asset s carrying value would be reduced to fair value. No event has occurred that would suggest any impairment in the value of long-lived assets recorded in the accompanying consolidated financial statements.

Other investments

The accounting for investment transactions is reviewed for compliance with Accounting Principles Board Opinion No. 18, The Equity Method for Accounting for Investments in Common Stock (APB 18) and/or FASB Interpretation No. 46 Revised (FIN 46R), Consolidation of Variable Interest Entities . As discussed in Note 7. the Company previously accounted for the investment in Great Wall Semiconductor Corporation (GWS) under APB 18 as a cost method investment as management believed it did not have significant influence over GWS. An additional investment in GWS in May 2007 resulted in the Company owning approximately 24% of GWS which management believes, along with other qualitative factors considered, gives the Company significant influence over GWS. As a result of the additional investment, the Company is required to account for the investment in GWS under the equity method of accounting and to retroactively restate its previously issued consolidated financial statements to reflect the equity method of accounting, in accordance with APB 18.

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising expense

The cost of advertising is expensed as incurred. The Company incurred $2,205,000, $2,473,000 and $1,913,000 in advertising costs during 2007, 2006 and 2005, respectively.

Product warranties

The Company generally offers a two-year warranty for all of its products. The Company provides for the estimated cost of product warranties at the time product revenue is recognized. Factors that affect the Company s warranty reserves include the number of units sold, historical and anticipated rates of warranty returns and the cost per return. The Company periodically assesses the adequacy of the warranty reserves and adjusts the amounts as necessary. Warranty obligations are included in accrued expenses in the accompanying consolidated balance sheets.

Net income (loss) per common share

Basic and diluted income (loss) per share are calculated in accordance with FASB Statement No. 128, Earnings per Share. The following table sets forth the computation of basic and diluted income (loss) per share (in thousands, except per share amounts):

	2007	2006 (as restated)	2005 (as restated)
Numerator:			
Net income (loss)	$ 5,335	$ (29,059)	$ 3,493
Denominator:			
Denominator for basic income (loss) per share weighted average shares	41,597	41,839	41,923
Effect of dilutive securities:			
Employee stock options	90		166
Denominator for diluted income (loss) per share adjusted weighted-average shares	41,687	41,839	42,089
Basic income (loss) per share	$ .13	$ (.69)	$ .08
Diluted income (loss) per share	$ .13	$ (.69)	$ .08

Options to purchase 968,575 and 1,213,679 shares of Common Stock were outstanding in 2007 and 2005, respectively, but were not included in the computation of diluted income per share because the options exercise prices were greater than the average market price of the Common Stock and, therefore, the effect would have been antidilutive. Options to purchase 1,643,629 shares of Common Stock in 2006, respectively, were not included in the calculation of net loss per share as the effect would have been antidilutive.

Income taxes

The Company accounts for income taxes in accordance with FASB Statement No. 109, Accounting for Income Taxes (FAS 109). FAS 109 requires that deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. FAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. Additionally,

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

deferred tax assets and liabilities are separated into current and noncurrent amounts based on the classification of the related assets and liabilities for financial reporting purposes or the expected reversal.

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . FIN 48 prescribes a two-step process to determine the amount of tax benefit to recognize. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination by a tax authority. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. If the tax position does not meet the more-likely-than-not threshold then it is not recognized in the financial statements. In accordance with FIN 48, the Company accrues interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The Company s adoption of FIN 48 as of January 1, 2007 did not have a material impact on the Company s financial position or results of operations.

Stock-based compensation

On January 1, 2006, the Company adopted FASB statement No. 123 (revised 2004), Share-Based Payment (FAS 123R), which is a revision of FAS No. 123, Accounting for Stock-Based Compensation . FAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and amends SFAS No. 95, Statement of Cash Flows . Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. However, FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant. Pro forma disclosure is no longer an alternative.

The Company is using the modified prospective method as permitted under FAS 123(R). Under this transition method, compensation cost recognized in fiscal 2007 and 2006 includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R). In accordance with the modified prospective method of adoption, Vicor s results of operations and financial position for prior periods have not been restated.

Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Comprehensive income

The Company reports comprehensive income in accordance with FASB Statement No. 130, Reporting Comprehensive Income (FAS 130). FAS 130 requires the foreign currency translation adjustments related to VJCL and unrealized gains (losses) on short-term and long-term investments to be included in other comprehensive income, net of related income tax effects.

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of recently issued accounting standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), which the Company must adopt for the fiscal year ending December 31, 2008. FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The Company has not determined the impact, if any, that FAS 157 will have on its financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (FAS 159), which the Company must adopt for the fiscal year ending December 31, 2008. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company has not determined the impact, if any, that FAS 159 will have on its financial position or results of operations.

In December 2007, the FASB issued statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (FAS 141R). FAS 141R changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. FAS 141R promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. FAS 141R is effective for fiscal years beginning on or after December 15, 2008. The Company has not determined the impact, if any, that FAS 141R will have on its financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160), an amendment of ARB No. 51. FAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. FAS 160 is effective for fiscal years beginning on or after December 15, 2008. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. The Company has not determined the impact, if any, that FAS 160 will have on its financial position or results of operations.

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

On January 1, 2006 the Company adopted FASB statement No. 123 (revised 2004), Share-Based Payment (FAS 123R), which is a revision of FAS No. 123, Accounting for Stock-Based Compensation . FAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and amends SFAS No. 95, Statement of Cash Flows . Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. However, FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant. Pro forma disclosure is no longer an alternative.

The Company is using the modified prospective method as permitted under FAS 123(R). Under this transition method, compensation cost recognized in fiscal 2007 and 2006 includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

accordance with the provisions of FAS 123(R). In accordance with the modified prospective method of adoption, Vicor s results of operations and financial position for prior periods have not been restated.

Prior to the adoption of FAS 123(R), the Company used the intrinsic value method in accounting for its employee stock options in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations, as permitted under FASB Statement No. 123, Accounting for Stock-Based Compensation (FAS 123) and FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FAS 148). Under APB 25, because the exercise price of the Company s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Vicor currently grants stock options under the following equity compensation plans that are shareholder-approved:

Amended and Restated 2000 Stock Option and Incentive Plan (the 2000 Plan) Under the 2000 Plan, the Board of Directors or the Compensation Committee may grant stock incentive awards based on the Company s Common Stock, including stock options, stock appreciation rights, restricted stock, performance shares, unrestricted stock, deferred stock and dividend equivalent rights. Awards may be granted to employees and other key persons, including non-employee directors. Discretionary awards of stock options to non-employee directors shall be in lieu of any automatic grant of stock options under the Company s 1993 Stock Option Plan (the 1993 Plan) and the Company s 1998 Stock Option and Incentive Plan (the 1998 Plan). Incentive stock options may be granted to employees at a price at least equal to the fair market value per share of the Common Stock on the date of grant, and non-qualified options may be granted to non-employee directors at a price at least equal to 85% of the fair market value of the Common Stock on the date of grant. A total of 4,000,000 shares of Common Stock have been reserved for issuance under the 2000 Plan. The period of time during which an option may be exercised and the vesting periods are determined by the Compensation Committee. The term of each option may not exceed ten years from the date of grant.

1998 Stock Option and Incentive Plan (the 1998 Plan) The 1998 Plan permitted the grant of share options to its employees and other key persons, including non-employee directors for up to 2 million shares of common stock. As a result of the approval of the 2000 Plan, no further grants were made under the 1998 Plan.

1993 Stock Option Plan (the 1993 Plan) The 1993 Plan permitted the grant of share options to its employees and non-employee directors for up to 4,000,000 shares of common stock. As a result of the approval of the 2000 Plan, no further grants were made under the 1993 Plan.

Picor Corporation (Picor), a privately held majority owned subsidiary of Vicor, currently grants stock options under the following equity compensation plan that has been approved by its Board of Directors:

2001 Stock Option and Incentive Plan, as amended (the 2001 Picor Plan) The 2001 Picor Plan permits the grant of share options to its employees and other key persons, including non-employee directors and full or part-time officers, for up to 10,000,000 shares of common stock.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

V*I Chip Corporation (V*I Chip), a privately held wholly owned subsidiary of Vicor, currently grants stock options under the following equity compensation plan that has been approved by its Board of Directors:

*2007 Stock Option and Incentive Plan, as amended (the 2007 V*I Chip Plan)* The 2007 V*I Chip Plan permits the grant of share options to its employees and other key persons, including non-employee directors and full or part-time officers, for up to 12,000,000 shares of common stock.

All option awards are granted at an exercise price equal to or greater than the market price for Vicor at the date of the grant, and are granted at a price equal to or greater than the estimated fair value for both Picor and V*I Chip at the date of grant. Options vest over various periods of up to five years and may be exercised for up to ten years from the date of grant, which is the maximum contractual term. The Company uses the graded attribution method to recognize expense for all stock-based awards in accordance with FAS 123(R).

Stock compensation expense for the years ended December 31, 2007 and 2006 was as follows (in thousands):

	2007	2006
Cost of revenues	$ 47	$ 85
Selling, general and administrative	368	385
Research and development	252	281
Total stock based compensation	$ 667	$ 751

Had expense been recognized using the fair value method described in FAS 123, using the Black-Scholes option pricing model, the following pro forma results of operations would have been reported (in thousands except for per share information):

	Year Ended December 31, 2005
Net income, as restated	$ 3,493
Total stock-based employee compensation expense determined under fair-value based methods for all awards, net of related tax effects	(845)
Pro forma net income	$ 2,648
Net income per share, as restated:	
Basic	$ .08

Diluted	$	.08
Pro forma net income per share:		
Basic	$	.06
Diluted	$	.06

The fair value for the options was estimated at the date of grant using a Black-Scholes option pricing model under all methods with the following weighted-average assumptions:

Vicor:	**2007**	**2006**	**2005**
Risk-free interest rate	4.7%	4.7%	3.9%
Expected dividend yield	1.84%	1.50%	.38%
Expected volatility	.49	.53	.59
Expected lives	3.8 years	3.8 years	4.0 years

41

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

Picor:	**2007**	**2006**	**2005**
Risk-free interest rate	4.7%	5.1%	4.4%
Expected dividend yield			
Expected volatility	.43	.48	.43
Expected lives	6.5 years	6.5 years	6.5 years

V*I Chip:	**2007**
Risk-free interest rate	4.6%
Expected dividend yield	
Expected volatility	.65
Expected lives	6.5 years

Risk-free interest rate:

Vicor The Company uses the yield on zero-coupon U.S. Treasury Strip securities for a period that is commensurate with the expected term assumption for each vesting period.

Picor The Company uses the yield to maturity of a ten-year treasury bond, since all of Picor s options expire ten years after they are granted.

*V*I Chip* The Company uses the yield to maturity of a ten-year treasury bond, since all of V*I Chip s options expire ten years after they are granted.

Expected dividend yield:

Vicor The Company determines the expected dividend yield by annualizing the most recent prior cash dividends declared by the Company s Board of Directors and dividing that result by the closing stock price on the date of that dividend declaration. Dividends are not paid on options.

Picor Picor has not and does not expect to declare and pay dividends in the foreseeable future. Therefore, the expected dividend yield is not applicable.

*V*I Chip* V*I Chip has not and does not expect to declare and pay dividends in the foreseeable future. Therefore, the expected dividend yield is not applicable.

Expected volatility:

Vicor Under FAS 123, Vicor used historical volatility to estimate the grant-date fair value of the options. Under FAS 123(R), Vicor has elected to continue to use historical volatility, using the expected term for the period over which to calculate the volatility (see below). The Company does not expect its future volatility to differ from its historical volatility. The computation of the Company s volatility is based on a simple average calculation of monthly volatilities over the expected term.

Picor As Picor is a nonpublic entity, historical volatility information is not available. As permitted under FAS 123(R), an industry sector index of approximately 5 publicly traded fabless semiconductor firms was developed for calculating historical volatility for Picor. Historical prices for each of the companies in the index based on the market price of the shares on each day of trading over the expected term were used to determine the historical volatility.

*V*I Chip* As V*I Chip is a nonpublic entity, historical volatility information is not available. As permitted under FAS 123(R), an industry sector index of approximately 5 publicly traded fabless

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

semiconductor firms was developed for calculating historical volatility for V*I Chip. Historical prices for each of the companies in the index based on the market price of the shares on each day of trading over the expected term were used to determine the historical volatility.

Expected term:

Vicor The Company uses historical employee exercise and option expiration data to estimate the expected term assumption for the Black-Scholes grant-date valuation. The Company believes that this historical data is currently the best estimate of the expected term of options, and that generally all groups of our employees exhibit similar exercise behavior.

Picor Due to the lack of historical information, the simplified method prescribed by the Securities and Exchange Commission s Staff Accounting Bulletin No. 110 was used to determine the expected term.

*V*I Chip* Due to the lack of historical information, the simplified method prescribed by the Securities and Exchange Commission s Staff Accounting Bulletin No. 110 was used to determine the expected term.

Forfeiture rate

The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. FAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term forfeitures is distinct from cancellations or expirations and represents only the unvested portion of the surrendered option.

Vicor The Company currently expects that for Vicor options, based on an analysis of its historical forfeitures, that approximately 80% of its options will actually vest, and therefore has applied an annual forfeiture rate of 7.25% to all unvested options as of December 31, 2007. For 2006, the Company expected 84% of its options would actually vest and applied an annual forfeiture rate of 5.75%. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

Picor The Company currently expects that for Picor options, based on an analysis of its historical forfeitures, that approximately 89% of its options will actually vest, and therefore has applied an annual forfeiture rate of 3.75% to all unvested options as of December 31, 2007. Since the compensation expense for year ended December 31, 2006 was immaterial, the Company did not apply an estimated forfeiture rate to the compensation expense. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

*V*I Chip* Since the compensation expense for year ended December 31, 2007 was immaterial, the Company did not apply an estimated forfeiture rate to the compensation expense.

Vicor Stock Options

A summary of the activity under Vicor s stock option plans as of December 31, 2007 and changes during the year then ended, is presented below (in thousands except for share and weighted-average data):

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2004	3,035,350	$ 18.04		
Granted	78,160	$ 14.04		
Forfeited and expired	(475,964)	$ 23.78		
Exercised	(377,298)	$ 9.47		
Outstanding at December 31, 2005	2,260,248	$ 18.14		
Granted	117,860	$ 17.95		
Forfeited and expired	(298,635)	$ 25.84		
Exercised	(435,844)	$ 12.78		
Outstanding at December 31, 2006	1,643,629	$ 18.14		
Granted	48,530	$ 12.06		
Forfeited and expired	(371,349)	$ 18.99		
Exercised	(73,109)	$ 8.88		
Outstanding at December 31, 2007	1,247,701	$ 18.20	2.66	$ 2,417
Exercisable at December 31, 2007	1,086,471	$ 18.71	2.16	$ 2,070
Vested or expected to vest at December 31, 2007(1)	1,230,412	$ 18.24	2.59	$ 2,383

(1) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

As of December 31, 2006 and 2005 the Company had shares exercisable of 1,418,885 and 1,918,674 respectively, for which the weighted average exercise prices were $18.63 and $19.30, respectively.

During the years ended December 31, 2007, 2006 and 2005 under all plans, the total intrinsic value of Vicor options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was $292,000, $3,051,000 and $2,027,000, respectively. The total amount of cash received by the Company from exercise of options exercised in 2007 was $645,000. The total grant-date fair value of stock options that vested during the years ended December 31, 2007, 2006 and 2005 was approximately $634,000, $1,421,000, and $3,036,000, respectively.

As of December 31, 2007, there was $554,000 of total unrecognized compensation cost related to unvested share-based awards for Vicor. That cost is expected to be recognized over a weighted-average period of 1.57 years for all Vicor awards. The expense will be recognized as follows: $311,000 in 2008, $154,000 in 2009, $69,000 in 2010, $18,000 in 2011, and $2,000 in 2012.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

The weighted-average fair value of Vicor options granted was $4.37, $6.54 and $7.02 in 2007, 2006 and 2005, respectively. The weighted-average contractual life for Vicor options outstanding as of December 31, 2007 is 2.7 years.

Picor Stock Options

Under the 2001 Picor Plan, the Board of Directors of Picor Corporation (Picor) may grant stock incentive awards based on the Picor Common Stock, including stock options, restricted stock or unrestricted stock. Awards may be granted to employees and other key persons, including non-employee directors and full or part-time officers. Incentive stock options may be granted to employees at a price at least equal to the fair market value per share of the Picor Common Stock, based on judgments made by the Company, on the date of grant. A total of 10,000,000 shares of Picor Common Stock have been reserved for issuance under the 2001 Picor Plan. The period of time during which an option may be exercised and the vesting periods are determined by the Picor Board of Directors. The term of each option may not exceed ten years from the date of grant.

A summary of the activity under the 2001 Picor Plan as of December 31, 2007 and changes during the year then ended, is presented below (in thousands except for share and weighted-average data):

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2004	3,290,000	$ 0.43		
Granted	212,000	$ 0.75		
Forfeited and expired	(60,000)	$ 0.25		
Exercised				
Outstanding at December 31, 2005	3,442,000	$ 0.45		
Granted	1,040,500	$ 0.85		
Forfeited and expired	(147,960)	$ 0.31		
Exercised	(30,000)	$ 0.25		
Outstanding at December 31, 2006	4,304,540	$ 0.55		
Granted	114,000	$ 0.74		
Forfeited and expired	(40,000)	$ 0.88		
Exercised		$ 0.00		
Outstanding at December 31, 2007	4,378,540	$ 0.56	5.98	$ 1,280

Exercisable at December 31, 2007	2,918,412	$	0.45	5.16	$	1,160
Vested or expected to vest at December 31, 2007(1)	4,297,575	$	0.55	5.94	$	1,278

(1) In addition to the vested options, Picor expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

As of December 31, 2006 and 2005 Picor had shares exercisable of 2,269,704 and 1,683,280, respectively, for which the weighted average exercise prices were $0.39 and $0.36, respectively.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

For year end December 31, 2007 Picor did not have any options exercised. During the year ended December 31, 2006, the total intrinsic value of Picor options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was $19,000 (none in 2005 and 2004). The total amount of cash received by the Company from exercise of options exercised in 2006 was $7,000. The total grant-date fair value of stock options that vested during the years ended December 31, 2007, 2006 and 2005 was approximately $37,000, $111,000 and $101,000 respectively.

As of December 31, 2007, there was $381,000 of total unrecognized compensation cost related to unvested share-based awards for Picor. That cost is expected to be recognized over a weighted-average period of 1.58 years for all Picor awards. The expense will be recognized as follows: $152,000 in 2008, $99,000 in 2009, $86,000 in 2010, $43,000 in 2011, and $1,000 in 2012.

The weighted-average fair value of Picor options granted was $.37, $.37 and $.32 in 2007, 2006 and 2005, respectively. The weighted-average contractual life for Picor options outstanding as of December 31, 2007 is 6 years.

V*I Chip Stock Options

Under the 2007 V* I Chip Plan, the Board of Directors of V*I Chip Corporation (V*I Chip) may grant stock incentive awards based on the V*I Chip Common Stock, including stock options, restricted stock or unrestricted stock. Awards may be granted to employees and other key persons, including non-employee directors and full or part-time officers. Incentive stock options may be granted to employees at a price at least equal to the fair market value per share of the V*I Chip Common Stock, based on judgments made by the Company, on the date of grant. A total of 12,000,000 shares of V*I Chip Common Stock have been reserved for issuance under the 2007 V*I Chip Plan. The period of time during which an option may be exercised and the vesting periods are determined by the V*I Chip Board of Directors. The term of each option may not exceed ten years from the date of grant.

A summary of the activity under the 2007 V*I Chip Plan as of December 31, 2007 and changes during the year then ended, is presented below (in thousands except for share and weighted-average data):

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2006	0	$ 0		
Granted	6,655,000	$ 1.00		
Forfeited and expired	(65,000)	$ 1.00		
Exercised				

Outstanding at December 31, 2007	6,590,000	$	1.00	9.42	$	0
Exercisable at December 31, 2007			n/a	n/a		n/a
Vested or expected to vest at December 31, 2007(1)	6,590,000		1.00	9.42	$	0

(1) In addition to the vested options, V*I Chip expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

46

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

As of December 31, 2007, there was $586,000 of total unrecognized compensation cost related to unvested share-based awards for V*I Chip. That cost is expected to be recognized over a weighted-average period of 2.4 years for all V*Chip awards. The expense will be recognized as follows: $134,000 in 2008, $133,000 in 2009, $132,000 in 2010, $132,000 in 2011, and $55,000 in 2012.

The weighted-average fair value of V*I Chip options granted were $.10 for 2007. The weighted-average contractual life for V*I Chip options outstanding as of December 31, 2007 is 9 years.

401(k) Plan

The Company sponsors a savings plan available to all domestic employees, which qualifies under Section 401(k) of the Internal Revenue Code. Employees may contribute to the plan from 1% to 20% of their pre-tax salary subject to statutory limitations. The Company matches employee contributions to the plan at a rate of 50% up to the first 3% of an employee s compensation. The Company s matching contributions currently vest at a rate of 20% per year based upon years of service. The Company s contribution to the plan was approximately $694,000, $684,000 and $622,000 in 2007, 2006 and 2005 respectively.

Stock Bonus Plan

Under the Company s 1985 Stock Bonus Plan, as amended, shares of Common Stock may be awarded to employees from time to time as determined by the Board of Directors. At December 31, 2006, 109,964 shares were available for further award. All shares awarded to employees under this plan have vested. No further awards are contemplated under this plan at the present time.

4. SHORT-TERM AND LONG-TERM INVESTMENTS

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2007				
U.S. corporate securities	$ 19,150	$	$	$ 19,150
Obligations of states and political subdivisions	36,000			36,000
Certificates of deposit	2,340			2,340
	$ 57,490	$	$	$ 57,490
December 31, 2006				

U.S. corporate securities (as restated)	$ 25,933	$	$ (7)	$ 25,926
Obligations of states and political subdivisions	54,425		(2)	54,423
Certificates of deposit	1,332			1,332
	$ 81,690	$	$ (9)	$ 81,681

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. SHORT-TERM AND LONG-TERM INVESTMENTS (Continued)

The amortized cost and estimated fair value of debt securities at December 31, 2007, by contractual maturities, are shown below (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	$ 2,340	$ 2,340
Due in ten to twenty years	7,075	7,075
Due in twenty to forty years	48,075	48,075
	$ 57,490	$ 57,490

Through March 14, 2008, auctions held for the Company s auction rate securities with a total aggregate value of approximately $38.0 million failed. As of March 14, 2008, the Company was holding a total of approximately $43.0 million in auction rate securities, the significant majority of which are student loan backed securities. These municipal and corporate debt securities have their interest rates reset at auction at regular intervals ranging from seven to ninety days. Because of these short term intervals between interest reset dates, the Company monitors the auctions to ensure they are successful, which provides evidence that the recorded values of these investments approximate their fair values. As discussed above, auctions related to substantially all our auction rate securities have failed and if auctions continue to fail such that the securities were deemed to be not liquid, the Company would need to seek other alternatives to determine the fair value of these securities, which may not be based on the quoted market transaction. In addition, due to the Company s inability to quickly liquidate these investments, the Company may reclassify those investments with failed auctions as long-term assets in its consolidated balance sheet.

5. INVENTORIES

Inventories were as follows (in thousands):

	December 31, 2007	2006
Raw materials	$ 23,711	$ 23,805
Work-in-process	2,656	2,319
Finished goods	4,357	4,240
	30,724	30,364
Inventory reserves	(7,646)	(8,363)
	$ 23,078	$ 22,001

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost and are depreciated and amortized over a period of 3 to 31.5 years generally under the straight-line method for financial reporting purposes and accelerated methods for income tax purposes.

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment were as follows (in thousands):

	December 31, 2007	December 31, 2006
Land	$ 2,089	$ 2,089
Buildings and improvements	40,868	40,691
Machinery and equipment	180,216	174,570
Furniture and fixtures	5,922	5,571
Construction-in-progress	1,084	391
	230,179	223,312
Less accumulated depreciation and amortization	179,922	171,739
	$ 50,257	$ 51,573

Depreciation expense for the years ended December 31, 2007, 2006 and 2005 was approximately $11,172,000, $13,123,000, and $16,790,000 respectively. At December 31, 2007, the Company had approximately $2,047,000 of capital expenditure commitments.

7. INVESTMENTS

In August 2003, the Board of Directors approved the investment by the Company of $1,000,000 in non-voting preferred stock of Great Wall Semiconductor Corporation (GWS). In March and August 2004, the Audit Committee of the Board of Directors approved additional investments by the Company of $1,000,000 each for a total 2004 investment of $2,000,000 in non-voting preferred stock of GWS. In May 2007, the Audit Committee of the Board of Directors approved an additional investment of $1,000,000 in non-voting convertible preferred stock of Great Wall Semiconductor Corporation (GWS) and agreed to an additional investment of $1,000,000 if certain conditions were met by November 2007. Those conditions were not met by November 2007. However, the Company did make the additional $1,000,000 investment in February 2008, which will increase its ownership in GWS to approximately 30%. The additional $1,000,000 investment was approved by the Audit Committee of the Company s Board of Directors. The Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008. The Company s total gross investment in GWS was $4,000,000 as of December 31, 2007 and $3,000,000 as of December 31, 2006. GWS designs, develops and manufactures high performance power semiconductors. A director of Vicor is the founder, President, Chairman of the Board, Chief Executive Officer and the majority voting shareholder of GWS. In addition to the investment, the Company and GWS have entered into a cross-license agreement and the Company purchases certain components from GWS. Purchases from GWS were approximately $1,260,000, $387,000, and $384,000 in 2007, 2006 and 2005, respectively. Revenue under the cross-license agreement was not significant in 2007, 2006 and 2005.

The Company considered the requirements of FASB Interpretation No. 46 (revised December 2003 Consolidation of Variable Interest Entities (FIN 46R), in accounting for the additional investment in GWS, and determined that GWS is a variable interest entity. However, the Company concluded that it is not the primary beneficiary. As a result, the Company is accounting for the investment under the equity method of accounting in accordance with Accounting Principles Board Opinion No. 18, The Equity Method for Accounting for Investments in Common Stock (APB 18). The Company has also considered FIN No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock (FIN 35) and EITF 02-14, Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock (EITF 02-14). The additional investment made in May 2007 resulted in the Company owning approximately 24% of GWS which management believes, along with other qualitative factors considered, gives

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INVESTMENTS (Continued)

the Company significant influence over GWS. In addition, the Company has an option to purchase an additional 1.5% of GWS for $81,000 in connection with technical consulting services. The Company also believes that its investment in GWS represents in-substance common stock. As a result, the additional investment requires the Company to account for the investment in GWS under the equity method of accounting and to retroactively restate its previously issued consolidated financial statements. Previously, the Company accounted for the investment as a cost method investment as management believed it did not have significant influence over GWS. At December 31, 2006 and 2005, the Company owned approximately 17.5% and 18.6%, respectively, of GWS.

In accordance with APB 18, each investment in GWS has been accounted for as a step acquisition using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141). The allocation of the purchase price included acquired intangible assets, including core and developed technology as well as in-process research and development (IPR&D). The excess of the purchase price over the fair value allocated to the net assets is goodwill. The core and developed technology is being amortized over three years. The amounts allocated to IPR&D were charged to expense in accordance with FAS 141, which specifies that the amount assigned to the acquired intangible assets to be used in a particular research and development project that have no alternative future use shall be charged to expense at the acquisition date. The amounts included in other assets in the accompanying consolidated balance sheets related to the net GWS investment were $687,000 and $826,000 as of December 31, 2007 and 2006, respectively, as follows (in thousands):

	December 31,	
	2007	**2006**
Equity method goodwill	$ 634	$ 775
Intangible assets, net of amortization	53	51
	$ 687	$ 826

The negative net equity of GWS was approximately ($1,280,000) at December 31, 2007 and ($1,008,000) at December 31, 2006.

Loss from equity method investment (net of tax) for the years ended December 31 consists of the following (in thousands):

	Year Ended December 31		
	2007	**2006 (as restated)**	**2005 (as restated)**
Allocation of losses from equity method investment (net of tax)	$ 306	$ 84	$ 165
Amortization of intangible assets and other (net of tax)	213	237	258

Other than temporary decline in investment		620				
	$	1,139	$	321	$	423

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INVESTMENTS (Continued)

The following financial statement line items for fiscal years 2004, 2005 and 2006 were affected by the change in accounting principle from cost method to equity method of accounting for the investment in GWS (in thousands except for per share amounts):

	As Restated	As Previously Reported
As of December 31, 2006:		
Other assets	$ 5,691	$ 6,865
Total assets	247,461	248,107
Retained earnings	133,405	134,579
Total stockholder s equity	170,172	171,346
As of December 31, 2005:		
Retained earnings	$ 173,807	$ 175,660
Total stockholder s equity	214,937	216,790
As of December 31, 2004:		
Retained earnings	$ 175,339	$ 176,769
Total stockholder s equity	219,193	220,623
Year ended December 31, 2006:		
Other income (expense), net	$ 5,092	$ 4,092
Loss from equity method investment, net	321	$
Net loss	(29,059)	(29,738)
Net loss per share basic	(0.69)	(0.71)
Net loss per share diluted	(0.69)	(0.71)
Year ended December 31, 2005:		
Loss from equity method investment, net	$ 423	$
Net Income	3,493	3,916
Net income per share basic	0.08	0.09
Net income per share diluted	0.08	0.09

As a result of the accounting change, retained earnings as of January 1, 2006 decreased by $1,853,000 from $175,660,000 to $173,807,000 due to the expensing of IPR&D of $908,000, the allocation of equity method investment losses of $454,000 and amortization expense for the acquired intangible assets and other of $491,000. This represents the retroactive application of the equity method of accounting for the period from August 2003, the date of the Company s initial investment in GWS, through December 31, 2005.

The Company periodically evaluates the investment in GWS to determine if there are any events or circumstances that are likely to have a significant adverse effect on the fair value of the investment, including the net book value of acquired intangible assets and goodwill. Examples of such impairment indicators include, but are not limited to: GWS actual results of operations, actual results of operations compared to forecast, working capital requirements, additional third-party equity investment, if any, and other considerations. If we identify an impairment indicator, we will estimate the fair value of the investment and compare it to its carrying value. If the fair value of the investment is less than its carrying value, the investment is impaired and we make a determination as to whether the impairment is other-than-temporary. For other-than-temporary impairments, we recognize an impairment loss equal to the difference between an investment s carrying value and its fair value. During the year ended December 31, 2007, the investment was adjusted for a decline in value judged to be other than temporary of $620,000. Deterioration or changes in GWS business in

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INVESTMENTS (Continued)

the future could lead to such impairment adjustments in future periods and the impairment adjustments may be material.

Summary financial information for GWS is as follows (in thousands):

	2007	2006	2005
As of December 31:			
Current assets	$ 2,322	$ 1,157	
Noncurrent assets	3,110	3,074	
Total assets	5,432	4,231	
Current liabilities	1,743	495	
Noncurrent liabilities	1,354	1,096	
Minority interests	3,614	3,648	
Total stockholders deficit	(1,280)	(1,008)	
For the year ended December 31:			
Net revenue	3,368	2,292	$ 2,423
Gross margin	646	818	461
Net loss	1,280	441	882

The financial statements of GWS have not been audited by Ernst & Young LLP.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company accounts for goodwill and other intangible assets under Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (FAS 142). Under FAS 142, goodwill and indefinite lived intangible assets are not amortized but are tested for impairment at least annually at the reporting unit level. The Company reassessed the carrying value of its goodwill of approximately $2,000,000 related to the operations of one of its subsidiaries, VJCL, during the fourth quarter of fiscal 2007 as required by the provisions of FAS 142, and determined that there was no impairment to the carrying value. Additionally, the Company has $634,000 and $775,000 of equity method goodwill related to its investment in GWS as of December 31, 2007 and 2006, respectively, as discussed in Note 7 .

Patent costs, which are included in other assets in the accompanying balance sheets, were as follows, (in thousands):

	December 31,	
	2007	2006
Patent costs	$ 3,491	$ 4,042

Less accumulated amortization	1,432	1,630
	$ 2,059	$ 2,412

In 2007 and 2006, the Company wrote off patent costs associated with abandoned patents with net book values of approximately $245,000 and $785,000, respectively, which was charged to amortization expense.

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense was approximately $447,000, $1,036,000 and $292,000 in 2007, 2006 and 2005, respectively. The estimated amortization expense for the next five years is as follows (in thousands):

Year	
2008	$ 217
2009	216
2010	214
2011	207
2012	195

9. PRODUCT WARRANTIES

Product warranty activity for the years ended December 31, 2007, 2006 and 2005 were as follows (in thousands):

	2007	**2006**	**2005**
Balance at the beginning of the period	$ 1,046	$ 755	$ 1,042
Accruals for warranties for products sold in the period	735	714	173
Fulfillment of warranty obligations	(704)	(185)	(180)
Revisions of estimated obligations	(398)	(238)	(280)
Balance at the end of the period	$ 679	$ 1,046	$ 755

10. STOCKHOLDERS EQUITY

In November 2000, the Board of Directors of the Company authorized the repurchase of up to $30,000,000 of the Company s Common Stock (the November 2000 Plan). The plan authorizes the Company to make repurchases from time to time in the open market or through privately negotiated transactions. The timing of this program and the amount of the stock that may be repurchased is at the discretion of management based on its view of economic and financial market conditions. In 2006 and 2005, the Company spent $10,835,000 and $5,544,000, respectively, in the repurchase of 825,700 and 452,200 shares, respectively, of its Common Stock under the November 2000 Plan (none in 2007). At December 31, 2007, the Company had approximately $8,541,000 remaining under the plan.

Common Stock

Each share of Common Stock entitles the holder thereof to one vote on all matters submitted to the stockholders.

Each share of Class B Common Stock entitles the holder thereof to ten votes on all such matters.

Shares of Class B Common Stock are not transferable by a stockholder except to or among the stockholder s spouse, certain of the stockholder s relatives, and certain other defined transferees. Class B Common Stock is not listed or traded on any exchange or in any market. Class B Common Stock is convertible at the option of the holder thereof at any time and without cost to the stockholder into shares of Common Stock on a one-for-one basis.

Dividends are declared at the discretion of the Company s Board of Directors and depend on actual cash from operations, the Company s financial condition and capital requirements and any other factors the Company s Board of Directors may consider relevant.

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. STOCKHOLDERS EQUITY (Continued)

On June 24, 2005, the Company s Board of Directors approved an annual cash dividend for 2005 of $.12 per share of the Company s stock. The total dividend of approximately $5,025,000 was paid on August 31, 2005 to shareholders of record at the close of business on August 11, 2005.

On February 4, 2006, the Company s Board of Directors approved a cash dividend of $.12 per share of the Company s stock. The total dividend of approximately $5,030,000 was paid on March 20, 2006 to shareholders of record at the close of business on February 28, 2006.

On June 23, 2006, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,313,000 was paid on August 7, 2006 to shareholders of record at the close of business on July 17, 2006.

On February 16, 2007 the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The dividend of approximately $6,235,000 was paid on March 27, 2007 to shareholders of record at the close of business on March 9, 2007.

On July 25, 2007, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,242,000 was paid on August 30, 2007 to shareholders of record at the close of business on August 14, 2007.

During the second quarter of 2007, two subsidiaries paid a total of $180,000 in dividends, of which $92,000 was paid to outside shareholders.

On March 14, 2008, the Company s Board of Directors approved a cash dividend of $.15 per share of the Company s stock. The total dividend of approximately $6,245,000 will be paid on April 18, 2008 to shareholders of record at the close of business on April 2, 2008.

During 2007 a total of 73,109 shares of Common Stock were issued upon the exercise of stock options, and 30,000 shares of Class B Common Stock were converted into Common Stock.

At December 31, 2007, there were 17,187,290 shares of Vicor Common Stock reserved for issuance under Vicor stock options and upon conversion of Class B Common Stock.

11. OTHER INCOME (EXPENSE), NET

The major components of the other income (expense), net were as follows (in thousands):

	2007	2006 (as restated)	2005
Interest income	$ 4,484	$ 5,389	$ 3,124

Minority interest in net income of subsidiaries	(539)	(562)	(807)
Foreign currency gains (losses)	186	139	(771)
Gain (loss) on disposal of equipment	129	67	(41)
Other	128	59	(5)
	$ 4,388	$ 5,092	$ 1,500

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s deferred tax liabilities and assets are as follows (in thousands):

	December 31,	
	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	$ 13,830	$ 2,452
Research and development tax credit carryforwards	6,662	5,231
Inventory reserves	3,068	3,385
Vacation accrual	1,280	1,163
Investment tax credit carryforwards	1,027	892
Investment basis differences	824	1,236
Stock-based compensation	472	509
Alternative minimum tax credit carryforward	412	359
Warranty reserve	227	352
Bad debt reserves	159	233
Accrual for litigation settlement, net	0	15,319
Other	85	817
Total deferred tax assets	28,046	31,948
Less: Valuation allowance for deferred tax assets	(24,158)	(26,565)
Net deferred tax assets	3,888	5,383
Deferred tax liabilities:		
Depreciation	(3,091)	(4,381)
Patent amortization	(797)	(993)
Other	(856)	(696)
Total deferred tax liabilities	(4,744)	(6,070)
Net deferred tax liabilities	$ (856)	$ (687)

The Company has assessed the need for a valuation allowance against its deferred tax assets and concluded that a valuation allowance for a significant portion of the deferred tax assets is warranted at December 31, 2007 and 2006. In reaching this conclusion, the Company evaluated all relevant criteria including the existence of temporary differences reversing in the carryforward period, primarily depreciation. 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.

For financial reporting purposes, income (loss) before income taxes includes the following components (in thousands):

	2007	2006 (as restated)	2005
Domestic	$ 4,497	$ (29,023)	$ 5,073
Foreign	962	933	(193)
	$ 5,459	$ (28,090)	$ 4,880

55

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

Significant components of the provision (benefit) for income taxes are as follows (in thousands):

	2007	2006	2005
Current:			
Federal	$ (220)	$ 377	$ 942
Foreign	191	105	75
State	(1,090)	80	80
	(1,119)	562	1,097
Deferred:			
Federal	104	86	(133)
	$ (1,015)	$ 648	$ 964

The reconciliation of the federal statutory rate to the effective income tax rate is as follows:

	2007	2006	2005
Statutory federal tax rate	35.0%	(35.0)%	35.0%
State income taxes, net of federal income tax benefit	7.4	(3.4)	2.5
Reduction in tax reserves	(31.0)	(0.5)	(7.3)
Meals and entertainment expense	4.1	0.6	2.9
Foreign income taxes	2.1	0.4	2.3
Tax credits	(1.2)	(3.4)	
ETI benefit		(1.2)	(11.5)
Alternative minimum tax			5.5
Other		1.3	0.1
Decrease (increase) in valuation allowance	(35.0)	43.5	(9.7)
	(18.6)%	2.3%	19.8%

In 2007, the tax provision includes estimated federal, state and foreign income taxes on the Company s pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, and increases in accrued interest for potential liabilities, offset by the expected utilization of foreign net operating loss carryforwards and the release of certain valuation allowances related to temporary book versus tax differences. During the second quarter of 2007 and year ended December 31, 2007, the Company reversed approximately $300,000 of previously unidentified excess tax reserves identified during the quarter. The impact on the second quarter of 2007 and year ended December 31, 2007, as well as on prior periods, was not material. The expense was also partially offset by a discrete item of $169,000 representing refunds of interest received and recorded as a benefit during the first quarter of 2007 as final settlement related to the audit of the Company s federal tax returns for tax years 1994 though 2002 by the Internal Revenue Service and the reduction in tax reserves discussed below. In 2006 and 2005, the tax provision included estimated federal, state and foreign income taxes on the Company s projected annual pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, offset by the expected utilization of remaining net operating loss carryforwards and certain tax credit carryforwards and the reduction in tax reserves discussed below. During 2007, 2006 and 2005, the Company reduced its tax reserves by $1,517,000, $468,000 and $770,000 respectively, due to closing tax periods in certain jurisdictions and other tax reserves no longer considered necessary. The decreases in 2007, 2006 and 2005 were partially offset by

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

increases in reserves during the year of approximately $205,000, $133,000 and $412,000, respectively, for potential liabilities.

As a result of the difference in treatment of excess stock option deductions available for income tax return and financial statement reporting purposes, the Company has approximately $3,700,000 of stock option related net operating loss, $1,000,000 of federal research and development tax credit, and $400,000 of federal alternative minimum tax credit carryforwards that may be offset against future taxable income. It is anticipated that when these tax attributes are realized on an income tax return in the future, the related benefit will be recorded against additional paid in capital. The net operating loss carryforwards expire beginning in 2008 for state purposes and in 2023 for federal purposes. The research and development tax credit carryforwards expire beginning in 2015 for state purposes and in 2023 for federal purposes.

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . FIN 48 prescribes a two-step process to determine the amount of tax benefit to recognize. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination by a tax authority. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. If the tax position does not meet the more-likely-than-not threshold then it is not recognized in the financial statements. The Company s adoption of FIN 48 as of January 1, 2007 did not have a material impact on the Company s financial position or results of operations.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2007	$ 2,515
Additions based on tax positions related to the current year	60
Additions for tax positions of prior years	54
Reductions for tax positions of prior years	(103)
Lapse of statute	(1,442)
Settlements	0
Balance at December 31, 2007	$ 1,084

The Company has reviewed the tax positions taken, or to be taken, in its tax returns for all tax years currently open to examination by a taxing authority in accordance with the recognition and measurement standards of FIN 48. The total amount of unrecognized tax benefits, that is the aggregate tax effect of differences between tax return positions and the benefits recognized in the Company s financial statements, at December 31, 2007 of $1,344,000 including accrued interest, if recognized, may decrease the Company s income tax provision and effective tax rate. Included in the balance of unrecognized tax benefits at December 31, 2007 is approximately $1,000,000, including interest, related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months, principally due to the closing of tax years in certain jurisdictions. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. As of December 31, 2007, the Company has accrued approximately $833,000 for the potential payment of interest and recorded approximately $165,000 of income tax expense for interest, net of related tax benefits, for the year ended December 31, 2007.

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

The Company files income tax returns in the United States and various foreign tax jurisdictions. These tax returns are generally open to examination by the relevant tax authorities from three to seven years from the date they are filed. The tax filings relating to the Company s federal and state taxes are currently open to examination for tax years 2004 through 2006 and 1998 through 2006, respectively. In December 2007, the Company received notice from the State of Minnesota that its Minnesota corporation franchise tax returns for tax years 1998 through 2001 had been selected for review. In February 2008, the Company received notice from the State of Texas that its Texas corporation franchise tax reports for tax years 2004 through 2006 had been selected for audit. There are no other income tax examinations currently in process.

The Company recently underwent an audit of its federal tax returns for tax periods 1994 through 2002 by the Internal Revenue Service (IRS). The conclusions reached by the IRS based on their audit were agreed to by the Joint Committee on Taxation of the U.S. Department of the Treasury. During the second quarter of 2006, the Company remitted payments to the IRS in settlement of the assessments, including interest. The amounts paid were not materially different from the amounts previously accrued by the Company.

13. COMMITMENTS AND CONTINGENCIES

The Company leases certain of its office, warehousing and manufacturing space. The future minimum rental commitments under noncancelable operating leases with remaining terms in excess of one year are as follows (in thousands):

Year	
2008	$ 1,398
2009	970
2010	483
2011	239
2012 and thereafter	771

Rent expense was approximately $1,525,000, $1,471,000 and $1,420,000 in 2007, 2006 and 2005, respectively. The Company also pays executory costs such as taxes, maintenance and insurance.

In addition to the amounts shown in the table above, approximately $511,000 of unrecognized tax benefits have been recorded as liabilities in accordance with FIN 48, and we are uncertain as to if or when such amounts may be settled. Related to these unrecognized tax benefits, we have also recorded a liability for potential interest and penalties of approximately $833,000 at December 31, 2007.

In addition, the Company has a contract with a third-party to supply nitrogen for its manufacturing and research and development activities. Under the contract, the Company is obligated to pay a minimum of $286,000 annually, subject to semi-annual price adjustments, through March 2015.

Vicor and VLT, Inc. (VLT), a wholly owned subsidiary of the Company, had been pursuing Reset Patent infringement claims directly against Artesyn Technologies (Artesyn), Lucent Technologies and Tyco Electronics Power Systems, Inc. (Lucent / Tyco) in the United States District Court in Boston, Massachusetts. The lawsuit against Lucent was filed in May 2000 and in April 2001, the Company added Tyco Electronics as a defendant in that lawsuit. The lawsuit against Artesyn was filed in February 2001. In the second quarter of 2007, the Company entered into separate settlement agreements with Artesyn and Lucent/Tyco, under which the Company received payments of $1,770,000 in full settlement of the Company s Patent infringement claims against Lucent/Tyco and Artesyn, and which settled the lawsuits that the Company had filed against Lucent/Tyco in May 2000 and in April 2001, and the lawsuit that the Company had filed against Artesyn in February 2001. The full amount of the payment, net of a $177,000 contingency fee accrued by the Company for its

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. COMMITMENTS AND CONTINGENCIES (Continued)

litigation counsel, has been included in (Gain) loss from litigation-related settlements, net in the accompanying condensed consolidated statement of operations.

On February 22, 2007, the Company announced that it had reached an agreement in principle with Ericsson, Inc., to settle a lawsuit brought by Ericsson against the Company in California state court. Under the terms of the settlement agreement entered into on March 29, 2007, after a Court ordered mediation, the Company paid $50.0 million to Ericsson, of which $12.8 million was paid by the Company s insurance carriers. Accordingly, the . Company recorded a net loss of $37.2 million from the litigation-related settlements in the fourth quarter of 2006. The Company is seeking further recoveries from the insurance carriers. The Company s decision to enter into the settlement followed an adverse ruling by the Court in January, 2007 in connection with a settlement between Ericsson and co-defendants Exar Corporation (Exar) and Rohm Device USA, LLC (Rohm), two of the Company s component suppliers prior to 2002. The Company s writ of mandate appeal of this ruling was denied in April 2007. In September 2007, the Company filed a notice of appeal of the Court s decision upholding the Ericsson-Exar-Rohm settlement, which is pending. In December 2007, the Court awarded Exar and Rohm amounts for certain statutory and discovery costs associated with this ruling. Since this matter was outstanding as of June 30, 2007, the Company accrued $240,000 in the second quarter of 2007 as a result of the Court s decision, which is included in Accrual for litigation settlements in the condensed consolidated balance sheet and in (Gain) loss from litigation-related settlements, net in the condensed consolidated statement of operations.

On August 18, 2005, the Company filed an action in The Superior Court of the Commonwealth of Massachusetts, County of Essex (the Massachusetts Court) against Concurrent Computer Corporation (Concurrent) in response to a demand made by Concurrent in connection with breach of contract and breach of product warranty claims against the Company. On August 1, 2007, the Company reached an agreement in principle to settle the lawsuit with Concurrent for $2,350,000, all of which would be paid by the Company s insurance carriers. The settlement agreement was finalized effective August 28, 2007, upon which the Company made the settlement payment of $2,350,000 to Concurrent and in turn received payment for that same amount from its insurance carriers. There was no impact on the consolidated statement of operations for the year ended December 31, 2007 as a result of the settlement.

In the second quarter of 2005, the Company entered into a settlement agreement with Lambda Americas, Inc., successor to Lambda Electronics, Inc., under which the Company received a payment of $2,500,000 in full settlement of the Company s Reset Patent claims against Lambda and which settled the lawsuit that the Company had filed against Lambda in June 2001. The full amount of the payment, net of a $250,000 contingency fee paid by the Company to its litigation counsel, has been included in (Gain) loss from litigation-related settlements, net in the accompanying consolidated statements of operations.

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

14. SEGMENT INFORMATION

Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (FAS 131), establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in interim financial reports issued to stockholders. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions on how to allocate resources and assess performance.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. SEGMENT INFORMATION (Continued)

The Company s accounting policies and method of presentation for segments is consistent with that used throughout the consolidated financial statements. Prior to 2007, the Company operated as one business segment.

Upon the incorporation of V*I Chip Corporation as a wholly-owned subsidiary of Vicor in April 2007, the Company has organized its business segments according to its key product lines. The Brick Business Unit segment (BBU or Brick) designs, develops, manufactures and markets the Company s modular power converters and configurable products, and includes the operations of the Company s Westcor division, Vicor Integration Architects (VIAs) and Vicor Japan Company, Ltd. (VJCL). The V*I Chip segment consists of V*I Chip Corporation, a wholly owned subsidiary which designs, develops, manufactures and markets the Company s Factorized Power Architecture (FPA) products. The Picor segment consists of Picor Corporation, a majority-owned subsidiary of Vicor, which designs, develops, manufactures and markets Power Management Integrated Circuits and related products for use in a variety of power system applications. Picor develops these products to be sold as part of Vicor s products or to third parties for separate applications.

The segments follow the same accounting policies as described in the Summary of Significant Accounting Policies described in Note 2 of the Notes to Consolidated Financial Statements. The effects of all intersegment and/or intercompany transactions are eliminated in the consolidated financial statements.

The Company s chief operating decision maker evaluates performance and allocates resources based on segment revenues and segment operating income (loss). The operating income (loss) for each segment includes selling, general and administrative and research and development expenses directly attributable to the segment. Certain of the Company s indirect overhead costs, which include corporate selling, general and administrative expenses, are allocated among the segments based upon an estimate of costs associated with each segment. Assets allocated to each segment are based upon specific identification of such assets, which include accounts receivable, inventories, fixed assets and certain other assets. Corporate assets include cash, cash equivalents, short-term investments, land and buildings associated with operations in Massachusetts, deferred tax assets and other assets.

The following table provides significant segment financial data for the years ended December 31, 2007 and 2006:

	Brick	V*I Chip	Picor	Corporate	Eliminations	Total
2007:						
Net revenues	$ 185,828	$ 9,142	$ 4,908	$	$ (4,051)	$ 195,827
Income (loss) from operations	25,642	(23,484)	(2,571)	883	601	1,071
Total assets	149,030	13,738	7,280	107,420	(85,010)	192,458
Depreciation and amortization	7,408	2,097	407	1,707		11,619
2006:						
Net revenues	$ 188,482	$ 3,000	$ 4,878	$ 2	$ (4,315)	$ 192,047
	(7,014)	(24,588)	(1,027)	(1,345)	792	(33,182)

Income (loss) from operations						
Total assets (as restated)	129,959	8,438	7,431	151,823	(50,190)	247,461
Depreciation and amortization	9,624	1,914	327	2,293		14,158

The elimination for net revenues is principally related to inter-segment revenues of Picor from Brick and V*I Chip. The elimination for total assets is principally related to inter-segment receivables due to the Brick

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. SEGMENT INFORMATION (Continued)

segment for the funding of V*I Chip segment operations and for the purchase of equipment by both V*I Chip and Picor segments. Segment financial data was not available for the year ended December 31, 2005.

During 2007, 2006 and 2005, no customer accounted for more than 10% of net revenues. Export sales, as a percentage of total net revenues, were approximately 37% in 2007 and 2006, and 42%, in 2005, respectively. Export sales and receipts are recorded and received in U.S. dollars.

Table of Contents

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following table sets forth certain unaudited quarterly financial data (in thousands, except per share amounts):

	First	Second	Third	Fourth	Total
2007:					
Net revenues	$ 46,981	$ 47,206	$ 47,693	$ 53,947	$ 195,827
Gross profit	20,227	19,599	17,904	21,279	79,009
Net income (as restated)	2,321	974	543	1,497	5,335
Net income (as previously reported)	2,402	974	543	1,497	5,335
Net income per share:					
Basic and diluted	.06	.02	.01	.04	.13
Basic and diluted (as previously reported)	.06	.02	.01	.04	.13

	First	Second	Third	Fourth	Total
2006:					
Net revenues	$ 47,872	$ 49,210	$ 46,932	$ 48,033	$ 192,047
Gross profit	21,102	21,109	19,951	19,674	81,836
Net income (loss) (as restated)	2,996	2,782	2,392	(37,229)	(29,059)
Net income (loss) (as previously reported)	3,076	2,874	2,462	(38,150)	(29,738)
Net income (loss) per share:					
Basic and diluted (as restated)	.07	.07	.06	(.90)	(.69)
Basic and diluted (as previously reported)	.07	.07	.06	(.92)	(.71)

In the fourth quarter of 2007, the Company received a $718,000 reimbursement payment from its insurance carriers in connection with litigation with Concurrent Computer Corporation (see Part 1 Item 3- Legal Proceedings), which reduced legal expense in the quarter.

On February 22, 2007, the Company announced that it has reached an agreement in principle with Ericsson, Inc., to settle a lawsuit brought by Ericsson against the Company in California state court. Under the terms of the settlement agreement, reached on February 16, 2007 after a Court ordered mediation, the Company agreed to pay $50.0 million to Ericsson, of which $12.8 million will be paid by the Company s insurance carriers. Accordingly, the Company recorded a net loss of $37.2 million from litigation-related settlement in the fourth quarter of 2006.

ITEM 9 *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

ITEM 9A *CONTROLS AND PROCEDURES*

Attached as exhibits to this Form 10-K are certifications of Vicor s Chief Executive Officer (CEO) and Interim Chief Financial Officer (Interim CFO), which are required in accordance with Rule 13a-14 of the Exchange Act of 1934, as amended (the Exchange Act). This Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications.

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Exchange Act, the Company s management conducted an evaluation with the participation of the Company s CEO and Interim CFO, regarding the effectiveness of the Company s disclosure controls and procedures, as of the end of the last fiscal year. In designing and evaluating the Company s disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, our management, including our CEO and Interim CFO, has concluded that our disclosure controls and procedures were not effective to ensure that information required to be disclosed by the Company in the reports 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 because of the material weakness described in item (b) below. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and we may from time to time make changes to the disclosure controls and procedures to enhance their effectiveness and to ensure that our systems evolve with our business.

(b) Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of December 31, 2007, the end of our fiscal year. Management based its assessment on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management s assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

As of December 31, 2007, the Company s accounting department did not have sufficient experienced personnel and resources with the requisite technical skills to address complex and judgmental accounting, tax and financial reporting matters as part of its financial statement close process.

As a result, the Company s financial statement close process was not effective as of December 31, 2007 as it relates to evaluating and accounting for complex and judgmental accounting, tax and financial reporting matters, including accounting for the Company s related-party investment in Great Wall Semiconductor

Corporation, accounting for income taxes, accounting for complex revenue transactions, and accounting for judgmental accrued liabilities. Management views these matters as a material weakness as of December 31, 2007 as this control deficiency could have resulted in a material misstatement of our interim or annual consolidated financial statements that would not have been prevented or detected in a timely manner.

Because of the material weakness discussed above, management has concluded that the Company did not maintain effective control over financial reporting as of December 31, 2007, based on the criteria in the Internal Control Integrated Framework issued by COSO.

Our independent registered public accounting firm, Ernst & Young LLP, assessed the effectiveness of the Company s internal control over financial reporting. Ernst & Young has issued an attestation report which is included at Item 9A(e) of this Form 10-K.

(c) Inherent Limitations on Effectiveness of Controls

The Company s management, including the CEO and Interim CFO, does not expect that our Disclosure Controls or our internal control over financial reporting will prevent or detect all errors and all fraud. 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. The design of a control system must reflect the fact that 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 that 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 evaluation of controls 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.

(d) Change in Internal Control Over Financial Reporting

Other than the items noted below, there was no change in the Company s internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Our remediation efforts related to the material weakness which existed as of December 31, 2006 and noted in Item 9A(b) of the 2006 Annual Report on Form 10-K filed on March 15, 2007 were not complete, though certain objectives under the Company s remediation plan were accomplished in 2007. This included the addition of two individuals to the accounting staff. One individual began working with the Company in June 2007 and the second individual, a new Vice President, Corporate Controller, began working with the Company at the end of August 2007. In a separate development, though, in December 2007 the Company announced that Mark A. Glazer, Chief Financial Officer, Treasurer, and Secretary transitioned to the position of Vice President of Treasury Services. Richard J. Nagel, Jr., Vice President, Chief Accounting Officer assumed the role of Interim Chief Financial Officer. The Company is in the process of a search for a new Chief Financial Officer, which it expects will take several months to complete.

We have implemented or intend to implement during fiscal 2008, the following measures to remediate the material weakness in internal control over financial reporting noted in Item 9A(b) above:

Complete the process of hiring a new Chief Financial Officer.

Perform an overall assessment of the staffing requirements for the accounting department and add resources to our corporate accounting function to assist in evaluating complex and judgmental accounting, tax and financial reporting issues.

As of March 17, 2008, our remediation efforts related to the material weakness which existed as of December 31, 2007 were not complete. Our efforts to remediate the material weakness will continue during fiscal 2008.

Table of Contents

(e) Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Vicor Corporation

We have audited Vicor Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Vicor Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management s assessment. As of December 31, 2007, the Company s accounting department did not have sufficient experienced personnel and resources with the requisite technical skills to address complex and judgmental accounting, tax and financial reporting matters as part of its financial statement close process. As a result, the Company s financial statement close process was not effective as of December 31, 2007 as it relates to evaluating and accounting for complex and judgmental accounting, tax and financial reporting matters, including accounting for the Company s related-party investment in Great Wall Semiconductor Corporation, accounting for income taxes, accounting for complex revenue transactions and accounting for judgmental accrued liabilities. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 consolidated financial statements, and this report does not affect our report dated March 14, 2008 on those consolidated financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Vicor Corporation has not maintained effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 14, 2008

Table of Contents

ITEM 9B *OTHER INFORMATION*

None.

PART III

ITEM 10 *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

Incorporated by reference from the Company s Definitive Proxy Statement for its 2008 annual meeting of stockholders.

ITEM 11 *EXECUTIVE COMPENSATION*

Incorporated by reference from the Company s Definitive Proxy Statement for its 2008 annual meeting of stockholders.

ITEM 12 *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Incorporated by reference from the Company s Definitive Proxy Statement for its 2008 annual meeting of stockholders.

ITEM 13 *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

Incorporated by reference from the Company s Definitive Proxy Statement for its 2008 annual meeting of stockholders.

ITEM 14 *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Incorporated by reference from the Company s Definitive Proxy Statement for its 2008 annual meeting of stockholders.

PART IV

ITEM 15 *EXHIBITS AND FINANCIAL STATEMENTS*

(a) (1) *Financial Statements*

See index in Item 8

(a) (2) *Schedules*

Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

66

Table of Contents

(b) *Exhibits*

Exhibits	Description of Document
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(9)
4.1	Specimen Common Stock Certificate(2)
10.1	1984 Stock Option Plan of the Company, as amended(2)
10.2	1993 Stock Option Plan(3)
10.3	1998 Stock Option and Incentive Plan(4)
10.4	Amended and Restated 2000 Stock Option and Incentive Plan(5)
10.5	Form of Non-Qualified Stock Option under the Vicor Corporation Amended and Restated 2000 Stock Option and Incentive Plan(6)
10.6	Sales Incentive Plan(7)
10.7	Picor Corporation 2001 Stock Option and Incentive Plan(8)
10.8	Form of Non-Qualified Stock Option under the Picor Corporation 2001 Stock Option and Incentive Plan(8)
10.9	V*I Chip Corporation Amended 2007 Stock Option and Incentive Plan(11)
10.10	Form of Non-Qualified Stock Option Agreement under the V*I Chip Corporation Amended 2007 Stock Option and Incentive Plan(10)
10.11	Form of Incentive Stock Option Agreement under the V*I Chip Corporation Amended 2007 Stock Option and Incentive Plan(11)
10.12	Form of Stock Restriction Agreement under the V*I Chip Corporation Amended 2007 Stock Option and Incentive Plan(11)
21.1	Subsidiaries of the Company(12)
23.1	Consent of Independent Registered Public Accounting Firm(12)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934(12)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934(12)
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(12)
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(12)

(1) Filed as an exhibit to the Company s Annual Report on Form 10-K filed on March 29, 2001 and incorporated herein by reference.

(2) Filed as an exhibit to the Company s Registration Statement on Form 10, as amended, under the Securities Exchange Act of 1934 (File No. 0-18277), and incorporated herein by reference.

(3)

Filed as an exhibit to the Company s Registration Statement on Form S-8, as amended, under the Securities Act of 1933 (No. 33-65154), and incorporated herein by reference.

(4) Filed as an exhibit to the Company s Registration Statement on Form S-8, as amended, under the Securities Act of 1933 (No. 333-61177), and incorporated herein by reference.

(5) Filed as an exhibit to the Company s Proxy Statement for use in connection with its 2002 Annual Meeting of Stockholders, which was filed on April 29, 2002, and incorporated herein by reference.

Table of Contents

(6) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q filed on November 4, 2004 and incorporated herein by reference.

(7) Filed as an exhibit to the Company s Annual Report on Form 10-K filed on March 16, 2005 and incorporated herein by reference.

(8) Filed as an exhibit to the Company s Annual Report on Form 10-K filed on March 14, 2006 and incorporated herein by reference.

(9) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q filed on November 8, 2006 and incorporated herein by reference.

(10) Filed as an exhibit to the Company s Current Report on Form 8-K, dated June 6, 2007 and incorporated herein by reference.

(11) Filed as an exhibit to the Company s Current Report and Form 8-K, dated March 6, 2008 incorporated herein by reference.

(12) Filed herewith.

Table of Contents

VICOR CORPORATION

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2007, 2006 and 2005

Description	Balance at Beginning of Period	(Credit) Charge to Costs and Expenses	Other Charges, Deductions(1)	Balance at End of Period
2007				
Allowance for doubtful accounts	$ 583,000	$ 246,000	$ (431,000)	$ 398,000
2006				
Allowance for doubtful accounts	$ 635,000	$ 96,000	$ (148,000)	$ 583,000
2005				
Allowance for doubtful accounts	$ 468,000	$ 195,000	$ (28,000)	$ 635,000

(1) Reflects uncollectible accounts written off, net of recoveries.

Description	Balance at Beginning of Period	(Credit) Charge to Costs and Expenses	Other Charges, Deductions(2)	Balance at End of Period
2007				
Inventory reserves	$ 8,363,000	$ 1,075,000	$ (1,792,000)	$ 7,646,000
2006				
Inventory reserves	$ 10,691,000	$ 702,000	$ (3,030,000)	$ 8,363,000
2005				
Inventory reserves	$ 7,844,000	$ 4,777,000	$ (1,930,000)	$ 10,691,000

(2) Reflects amounts associated with inventory that have been discarded or sold.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Richard J. Nagel, Jr.

Richard J. Nagel, Jr.
Interim Chief Financial Officer
Vice President, Chief Accounting Officer

Dated: March 17, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Patrizio Vinciarelli Patrizio Vinciarelli	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 17, 2008
/s/ Richard J. Nagel, Jr. Richard J. Nagel, Jr.	Interim Chief Financial Officer Vice President, Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)	March 17, 2008
/s/ Estia J. Eichten Estia J. Eichten	Director	March 17, 2008
/s/ David T. Riddiford David T. Riddiford	Director	March 17, 2008
/s/ Barry Kelleher Barry Kelleher	Director	March 17, 2008
/s/ Samuel Anderson Samuel Anderson	Director	March 17, 2008
/s/ Claudio Tuozzolo	Director	March 17, 2008

Claudio Tuozzolo