SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 1997

[ ] 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.)

23 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: None

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

Common Stock, $.01 par value
(Title of Class)

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 [X] NO [ ]

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. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $574,400,301 as of February 27, 1998.

On February 27, 1998, there were 30,731,728 shares of Common Stock outstanding and 12,169,309 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 1998 annual meeting of stockholders are incorporated by reference into Part III.

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. Actual results could differ materially from those projected in the forward-looking statements as a result, among other factors, of the risk factors set forth in this report. Reference is made in particular to the discussions set forth under Item 1 - "Business - Second-Generation Automated Manufacturing Line," "Competition," "- Patents," and "- Licensing," and under Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 1 - BUSINESS

THE COMPANY

Vicor Corporation was incorporated in Delaware in 1981. Unless the context indicates otherwise, the term "Company" means Vicor Corporation and its consolidated subsidiaries. The Company designs, develops, manufactures and markets modular power components and complete power systems using an innovative, patented, high frequency electronic power conversion technology called "zero current switching." Power systems, a central element in any electronic system, convert power from a primary power source (e.g., a wall outlet) into the stable DC voltages that are required by most contemporary electronic circuits.

In 1987, the Company formed VLT Corporation as its licensing subsidiary. In 1990, the Company established a Technical Support Center in Germany and a foreign sales corporation. 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), which are majority owned subsidiaries. VIAs provide customers with local design and manufacturing services for turnkey custom power solutions. At December 31, 1997 there were five (5) VIAs operating in the United States. In 1996, the Company established Vicor B.V., a Netherlands company, which will serve as a European Distribution Center. The Company became publicly traded on the NASDAQ National Market System in April, 1990.

PRODUCTS

Power systems are incorporated into virtually all electronic products, such as computers and telecommunication equipment, to convert electric power from a primary source, for example a wall outlet, into the stable DC voltages required by electronic circuits. Since power systems are configured 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 applied by users to easily configure a power system specific to their 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's principal product lines include:

Modular Power Converters

The Company currently offers five first generation families of component-level DC-DC power converters: the VI-100, VI-200, VI-J00, MI-200, and MI-J00 families. Designed to be mounted directly on a printed circuit board assembly and soldered in place using contemporary manufacturing processes, each family comprises a 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 the case of the "MI" families, in target market (the MI families are designed specifically to meet many of the performance requirements of the military markets).

In September of 1996, the Company introduced two models of its second generation of high power density, component-level DC-DC converters. The first model delivers 600 watts and is designed for telecommunications and distributed power systems. The second model delivers 5 volts at 80 amps and is designed for the industrial, automatic test equipment and computer markets. Both models are packaged in the Company's "full size" format. In November of 1996 the Company introduced a third model in a new package, the "Micro", one-third the size of VI-200 converters. This model delivers 150 watts and is designed for telecommunications and distributed power systems.

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 EDP 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 are either factory or field configurable.

Many telecommunications, military and industrial electronic products are powered off of 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.

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 1996 the Company introduced a new component-level AC front end, the VI-ARM (AC Rectifier Module). This front end product is packaged in the Company's new "Micro" package and includes a controller that tracks the AC line to ensure correct operation for domestic or international line voltages.

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 which 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-Resalers ("VARs"). The Company has also put in place a network of Vicor Integration Architects ("VIAs") (see "The Company," above in Item 1 - "Business"). 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 customers.

SALES AND MARKETING

The Company sells its products through a network of 31 independent sales representative organizations in North and South America; internationally, 38 independent distributors are utilized. Sales activities are managed by a staff of Regional and Industry Sales Managers and sales personnel based at the Company's world headquarters in Andover, Massachusetts, its Westcor division in Sunnyvale, California, a sales office in Lombard, Illinois, and in its Technical Support Center subsidiaries in Munich, Germany; Camberley Surrey, England; Milano, Italy; Paris, France; and Hong Kong.

Export sales, as a percentage of total net revenues, were approximately 29%, 29%, and 32%, in 1997, 1996, and 1995, respectively. The decrease in export sales during 1997 and 1996 as compared to 1995 is due to a decrease in revenue earned from the sale of automated manufacturing line equipment.

Because of the technical nature of the Company's product lines, the Company engages a staff of Customer Applications Engineers to support the Company's sales activities. Customer Applications Engineers provide direct technical sales support worldwide to review new applications and technical matters with existing and potential customers. In 1995 the Company significantly expanded its staff of Customer Applications Engineers by opening Technical Support Centers in Italy, France, United Kingdom and Hong Kong, complementing its existing Technical Support Center in Germany. The Company generally warrants its standard products for a period of two years.

The Company also sells directly to customers through Vicor Express, an in-house distribution group. Through space 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 expanded its Vicor Express operation to include locations in Germany, France and Italy.

CUSTOMERS AND APPLICATIONS

The Company's customer base is comprised of large Original Equipment Manufacturers (OEMs) and smaller, lower volume users which are broadly distributed across several major market areas. Some examples of the diverse applications of the Company's products are:

Telecommunications:	EDP:
Central Office Systems	Workstations
Fiber Optic Systems	Supercomputers
Cellular Telecommunications	Fault Tolerant Computers
Microwave Communications	Data Storage Systems
Voice Processing Multiplexers	ATM Switches
Paging Equipment	Networking Equipment
Broadcast Equipment	LAN/WAN Systems
	File Servers
	RAID Systems
Measurement and Control:	Military:
Process Control Equipment	Communications
Medical Equipment	Airborne Radar and Displays
Seismic Equipment	Aircraft/Weapons Test Equipment
Test Equipment	Ruggedized Computers
Transportation Systems	Electro-Optical Systems
Agricultural Equipment	IR Reconnaissance/Targeting Systems
Marine Products	

For the years ended December 31, 1997, 1996 and 1995, no single customer accounted for more than 10% of net revenues.

BACKLOG

As of December 31, 1997, the Company had a backlog of approximately $48 million compared to $44 million at December 31, 1996. Backlog is comprised of orders for products which have a scheduled shipment date within the next twelve months. The Company maintains most standard converter products in inventory and manufactures other standard, modified standard and custom products pursuant to firm orders from customers. The Company believes that due to its increased production capacity and its ability to respond quickly to customers' requirements, 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 three areas: continued enhancement of the Company's patented technology; expansion of the Company's families of component level DC-DC converter products; and continued development of configurable products based upon market opportunities. The Company invested approximately $17.7 million, $14.3 million, and $11.6 million, in research and development in 1997, 1996 and 1995, respectively. Investment in research and development represented 10.9%, 9.9%, and 8.0%, of net revenues in 1997, 1996 and 1995. The Company plans to continue to invest a significant percentage of revenues into research and development.

MANUFACTURING

The Company's principal manufacturing processes are 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 "burn-in" of certain products and product test using automatic test equipment.

The Company continues to execute on its strategy to minimize manual assembly processes, reduce manufacturing costs, increase product quality and reliability and ensure its ability to rapidly and effectively expand capacity. The strategy is based upon the phased acquisition and/or fabrication, qualification and integration of automated manufacturing equipment. In accordance with this strategy, the Company purchased a building in December 1994, with approximately 136,000 square feet. The Company is in the process of expanding this building by approximately 70% (see Item 2 - Properties). The Company continues the process of installing its automated manufacturing lines in these premises (see "Second-Generation Automated Manufacturing Line," below).

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 in which single source items do exist, the Company maintains what it considers to be appropriate levels of inventories. 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 any material effect on the financial condition or operations of the Company.

SECOND-GENERATION AUTOMATED MANUFACTURING LINE

In 1995, the Company started prototype production on a new automated manufacturing line specifically designed to manufacture second-generation products. In the fourth quarter of 1996, the Company began introducing selected models of its second-generation product families which had been produced on this line. During 1997, the Company shipped a limited number of second-generation products, while continuing to make modifications to the designs, processes, equipment and parts associated with second-generation products. While management believes that the initiation of limited production on the new manufacturing line and the introduction of selected models of its second-generation product families are important milestones, there can be no assurance that problems will not substantially delay the ultimate general introduction of the complete product line, require continued modification of product specifications, or prevent attainment of the anticipated capacity of the new manufacturing line. Significant revenues from the sale of any products in the Company's second-generation product line are not expected to occur for several quarters. The Company plans to begin depreciation on a significant portion, approximately $32.5 million, of this product line in the second quarter of 1998. Approximately $2.5 million of this line will be depreciated on a straight-line basis over a period of five years, and approximately $30 million will be depreciated on a straight-line basis over a period of eight years. Consequently, this depreciation and other fixed and variable costs associated with the ramp-up of production are not expected to be fully absorbed until higher production volumes and higher yield levels are achieved. As a result, gross margins during 1998 may be negatively impacted until higher production volumes and higher yield levels are attained.

COMPETITION

Many power supply manufacturers target market segments similar to those of the Company. Representative examples are: Lambda Electronics, a subsidiary of Siebe, plc; Lucent Technologies; Artesyn Technologies (formerly Computer Products, Inc. and Zytec Corporation); Astec America; and RO Associates. 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.

PATENTS

The Company believes that its patents afford significant advantages by erecting 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 believes in vigorously protecting its rights under its patents (see "Item 3 - Legal Proceedings," below).

The Company has been issued thirty-six patents in the United States (which expire between 2001 and 2016), ten in Europe (which expire between 2002 and 2013 and which comprise a total of forty issued patents in eleven countries), and eleven in Japan (which expire between 2002 and 2015). The Company also has a number of patent applications pending in the United States, Europe and the Far East. 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. 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, licensing is an element of the Company's strategy for building worldwide product and technology acceptance and market share. In granting licenses, the Company 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 Corporation, 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. The Company is involved in litigation with a former licensee relating to the Company's termination of the license arrangement for the licensee's failure to accurately report revenues and make royalty payments and certain other related matters. Management does not believe that the ultimate outcome of this litigation will be materially adverse to the Company's financial condition or results of operations.

On March 31, 1997, Japan Tobacco, Inc. ("JT"), the Company's exclusive licensee in Japan, notified the Company of its decision to convert its license into a non-exclusive license. Under the terms of the license agreement, JT is nonetheless obligated to make certain minimum royalty payments relating to its exclusive rights through early 1999. The Company is currently formulating plans for the expansion of its power supply business in Japan.

On September 17, 1997, the Company announced that it had entered into a license agreement with Delta Electronics, Inc., ("Delta"), under which Delta acquired non-exclusive rights to use the Company's patented "reset" technology in its power conversion products. Reset technology (which has also become known in the power conversion industry as "active clamp" technology) enables design of "zero-voltage switching" power converters which are smaller and more energy efficient than conventional power supplies.

EMPLOYEES

As of December 31, 1997, the Company employed approximately 1,118 full time and 247 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.

None of the Company's employees is subject to a collective bargaining agreement. The Company has not experienced any work stoppages and believes that its employee relations are good.

ITEM 2 - PROPERTIES

The Company currently leases approximately 64,000 square feet of office and manufacturing space for its corporate headquarters and manufacturing operations at 23 Frontage Road, Andover, Massachusetts pursuant to a lease which expires in 1999.

During 1997, the Company began construction of a new corporate headquarters building on a site adjacent to its current headquarters building in Andover, Massachusetts. The building will provide approximately 90,000 square feet of office space for its sales, marketing, engineering and administration personnel. The building is expected to be completed in the second quarter of 1998.

The Company also owns a building of approximately 136,000 square feet, in Andover, Massachusetts. During 1997, the Company began construction of a 94,000 square foot expansion of this building, which will provide additional capacity for manufacturing. Completion of the expansion is expected in the third quarter of 1998.

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

ITEM 3 - LEGAL PROCEEDINGS

On October 17, 1996, the Company filed a complaint in Munich District Court, Federal Republic of Germany, citing Nemic-Lambda of Japan and Lambda Electronics GmbH for infringement of Vicor's German "reset" patent. Vicor seeks injunctive relief and damages. On June 9, 1997 Lambda Electronics GmbH filed a nullity action in the German Patent Court seeking to have the Company's German reset patent declared null and void.

The Company is involved in certain litigation incidental to the conduct of its business. While the outcome of lawsuits against the Company cannot be predicted with certainty, management does not expect any current litigation to have a material adverse impact on the Company (see "Licensing," above).

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 National Market System of the National Association of Securities Dealers Automated Quotation ("NASDAQ") System and is traded in the over-the-counter market under the NASDAQ symbol "VICR". The Class B Common Stock of the Company is not traded on any market and transfer is restricted by the Company's Restated Certificate of Incorporation. The following table sets forth the quarterly high and low sales prices for the Common Stock as reported by NASDAQ for the periods indicated:

1996	High	Low
First Quarter	21 1/4	12 1/2
Second Quarter	23 5/8	14 1/2
Third Quarter	25 3/4	18
Fourth Quarter	25 1/8	16 1/2
1997		
First Quarter	19	13 1/8
Second Quarter	23 3/8	13 1/8
Third Quarter	30 1/8	21
Fourth Quarter	36 1/4	24 1/8

As of February 27, 1998, there were approximately 570 holders of record of the Company's Common Stock and approximately 34 holders of record of the Company's Class B Common Stock. These numbers do not reflect persons or entities who hold their stock in nominee or "street name" through various brokerage firms.

DIVIDEND POLICY

The Company has not paid cash dividends on its common equity and it is the Company's present intention to retain earnings to finance the expansion of the Company's business.

ITEM 6 - SELECTED FINANCIAL DATA

The following selected consolidated financial data with respect to the Company's statements of income for the years ended December 31, 1997, 1996 and 1995 and with respect to the Company's balance sheets as of December 31, 1997 and 1996 are derived from the Company's consolidated financial statements, which appear elsewhere in this report and which have been audited by Ernst & Young LLP, independent auditors. The following selected consolidated financial data with respect to the Company's statements of income for the years ended December 31, 1994 and 1993 and with respect to the Company's balance sheets as of December 31, 1995, 1994 and 1993 are derived from the Company's audited consolidated financial statements, and which are not included herein. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

Year Ended December 31
(in thousands except per share data)

Income Statement Data

	1997	1996	1995	1994	1993
Net revenues	$162,243	$144,983	$144,022	$115,444	$ 84,034
Income from operations	35,950	36,532	42,632	33,340	21,674
Net income	26,217	25,639	29,498	22,135	15,131
Net income per share -diluted	.60	.60	.68	.52	.35
Weighted average shares	43,344	42,764	43,295	42,963	43,458

The income per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, "Earnings per Share." For further discussion of earnings per share and the impact of Statement No. 128, see Notes 1 and 7 of the Notes to the Consolidated Financial Statements which appear elsewhere in this report.

	At December 31 (in thousands)				
Balance Sheet Data	1997	1996	1995	1994	1993
Working capital	$128,267	$108,551	$ 95,900	$ 65,015	$ 62,850
Total assets	228,843	186,443	166,997	126,492	114,813
Total liabilities	20,419	15,699	16,941	13,014	12,416
Long-term debt	-	-	-	-	104
Stockholders' equity	208,424	170,744	150,056	113,478	102,397

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

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 of the Company contained elsewhere in this report.

	Year ended December 31		
	1997	1996	1995
Net revenues	100.0%	100.0%	100.0%
Gross margin	51.8%	53.9%	52.7%
Selling, general and administrative expenses	18.7%	18.8%	15.0%
Research and development expenses	10.9%	9.9%	8.0%
Income before income taxes	25.2%	27.9%	32.5%

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996:

Net revenues for fiscal 1997 were $162,243,000, an increase of $17,260,000 (11.9%) as compared to $144,983,000 for fiscal 1996. The growth in revenues resulted primarily from a net increase in unit shipments of standard and custom products of approximately $22,800,000, offset by reductions in license income and the sale of automated manufacturing line equipment of approximately $3,200,000 and $2,300,000, respectively.

Gross margin increased $5,904,000 (7.6%) from $78,105,000 to $84,009,000, but decreased as a percentage of net revenues from 53.9% to 51.8%. The primary component of the fluctuations in gross margin dollars and percentage was changes in the revenue mix.

Selling, general, and administrative expenses were $30,327,000 for the year, an increase of $3,095,000 (11.4%) over fiscal 1996. As a percentage of net revenues, selling, general and administrative expenses decreased from 18.8% to 18.7%. The principal components of the $3,095,000 increase were $1,795,000 (17.9%) of compensation expense due to growth in staffing levels of sales and administrative personnel, increased sales commission expense of $758,000 (19.4%) and increased legal expenses of $354,000 (43.3%).

Research and development expenses increased $3,391,000 (23.6%) to $17,732,000, and increased as a percentage of net revenues to 10.9% from 9.9%. The principal components of the $3,391,000 increase were $2,068,000 (25.6%) of compensation expense due to growth in staffing levels of engineering personnel, an increase in project materials of $366,000 (13.0%), $334,000 (26.7%) of increased depreciation expense, and an increase in the Company's VIA subsidiaries' research and development expenses of $266,000 (60.4%). The

Company has a long-term commitment to reinvesting its profits in new product design and development in order to maintain and improve its competitive position.

Other income increased $1,154,000 (29.9%) to $5,014,000. Other income is primarily comprised of interest income which was derived from invested cash and cash equivalents, as well as notes receivable associated with the Company's real estate transactions. Interest income increased primarily due to an increase in these balances.

Income before income taxes was $40,964,000, an increase of $572,000 (1.4%) compared to 1996. As a percentage of net revenues, income before income taxes decreased from 27.9% in 1996 to 25.2% in 1997.

The provision for income taxes totaled $14,747,000 in 1997 compared to $14,753,000 in 1996. The Company's overall tax rate was 36.0% and 36.5% for 1997 and 1996, respectively.

Net income in 1997 increased by $578,000 to $26,217,000. Diluted earnings per share were $.60 in 1997 and 1996.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995:

Net revenues for fiscal 1996 were $144,983,000, an increase of $961,000 (.7%) as compared to $144,022,000 for fiscal 1995. The growth in revenues resulted primarily from an increase in unit shipments of standard and custom products of $5,468,000, offset by a decrease in revenue recognized under the Company's long-term contract for the sale of automated manufacturing line equipment of $5,128,000.

Gross margin increased $2,253,000 (3.0%) from $75,852,000 to $78,105,000, and increased as a percentage of net revenues to 53.9% from 52.7%. The primary component of the increase in gross margin was changes in the revenue mix.

Selling, general, and administrative expenses were $27,232,000 for the year, an increase of $5,564,000 (25.7%) over fiscal 1995. As a percentage of net revenues, selling, general and administrative expenses increased to 18.8% as compared to 15.0% in 1995. The principal components of the $5,564,000 increase were $1,645,000 (19.7%) of compensation expense due to growth in staffing levels of sales and administrative personnel, international office expenses of $954,000 (239.0%), VIA related expenses of $799,000 (88.1%) (see the discussion under Item 1 - "Business"), and legal expense of $517,000 (175.3%). The increase in international office expenses and VIA related expenses reflects a full year of expenses for the Company's international Technical Support Centers and in the Company's VIA subsidiaries that had been established in 1995.

Research and development expenses increased $2,789,000 (24.1%) to $14,341,000, and increased as a percentage of net revenues to 9.9% from 8.0%. The principal components of the $2,789,000 increase were $1,560,000 (23.9%) of compensation expense due to growth in staffing levels of engineering personnel, an increase in project materials of $497,000 (24.4%) and an increase in VIA related research and development expenses of $262,000 (142.0%).

Other income decreased $331,000 (7.9%) to $3,860,000. Other income is primarily comprised of interest income which was derived from cash and cash equivalents, as well as the notes receivable associated with the Company's real estate transactions. This decrease is primarily due to a reduction in interest income earned on lower average balances from an escrow account maintained in connection with the Company's long-term contract for the sale of automated manufacturing line equipment and from an overall decrease in market interest rates during the twelve months ended December 31, 1996, as compared with the same period a year ago.

Income before income taxes was $40,392,000, a decrease of $6,431,000 (13.7%) compared to 1995. As a percentage of net revenues, income before income taxes decreased from 32.5% in 1995 to 27.9% in 1996.

The provision for income taxes totaled $14,753,000 in 1996 compared to $17,325,000 in 1995. The Company's overall tax rate was 36.5% and 37% for 1996 and 1995, respectively.

Net income in 1996 decreased by $3,859,000 to $25,639,000. Diluted earnings per share in 1996 were $.60 compared to $.68 in 1995, a decrease of $.08 (11.8%).

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1997, the Company had $84,859,000 in cash and cash equivalents. Working capital increased $19,716,000 during the year ended December 31, 1997. This increase was due primarily to an increase in cash and cash equivalents of $11,212,000 and accounts receivable of $10,257,000.

Cash used in investing activities during fiscal 1997 was $26,387,000, an increase of $10,026,000 (61.3%) compared to fiscal 1996. This increase was primarily due to net additions to property and equipment of $5,882,000 and a net change in notes receivable of $4,007,000. Cash provided by financing activities was $11,463,000 compared to cash used in financing activities of $4,951,000 in 1996, a net change of $16,414,000. This change is primarily attributed to a net decrease in the acquisition cost of treasury stock of $12,324,000 in 1997, and an increase in the net proceeds from the issuance of Common Stock upon the exercise of stock options, and the related income tax benefit derived from such issuance, of $4,090,000.

The Company plans to continue its investments in manufacturing equipment, much of which is built internally. The internal construction of manufacturing machinery, in order to provide for additional manufacturing capacity, is a practice which the Company expects to follow over the next several years.

In November, 1997, the Board of Directors of the Company authorized the repurchase of the Company's Common Stock up to an aggregate amount of $30,000,000, including amounts remaining under a prior authorization. The plan authorizes the Company to make such 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 1997, the Company spent $683,000 in the repurchase of its Common Stock.

The Company has an unused line of credit with a bank under which the Company may borrow up to $4,000,000 on a revolving credit basis. The Company believes that cash generated from operations and its cash and cash equivalents will be sufficient to fund planned operations and capital equipment purchases for the foreseeable future. At December 31, 1997, the Company had approximately $7,600,000 of capital expenditure commitments, including $6,400,000 related to the construction of new facilities.

The Company does not consider the impact of inflation on its business activities or fluctuations in the exchange rates for foreign currency transactions to have been significant to date.

OTHER

In 1995, the Company started prototype production on a new automated manufacturing line specifically designed to manufacture second-generation products. In the fourth quarter of 1996, the Company began introducing selected models of its second-generation product families which had been produced on this line. During 1997, the Company shipped a limited number of second-generation products, while continuing to make modifications to the designs, processes, equipment and parts associated with second-generation products. While management believes that the initiation of limited production on the new manufacturing line and the introduction of selected models of its second-generation product families are important milestones, there can be no assurance that problems will not substantially delay the ultimate general introduction of the complete product line, require continued modification of product specifications, or prevent attainment of the anticipated capacity of the new manufacturing line. Significant revenues from the sale of any products in the Company's second-generation product line are not expected to occur for several quarters. The Company plans to begin depreciation on a significant portion, approximately $32.5 million, of this product line in the second quarter of 1998. Approximately $2.5 million of this line will be depreciated on a straight-line basis over a period of five years, and approximately $30 million will be depreciated on a straight-line basis over a period of eight years. Consequently, this depreciation and other fixed and variable costs associated with the ramp-up of production are not expected to be fully absorbed until higher production volumes and higher yield levels are achieved. As a result, gross margins during 1998 may be negatively impacted until higher production volumes and higher yield levels are attained.

Impact of Year 2000

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The Company has determined that it will be required to modify or replace significant portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. The Company is in the process of installing a new Enterprise Resource Planning (ERP) system which will replace its current information system. The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 Issue will not pose significant operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 Issue could have a material impact on the operations of the Company.

The Company has initiated formal communications with all of its significant suppliers and large customers to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to remediate their own Year 2000 Issues. The Company's total Year 2000 project cost and estimates to complete include the estimated costs and time associated with the impact of third party Year 2000 Issues based on presently available information. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be timely converted and would not have an adverse effect on the Company's systems. The Company does not believe that it has any exposure to contingencies related to the Year 2000 Issue for the products it has sold.

The Company is utilizing both internal and external resources to reprogram, or replace, and test the software for Year 2000 modifications, including the installation of the new ERP system. The Company anticipates completing the date-critical elements of the Year 2000 project no later than December 31, 1998, which is prior to any anticipated impact on its operating systems, and other non-critical elements during 1999. The total external cost of the Year 2000 project is estimated at $6.1 million and is being funded through operating cash flows. Internal costs are not considered to be incremental, and therefore are not included in this amount. Of the total project cost, approximately $2.2 million is attributable to the purchase of new software and hardware enhancements, which will be capitalized. The remaining $3.9 million, which will be expensed as incurred, is not expected to have a material effect on the results of operations. To date, the Company has incurred approximately $1.6 million ($160,000 expensed and $1.4 million capitalized for new systems), principally related to the purchase of the software licenses for the new ERP system.

The costs of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
VICOR CORPORATION

We have audited the accompanying consolidated balance sheets of Vicor Corporation as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the Index at Item 14(a). 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 generally accepted auditing standards. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with 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.

Ernst & Young LLP

Boston, Massachusetts
January 26, 1998

VICOR CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 1997 and 1996

	1997	1996
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 84,859	$ 73,647
Accounts receivable, less allowance of $971 in 1997 and $879 in 1996	35,258	25,001
Inventories, net	23,448	21,129
Other current assets	3,269	2,765
Total current assets	146,834	122,542
Property, plant and equipment, net	69,802	57,613
Notes receivable	9,097	3,795
Other assets	3,110	2,493
	$228,843	$186,443
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,542	$ 5,558
Accrued compensation and benefits	2,154	2,129
Accrued expenses	2,741	2,184
Income taxes payable	5,110	3,594
Deferred revenue	20	526
Total current liabilities	18,567	13,991
Deferred income taxes	1,852	1,708
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred Stock, $.01 par value, 1,000,000 shares authorized; 360,001 issued and none outstanding in 1997 and 1996	-	-
Class B Common Stock: 10 votes per share, $.01 par value, 14,000,000 shares authorized, 12,173,809 issued and outstanding (12,264,809 in 1996)	122	123
Common Stock: 1 vote per share, $.01 par value, 62,000,000 shares authorized, 33,958,142 shares issued and 30,674,748 outstanding (33,134,135 issued and 29,876,741 outstanding in 1996)	340	331
Additional paid-in capital	97,980	85,842
Retained earnings	151,056	124,839
Treasury stock at cost: 3,283,394 shares (3,257,394 shares in 1996)	(41,074)	(40,391)
Total stockholders' equity	208,424	170,744
	$228,843	$186,443

See accompanying notes

VICOR CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
	(in thousands, except per share amounts)		
Net revenues	$162,243	$144,983	$144,022
Costs and expenses:			
Cost of revenue	78,234	66,878	68,170
Selling, general and administrative	30,327	27,232	21,668
Research and development	17,732	14,341	11,552
	126,293	108,451	101,390
Income from operations	35,950	36,532	42,632
Other income	5,014	3,860	4,191
Income before income taxes	40,964	40,392	46,823
Provision for income taxes	14,747	14,753	17,325
Net income	$ 26,217	$ 25,639	$ 29,498
Net income per common share:			
Basic	$ .62	$ .61	$ .70
Diluted	$ .60	$ .60	$ .68
Shares Outstanding:			
Basic	42,595	41,947	42,343
Diluted	43,344	42,764	43,295

See accompanying notes

VICOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
		(in thousands)	
Operating activities:			
Net income	$ 26,217	$ 25,639	$ 29,498
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,289	8,338	8,232
(Gain) loss on disposal of equipment	(10)	4	(20)
Deferred income taxes	(201)	(28)	1,049
Change in current assets and liabilities, net	(8,159)	(4,238)	(9,024)
Net cash provided by operating activities	26,136	29,715	29,735
Investing activities:			
Additions to property, plant and equipment	(20,177)	(14,295)	(15,593)
Proceeds from sale of equipment	20	16	33
Decrease (increase) in notes receivable	(5,302)	(1,295)	1,473
Increase in other assets	(928)	(787)	(581)
Net cash used in investing activities	(26,387)	(16,361)	(14,668)
Financing activities:			
Tax benefit relating to stock option plans	2,950	2,844	3,516
Proceeds from issuance of Common Stock	9,196	5,212	8,662
Payments on long-term debt	-	-	(104)
Acquisitions of treasury stock	(683)	(13,007)	(5,098)
Net cash provided by (used in) financing activities	11,463	(4,951)	6,976
Net increase in cash and cash equivalents	11,212	8,403	22,043
Cash and cash equivalents at beginning of year	73,647	65,244	43,201
Cash and cash equivalents at end of year	$ 84,859	$ 73,647	$ 65,244

Continued on following page

VICOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
		(in thousands)	
Change in current assets and liabilities:			
Accounts receivable	$(10,257)	$ 1,170	$(8,877)
Inventories	(2,319)	(4,444)	(3,007)
Other current assets	(159)	260	(482)
Accounts payable and other accrued items	3,566	(1,378)	3,805
Income taxes payable	1,516	(122)	(463)
Deferred revenue	(506)	276	-
	$ (8,159)	$(4,238)	$(9,024)
Supplemental disclosures:			
Cash paid during the year for income taxes, net of refunds	$ 9,520	$10,911	$12,794

See accompanying notes

VICOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 1997, 1996 and 1995

(in thousands, except share amounts)

	CLASS B COMMON STOCK		COMMON STOCK		ADDITIONAL PAID-IN	RETAINED	TREASURY	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	EARNINGS	STOCK	EQUITY
Balance at December 31, 1994	6,199,711	$ 62	15,616,914	$156	$65,844	$ 69,702	$(22,286)	$113,478
Sales of Common Stock			548,770	6	8,656			8,662
Conversion of Class B Common Stock to Common Stock	(77,500)	(1)	77,500	1				-
Income tax benefit from transactions involving stock options					3,516			3,516
Two-for-one stock split, effected in the form of a dividend, at par value	6,197,098	62	16,147,675	161	(223)			-
Purchase of treasury stock							(5,098)	(5,098)
Net income						29,498		29,498
Balance at December 31, 1995	12,319,309	123	32,390,859	324	77,793	99,200	(27,384)	150,056
Sales of Common Stock			688,776	7	5,205			5,212
Conversion of Class B Common Stock to Common Stock	(54,500)		54,500					-
Income tax benefit from transactions involving stock options					2,844			2,844
Purchase of treasury stock							(13,007)	(13,007)
Net income						25,639		25,639
Balance at December 31, 1996	12,264,809	123	33,134,135	331	85,842	124,839	(40,391)	170,744
Sales of Common Stock			733,007	8	9,188			9,196
Conversion of Class B Common Stock to Common Stock	(91,000)	(1)	91,000	1				-
Income tax benefit from transactions involving stock options					2,950			2,950
Purchase of treasury stock							(683)	(683)
Net income						26,217		26,217
Balance at December 31, 1997	12,173,809	$122	33,958,142	$340	$97,980	$151,056	$(41,074)	$208,424

See accompanying notes

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Vicor Corporation (the "Company") 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.

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.

REVENUE RECOGNITION

Revenue is recognized generally when a product is shipped. License fees are recognized ratably over the period of exclusivity or as additional royalty payments would have been required, if greater. Revenue from the long-term contract entered into in 1993 for the sale of automated manufacturing line equipment is being recognized under the percentage of completion accounting method until the fabrication, qualification and production support processes are completed, which will continue over a period of time determined by the amount of support activity requested. Revenues recognized from this contract were less than 10% of net revenues in 1997, 1996 and 1995.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes funds held in checking and money market accounts with banks and certificates of deposit with maturities of less than three months when purchased. Cash and cash equivalents are valued at cost which approximates market value. The Company's short-term investments, which are classified as cash equivalents on the balance sheet, consist principally of money market securities which 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. As of December 31, 1997, the Company has approximately $81 million of available-for-sale securities ($71 million as of December 31, 1996). The Company has no trading securities or held-to-maturity securities.

CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and trade accounts receivable. The Company maintains cash and cash equivalents and certain other financial instruments with various financial institutions. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base. Credit losses have consistently been within management's expectations and have not been material.

INTANGIBLE ASSETS

Intangible assets consist primarily of values assigned to patents and are amortized using the straight-line method over a period of five to fifteen years.

WARRANTY COSTS

Costs related to product warranty are expensed as incurred.

NET INCOME PER COMMON SHARE

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share." Statement No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

previously reported fully diluted earnings per share. All income per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement No. 128 requirements.

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.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income," and Statement No. 131, "Disclosures About Segments of an Enterprise and Related Information." Statement No. 130 establishes standards for the reporting and display of comprehensive income and its components. Statement No. 131 establishes standards for the way that public companies report information about operating segments in financial statements. This Statement supersedes Statement No. 14, "Financial Reporting for Segments of a Business Enterprise," but retains the requirements to report information about major customers. Statements 130 and 131 are effective for the Company in fiscal 1998. The Company does not believe that the adoption of these Statements will have a material effect on the Company's financial statements.

2. INVENTORIES

Inventories are valued at the lower of cost (determined using the first-in, first-out method) or market. Inventories were as follows (in thousands):

	December 31	
	1997	1996
Raw materials	$16,715	$12,627
Work-in-process	3,774	2,290
Finished goods	2,959	6,212
	$23,448	$21,129

3. 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. Property, plant and equipment was as follows (in thousands):

	December 31	
	1997	1996
Land	$ 2,089	$ 2,076
Buildings and improvements	11,644	11,644
Machinery and equipment	58,563	52,625
Furniture and fixtures	3,720	3,505
Leasehold improvements	2,335	2,240
Building construction-in-progress	3,160	-
Construction-in-progress	37,841	27,327
	119,352	99,417
Less accumulated depreciation and amortization	49,550	41,804
	$ 69,802	$57,613

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At December 31, 1997, the Company had approximately $7,600,000 of capital expenditure commitments, including $6,400,000 related to the construction of new facilities.

4. NOTES RECEIVABLE

In May 1997, the Company received a promissory note in the amount of $7,500,000 from an unrelated third party in exchange for $5,000,000 in cash plus the termination of an existing note in the amount of $2,500,000. The note bears interest at 9% and is due in May 2002. The note is secured by a mortgage on certain real estate and by the assignment of certain leases and other contracts.

The Company's President has borrowed a total of $1,425,393 from the Company pursuant to a series of unsecured term notes. The notes have terms of five years and are due at various dates through August 2002. The notes bear interest at the higher of the Company's prime borrowing rate less 1%, or the applicable federal rate under the Internal Revenue Code of 1986, as amended. As of December 31, 1997, the notes and interest receivable balance was approximately $1,601,000 ($1,245,000 as of December 31, 1996) and the applicable interest rate at December 31, 1997 was 7.50%.

Two Vice-Presidents of the Company have borrowed a total of $111,000 from the Company pursuant to term notes. One note for $35,000 is secured by a mortgage on certain real estate, while the remaining notes are unsecured. The notes bear interest at the Company's prime borrowing rate less 1%. As of December 31, 1997, the notes and interest receivable balance was approximately $87,000 ($54,000 as of December 31, 1996). The applicable interest rate at December 31, 1997 was 7.50%.

5. FINANCING ARRANGEMENTS

The Company has an unused line of credit with a bank under which the Company may borrow up to $4,000,000 on a revolving credit basis. Borrowings under this line would bear interest at the Company's option of an interest rate equal to the Lender's base rate, 30 day LIBOR + 1.75% or the 30 day Banker's Acceptance (BA) rate + 2.25%.

6. STOCKHOLDERS' EQUITY

In November 1997, the Board of Directors of the Company authorized the repurchase of the Company's Common Stock up to an aggregate amount of approximately $30,000,000, including amounts remaining under a prior authorization. The plan authorizes the Company to make such 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 1997, the Company spent $683,000 in the repurchase of its Common Stock.

Common Stock

Each share of Common Stock entitles the holder thereof to one vote on all matters submitted to the shareholders. 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 stockholders except to or among such stockholder's spouse, certain of such 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 all times and without cost to the shareholder into shares of Common Stock on a share-for-share basis.

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INCOME PER SHARE

The following table sets forth the computation of basic and diluted income per share:

	1997	1996	1995
Numerator:			
Net income	$26,217	$25,639	$29,498
Denominator:			
Denominator for basic income per share - weighted average shares	42,595	41,947	42,343
Effect of dilutive securities:			
Employee stock options	749	817	952
Denominator for diluted income per share - adjusted weighted-average shares and assumed conversions	43,344	42,764	43,295
Basic income per share	$ .62	$ .61	$ .70
Diluted income per share	$ .60	$ .60	$ .68

Options to purchase 20,615 shares of Common Stock at prices ranging from $30.00 to $30.19 per share were outstanding during 1997 but were not included in the computation of diluted income per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

8. EMPLOYEE BENEFIT PLANS

Stock Options

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. 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.

Under the 1993 Stock Option Plan (the "1993 Plan"), the Board of Directors or the Compensation Committee may grant stock options to employees and non-employee directors to purchase shares of Common Stock at a price at least equal to the fair market value per share of the outstanding Common Stock at the time the option is granted. Both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code and non-qualified stock options have been authorized to be granted. Incentive stock options may be granted to employees, including employees who are directors of the Company, and non-qualified options may be granted to non-employee directors. Both employee directors and non-employee directors automatically receive stock options upon election or re-election as a director. A total of 4,000,000 shares of Common Stock have been reserved for issuance under the 1993 Plan. Stock options are typically granted with vesting periods and become exercisable over various periods of time, ranging from six months to five years from the date of grant, and expire over various periods of time, ranging from one to ten years from the date of grant.

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EMPLOYEE BENEFIT PLANS (CONTINUED)

Under the Company's 1984 Stock Option Plan, as amended (the "1984 Plan"), the Board of Directors or the Compensation Committee granted stock options to employees to purchase shares of Common Stock at a price at least equal to the fair market value per share of the outstanding Common Stock at the time the option was granted. Stock options under the 1984 Plan were typically granted with vesting periods and became exercisable over various periods of time, ranging from six months to five years from the date of grant, and expire over various periods of time, ranging from one to thirteen years from the date of grant. In connection with the adoption of the 1993 Plan, the Board of Directors terminated the granting of options under the 1984 Plan upon approval of the 1993 Plan, discussed above.

Activity as to stock options is as follows:

	1997	1996	1995
Outstanding at beginning of year	2,022,005	2,354,480	2,949,108
Granted	1,106,302	943,426	709,977
Cancelled	(197,448)	(587,125)	(227,688)
Exercised	(733,007)	(688,776)	(1,076,917)
Outstanding at end of year	2,197,852	2,022,005	2,354,480
Exercisable at end of year	1,336,125	1,552,672	1,886,035
Weighted - average exercise price:			
Outstanding at beginning of year	$ 8.97	$ 8.01	$ 5.87
Granted	$16.92	$14.97	$17.41
Cancelled	$15.49	$16.73	$ 9.25
Exercised	$12.55	$ 7.56	$ 8.04
Outstanding at end of year	$11.15	$ 8.97	$ 8.01
Exercisable at end of year	$ 7.60	$ 7.24	$ 6.78
Weighted - average fair value of options granted during the year	$ 6.74	$ 4.38	$ 5.21
Price range per share of outstanding options	$ .84-30.19	$ .84-24.50	$ .15-23.88
Price range per share of options granted	$13.38-30.19	$14.38-24.50	$12.50-23.75
Price range per share of options exercised	$ 1.00-24.38	$ .15-19.56	$ .15-19.19
Available for grant at end of year	1,088,996	2,002,247	2,375,510

The weighted - average contractual life for options outstanding as of December 31, 1997 is 5.98 years.

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EMPLOYEE BENEFIT PLANS (CONTINUED)

The following table summarizes information about stock options outstanding as of December 31, 1997:

	Range of Exercise Prices			
	$.84-$3.16	$3.38-$11.13	$11.25-$14.50	$14.88-$30.19
Options Outstanding:				
Number Outstanding	601,241	388,813	114,584	1,093,214
Weighted-Average Remaining Contractual Life	3.64	5.51	6.58	7.38
Weighted-Average Exercise Price	$ 1.64	$ 7.94	$ 13.18	$ 17.33
Options Exercisable:				
Number Exercisable	601,241	324,416	51,759	358,709
Weighted-Average Exercise Price	$ 1.64	$ 7.60	$ 12.92	$ 16.83

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997, 1996 and 1995, respectively: risk-free interest rates of 6.1%, 5.4% and 6.3%; dividend yields of zero; volatility factor of the expected market price of the Company's common stock of .52, .54 and .54; and a weighted-average expected life of the option of 3.3, 1.7 and 1.7 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands except for earnings per share information):

	1997	1996	1995
Pro forma net income	$23,947	$23,658	$27,932
Pro forma net income per share:			
Basic	$ .56	$ .56	$ .66
Diluted	$ .55	$ .55	$ .65

The effects on 1997, 1996 and 1995 pro forma net income and net income per share of expensing the fair value of stock options issued are not necessarily representative of the effects on reporting the pro forma results of operations for future years as the periods presented include only three, two and one years, respectively, of option grants under the Company's plans.

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EMPLOYEE BENEFIT PLANS (CONTINUED)

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 does not make contributions to this plan.

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, 1997, 109,964 shares were available for further award. All shares awarded to employees under this plan have vested in full. No further awards are contemplated under this plan at present.

9. 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	
	1997	1996
Deferred tax assets:		
Inventory reserves	$ 1,058	$ 883
Vacation	544	379
Bad debt	400	357
Other	337	375
Total deferred tax assets (current)	2,339	1,994
Deferred tax liabilities:		
Patent amortization	(1,170)	(904)
Depreciation	(682)	(804)
Total deferred tax liabilities (noncurrent)	(1,852)	(1,708)
Net deferred tax assets	$ 487	$ 286

Significant components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

	1997	1996	1995
Federal:			
Current	$12,877	$12,662	$13,463
Deferred (prepaid)	(201)	(28)	1,049
	12,676	12,634	14,512
State:			
Current	2,071	2,119	2,813
	$14,747	$14,753	$17,325

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

9. INCOME TAXES (CONTINUED)

The reconciliation of income tax attributable to continuing operations computed at the federal statutory rate to income tax expense is:

	1997	1996	1995
Statutory federal tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.3	3.5	4.0
Foreign Sales Corporation benefit	(1.5)	(1.4)	(1.5)
Tax credits	(0.8)	(0.6)	(0.5)
	36.0%	36.5%	37.0%

10. COMMITMENTS AND CONTINGENCIES

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

Year	
1998	$1,182
1999	1,052
2000	360
2001	199
2002	130

Rent expense was approximately $1,383,000, $1,329,000, and $1,016,000 in 1997, 1996 and 1995, respectively. The Company also pays executory costs such as taxes, maintenance and insurance.

The Company is involved in certain litigation incidental to the conduct of its business. While the outcome of lawsuits against the Company cannot be predicted with certainty, management does not expect any current litigation to have a material adverse impact on the Company.

11. SEGMENT INFORMATION

The Company operates in one industry segment: the development, manufacture and sale of power conversion components and systems. During 1997, 1996 and 1995, no customer constituted more than 10% of net revenues. Export sales, as a percentage of total sales, were approximately 29%, 29%, and 32% in 1997, 1996 and 1995, respectively. Sales and receipts are recorded and received in U.S. dollars. Foreign exchange variations have little or no effect on the Company at this time.

12. 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
1997: Net revenues	$37,939	$39,718	$41,400	$43,186	$162,243
Gross profit	20,062	20,416	21,433	22,098	84,009
Net income	5,976	6,363	7,130	6,748	26,217
Net income per share - diluted	.14	.15	.16	.15	.60

12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) (CONTINUED)

	First	Second	Third	Fourth	Total
1996: Net revenues	$35,806	$36,702	$35,673	$36,802	$144,983
Gross profit	19,259	19,847	19,320	19,679	78,105
Net income	6,660	6,718	6,235	6,026	25,639
Net income per share - diluted	.16	.16	.15	.14	.60

The 1996 and first three quarters of 1997 income per share amounts have been restated to comply with Statement of Financial Accounting Standards No. 128, "Earnings per Share."

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

None.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference from the Company's Definitive Proxy Statement for its 1998 annual meeting of stockholders.

ITEM 11 - EXECUTIVE COMPENSATION

Incorporated by reference from the Company's Definitive Proxy Statement for its 1998 annual meeting of stockholders.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the Company's Definitive Proxy Statement for its 1998 annual meeting of stockholders.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the Company's Definitive Proxy Statement for its 1998 annual meeting of stockholders.

ITEM 14 - FINANCIAL STATEMENTS, SCHEDULES, EXHIBITS, AND REPORTS ON FORM 8-K

(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.

ITEM 14 - FINANCIAL STATEMENTS, SCHEDULES, EXHIBITS, AND REPORTS ON FORM 8-K (continued)

(a) (3) EXHIBITS

Exhibits	Description of Document
3.1	- Restated Certificate of Incorporation*
3.2	- Bylaws, as amended*
4.1	- Specimen Common Stock Certificate*
10.1	- 1984 Stock Option Plan of the Company, as amended*
10.2	- Lease dated December 30, 1989, by and between the Company and David J. Carlberg and Paul Bruk, Jr., as Trustees of Frontage Road Realty Trust, relating to the corporate offices and manufacturing facilities at 23 Frontage Road, as amended*
10.3	- Military/Aerospace License Agreement dated as of March 1, 1985, by and between the Company and Kollmorgen Corporation*
10.4	- Western Europe License Agreement dated as of March 1, 1985, by and between the Company and Kollmorgen Corporation*
10.5	- Switching Power Supply Patents and Know-How Agreement dated as of December 2, 1986, by and between the Company and Reliance Electric Company*
10.6	- Switching Power Supply Patent and Information Agreement dated as of June 29, 1988, by and between VLT Corporation and Integran, Inc.*
10.7	- Vicor Corporation Employee Stock Bonus Plan*
10.8	- Vicor Corporation 401(k) Plan*
10.9	- Amendment to Switching Power Supply Patents and Know-How Agreement dated as of May 17, 1990, by and among the Company, VLT Corporation and Reliance Comm/Tec Corporation**
10.10	- $1,500,000 Promissory Note (Lot 3) to Vicor Corporation from Andover Park Realty Trust dated September 14, 1992***
10.11	- $1,500,000 Promissory Note (Lot 2) to Vicor Corporation from Andover Park Realty Trust dated September 14, 1992***
10.12	- $1,000,000 Promissory Note (Lot 6A) to Vicor Corporation from Andover Park Realty Trust dated September 14, 1992***
10.13	- Mortgage and Security Agreement (Lot 6A) to Vicor Corporation from Andover Park Realty Trust dated September 14, 1992***
10.14	- 1993 Stock Option Plan****
10.15	- $7,500,000 Promissory Note to Vicor Corporation from Andover Park Realty Trust dated May 29, 1997*****
10.16	- Loan Agreement between Vicor Corporation and Andover Park Realty Trust dated May 29, 1997*****
10.17	- Mortgage and Security Agreement to Vicor Corporation from Andover Park Realty Trust dated May 29, 1997*****
11.1	- The computation of per share earnings is incorporated by reference from Note 7 of the Company's consolidated financial statements (1)
21.1	- Subsidiaries of the Company (1)
23.1	- Consent of Independent Auditors (1)
27.1	- Financial Data Schedule for 1997 (1)
27.2	- Restated Financial Data Schedule for 1996 (1)

* 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.

** Filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990 and incorporated herein by reference.

*** Filed as an exhibit to the Company's Current Report on Form 8-K dated September 14, 1992 and incorporated herein by reference.

**** 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.

***** Filed as an exhibit to the Company's Form 10-Q dated June 30, 1997 and incorporated herein by reference.

(1) Filed herewith

(b) REPORTS ON FORM 8-K

None.

VICOR CORPORATION
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 1997, 1996 and 1995

	Balance at Beginning Of Period	(Credit) Charge to Costs and Expenses	Other Changes Deductions (1)	Balance at End Of Period
1997				
ALLOWANCE FOR DOUBTFUL ACCOUNTS	$ 879,000	$ 5,000	$ 87,000	$971,000
1996				
Allowance for doubtful accounts	$ 786,000	$ 10,000	$ 83,000	$879,000
1995				
Allowance for doubtful accounts	$1,172,000	$(650,000)	$264,000	$786,000

(1) Reflects amounts for recoveries of uncollectible accounts receivable.

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.

Dated: March 24, 1998

Vicor Corporation

By: /s/Mark A. Glazer

Mark A. Glazer
Chief Financial Officer

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 and Chairman of the Board (Principal Executive Officer)	March 24, 1998
/s/Mark A. Glazer Mark A. Glazer	Chief Financial Officer	March 24, 1998
/s/Estia J. Eichten Estia J. Eichten	Director	March 24, 1998
/s/David T. Riddiford David T. Riddiford	Director	March 24, 1998
/s/Richard E. Beede Richard E. Beede	Director	March 24, 1998
/s/Jay M. Prager Jay M. Prager	Director	March 24, 1998
/s/M. Michael Ansour M. Michael Ansour	Director	March 24, 1998

Exhibit 21.1

SUBSIDIARIES OF THE COMPANY

Name	State or jurisdiction of incorporation
VLT Corporation	Texas, USA
Vicor GmbH	Germany
Vicor International Inc.	U.S. Virgin Islands
VICR Securities Corporation	Massachusetts, USA
Vicor France SARL	France
Vicor Italy SRL	Italy
Vicor Hong Kong Ltd.	Hong Kong
Vicor U.K. Ltd.	United Kingdom
Vicor B.V.	Netherlands
Vicor Development Corporation	Delaware, USA
Aegis Power Systems, Inc.	Delaware, USA
Mission Power Solutions, Inc.	Delaware, USA
Northwest Power Integrations, Inc.	Delaware, USA
Converpower Corporation	Delaware, USA
Freedom Power Systems, Inc.	Delaware, USA

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8, No. 33-37491) pertaining to the Vicor Corporation 1984 Stock Option Plan and in the Registration Statement (Form S-8, No. 33-65154) pertaining to the Vicor Corporation 1993 Stock Option Plan of our report dated January 26, 1998 with respect to the consolidated financial statements and schedule of Vicor Corporation included in the Annual Report (Form 10-K) for the year ended December 31, 1997.

Ernst & Young LLP

Boston, Massachusetts
March 20, 1998

5
1,000

YEAR
DEC-31-1997
JAN-01-1997
DEC-31-1997
84,859
0
35,258
0
23,448
146,834
119,352
49,550
228,843
18,567
0
0
0
462
207,962
228,843
162,243
162,243
78,234
78,234
0
0
0
40,964
14,747
26,217
0
0
0
26,217
.62
.60

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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0000751978
VICOR CORPORATION
1,000
U.S. DOLLARS

YEAR
DEC-31-1996
JAN-01-1996
DEC-31-1996
0
73,647
0
25,001
0
21,129
122,542
99,417
41,804
186,443
13,991
0
0
0
454
170,290
186,443
144,983
144,983
66,878
66,878
0
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40,392
14,753
25,639
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25,639
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.60

Restated 1996 EPS to reflect adoption of FAS 128.