

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2005

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

(State or other jurisdiction of incorporation or organization)

04-2742817

(IRS employer identification no.)

25 Frontage Road, Andover,
Massachusetts

(Address of principal executive offices)

01810

(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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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 No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark 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.

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

Large Accelerated Filer Accelerated Filer Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$266,663,400 as of June 30, 2005.

On February 28, 2006, there were 30,101,907 shares of Common Stock outstanding and 11,854,952 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 2006 annual meeting of stockholders are incorporated by reference into Part III.

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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 “may,” “will,” “would,” “should,” “plans,” “expects,” “anticipates,” “believes,” “is designed to,” “continue,” “estimate,” “project,” “intend,” “assumes,” “prospective” and other similar expressions identify forward-looking statements. These statements are based upon the Company’s current expectations and estimates as to prospective events and circumstances which may or may not be within the Company’s control and as to which there can be no assurances. Actual results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth in this report. Reference is made in particular to the discussions set forth in this Annual Report on Form 10-K under Part I, Item 1 — “Business — Second-Generation Products,” “— Competition,” “— Patents,” “— Licensing,” and “— Risk Factors,” under Part I, Item 3 — “Legal Proceedings,” and under Part II, Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The risk factors contained in 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” means 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.

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, 2005 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

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products or to third parties for separate applications. 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 operates in one industry segment: the development, manufacture and sale of power conversion components and systems. The Company's principal product lines include:

Modular Power Converters

The Company currently offers four first-generation families of component-level DC-DC power converters: the 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 certain cases, in target market.

Since 1998, the Company has introduced four families of its second-generation of high power density, component-level DC-DC converters. In 1998, the 48 Volt input family was introduced, which was designed for the telecommunications market as well as for distributed power systems. The products consist of modules with the most popular output voltages in all three of the Company's second-generation standard packages: the full size (Maxi), the half size (Mini) and the quarter size (Micro). Output power levels from 50 to 500 Watts are covered by these second-generation products. In 1999, this was followed by two additional families: 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 family increased the power available to 600 Watts. In 2001, a 24 Volt input family was added to the standard second-generation product line to address additional telecommunications, industrial and defense market opportunities.

The Vicor Design Assistance Computer ("VDAC") 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 second-generation DC-DC converters. Using patented technology, VDAC enables the design of second-generation DC-DC converters with any output voltage between 2 and 48 Volt and with any input voltage from 18 to 425 Volt, 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 new class of user defined, modular power solutions. VIPAC is a new type of integrated power system leveraging the latest advances in second-generation 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 ("VCAD"), similar in concept to VDAC, can be utilized by the customer to specify and verify, in real time, that customer's desired VIPAC configuration. The VCAD system enables the design of a custom configured VIPAC product from all available combinations of inputs, outputs, chassis and optional features.

Factorized Power Architecture

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"). 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 300 Watts of power in a surface-mount ("SMD") J-lead package occupying less than 0.25 cubic-inch of space, with power densities up to 1,200 Watts per cubic-inch, which represents a seven to eight times improvement over the Company's second-generation 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™ 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 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.

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Additional VTM and BCM products were introduced throughout 2004. In November 2004, the Company introduced a new V•I Chip-based product called the “VICBrick”. This consists of a new class of VIC, the Pre-Regulator Module (“PRM”), coupled with a VTM and mounted on an industry standard 1/4 brick format printed circuit board. The PRM provides the regulation function and, when combined with the VTM, enables tight control of the voltage delivered to the load. The VICBrick replicates the functionality of standard 1/4 brick DC-DC converters while offering the benefits of FPA in a familiar and widely adopted package.

In 2005, the Company completed the matrix of 48 Volt V•I Chips: the 36-75 Volt input 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. Prototypes of the first PRM for the military/defense COTS market were also delivered.

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 new 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 second-generation family were introduced in 1999: the FiltMod for input filtering and the IAM48 for transient and spike protection. In 2005, the High-Boost HAM was introduced. This product can be combined with standard second-generation DC-DC converters, greatly improving power density and cost effectiveness in AC-DC designs.

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™ — Output Ripple Attenuation SiP) and QPI (QuietPower™ — 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.

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

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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.

European Union Restriction of Hazardous Substances (“RoHS”)

The Company has elected to comply with the European Union’s (“EU”) directive on the use of certain hazardous substances in electrical and electronic equipment, referred to as RoHS or as the “lead free directive.” The Company has established a formal plan to make Vicor products compliant with this directive ahead of the designated July 1, 2006 deadline. Compliance will involve working with certain suppliers and customers, may potentially require the redesign of certain products and may require the modification of certain manufacturing processes (see Part I, Item I — “Risk Factors”).

Sales and Marketing

The Company sells its products through a network of 30 independent sales representative organizations in North and South America and internationally, through 42 independent distributors. Sales activities are managed by a staff of Regional and Strategic 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, and in its Technical Support Center subsidiaries in Munich, Germany; Camberley Surrey, England; Milan, Italy; Paris, France; Hong Kong and Tokyo, Japan.

Export sales, as a percentage of total net revenues, were approximately 42%, 41% and 38%, in 2005, 2004 and 2003, 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 Applications Engineers provide direct technical sales support worldwide to review new applications and technical matters with existing and potential customers. There are Field Application Engineers assigned to all Company locations and they are supported by product specialists (Product Line Engineers) located in Andover. 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.

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.

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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

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

Industrial:

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

Information Technology:

- RAID Systems
- Parallel Processors
- Data Storage Systems
- Network Servers
- Enterprise Servers
- File Servers
- Optical Switches

For the years ended December 31, 2005, 2004 and 2003, no single customer accounted for more than 10% of net revenues.

Backlog

As of December 31, 2005, the Company had a backlog of approximately \$38.6 million compared to \$36.3 million at December 31, 2004. 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 \$29.5 million, \$26.2 million and \$23.4 million in research and development in 2005, 2004 and 2003, respectively. Investment in research and development represented 16.4%, 15.3% and 15.5% of net revenues in 2005, 2004 and 2003, respectively. The Company plans to continue to invest a significant percentage of revenues into research and development.

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 its strategy to minimize manual assembly processes, reduce manufacturing costs, increase product quality and reliability and ensure its ability to rapidly and effectively

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expand capacity, as needed. The strategy is based upon the phased acquisition and/or fabrication, qualification and integration of automated manufacturing equipment. 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").

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.

Second-Generation Products

Revenues of second-generation products increased by 14.1% in 2005 over 2004, unit production increased 8.6%, and orders increased 22.1%. Both first- and second-generation products are sold to similar customers. Gross margins on second-generation products continue to be significantly lower than those of first-generation products, principally due to high depreciation expense associated with second-generation manufacturing equipment. The process of converting second-generation products to the new FasTrak platform is substantially complete, with the last units scheduled for conversion in the first quarter of 2006. The last production and shipment of products based on the original second-generation platform is scheduled for completion 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 Company is actively working towards continued yield improvement and cost reduction on FasTrak products. There can be no assurance that such volumes, yields or cost reductions can be attained.

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; the former Power Systems business unit of Lucent Technologies, now a subsidiary of Tyco International, Ltd.; Artesyn Technologies; Astec Power, a subsidiary of Emerson Electric Company; Power-One, Inc.; and C&D Technologies, Inc., Power Electronics Division. 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.

On February 16, 1999, the United States Patent and Trademark Office issued U.S. patent RE36,098 (the "Reissue Patent") as a reissue of U.S. Patent 4,441,146 (the "Reset Patent"). The Reissue Patent includes original claims 1 through 5 of the Reset Patent plus 38 additional new claims. The claims in the Reissue Patent cover non-coincident active clamp technology in a broadly defined class of single-ended forward converters and enable design of power converters which are smaller and more energy efficient than

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conventional power supplies. The claims cover, but are not limited to, so-called “zero-voltage switching” technology. The Company believes that its rights under the Reset Patent and the Reissue Patent have been infringed. (see Part I, Item 3 — “Legal Proceedings”).

The Company has been issued 100 patents in the United States (which expire between 2006 and 2025), 32 in Europe (which expire between 2006 and 2017), and 21 in Japan (which expire between 2006 and 2022). 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 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.

On March 28, 2001, the Company announced that its wholly-owned subsidiaries, Vicor Hong Kong Ltd. (“VHK”) and VLT, Inc. (“VLT”), had entered into cooperative agreements with Nagano Japan Radio Company, Ltd. (“NJRC”). On March 18, 2003, NJRC gave VHK and VLT notice of termination of the agreements, effective September 18, 2003. In January 2004, the Company received a final royalty payment from NJRC.

On October 20, 2003, the Company announced that it entered into a non-exclusive license with Celestica Corporation to manufacture and sell the V•I Chip Product Family. V•I Chips are the building blocks of the new FPA products that Vicor announced in April 2003. In September 2004, the Company was notified that Celestica’s Power Systems division had been acquired by C&D Technologies, Inc. and that the license was being assigned to C&D.

On June 30, 2004, the Company announced that it had entered into a non-exclusive license with Sony Corporation (“Sony”) to design and manufacture power converters, using V•I Chip technology and Factorized Power, for use within its products and for sale to its customers in certain agreed-upon applications. The license also grants Sony rights to manufacture certain semiconductor components that are used in V•I Chips. Royalties are based upon the value of the licensed converters used or sold.

Employees

As of December 31, 2005, the Company employed approximately 1,070 full time and 30 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 I — “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 yield improvements and cost reductions particularly with FasTrak and 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 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.

Our conversion of second-generation products to the FasTrak platform may not achieve our anticipated results.

The process of converting second-generation products to the new FasTrak platform is substantially complete. The conversion to FasTrak has resulted in lower unit costs, improved manufacturing yields, improved field reliability and improved gross margins, while supporting the worldwide RoHS initiative. We cannot assure you that the improved results due to the conversion of second-generation products to the FasTrak platform will continue as expected. During the second quarter of 2005, we provided additional reserves of approximately \$1,600,000 for potential obsolete inventory arising from the RoHS initiative and the conversion of second-generation products to the FasTrak platform. The remaining product conversion and RoHS initiative could result in additional reserve requirements and negatively impact our results of operations. Also, once the conversion is completed, certain second-generation automated manufacturing equipment may have little or no future use. This may result in the impairment of any remaining net book value of those assets. During the third quarter of 2005, the useful lives of certain equipment in connection with the conversion were shortened, which resulted in higher depreciation expense on this equipment in 2005.

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

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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.

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. 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 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

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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.

Compliance with the EU's RoHS may not proceed as planned.

We have elected to comply with the EU directive on the use of certain hazardous substances in electrical and electronic equipment, referred to as RoHS or as the "lead free directive." We have established a formal plan to make Vicor products compliant with this directive ahead of the designated July 1, 2006 deadline. Compliance will involve working with certain suppliers and customers, may potentially require the redesign of certain products and may require the modification of certain manufacturing processes. As a result, the following situations could negatively impact our results of operations:

- Our suppliers may experience increased demand for RoHS compliant components from their customers and therefore, may not be able to meet our specific requirements or delivery schedules, and we may not be able to meet the demand for our products, and our delivery times may be negatively affected.
- Customers mandate that they will not accept RoHS directive compliant product, and such requirements could significantly increase the cost of maintaining business with these customers.
- Customers' transition to RoHS compliant product may be unpredictable, and forecast inaccuracy may negatively impact material availability.
- The modification of our manufacturing processes may require the additional investment in equipment, which will increase operating expenses. In 2005, we invested approximately \$500,000 for new equipment in support of RoHS initiatives.
- The conversion over to compliant materials could result in excess supplies of raw materials that are no longer needed for non-compliant products. Additional inventory reserves could be required for such excess materials and would negatively impact our results of operations. During the second quarter of 2005, we provided additional inventory reserves of approximately \$600,000 for potential obsolete inventory from the RoHS initiative.

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, 2005 and remain unresolved.

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, are pursuing Reset Patent infringement claims directly against Artesyn Technologies, Lucent Technologies and Tyco Electronics Power Systems, Inc. in the United States District Court in Boston, Massachusetts. The lawsuit against Lucent was

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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 January 2003, the District Court issued a pre-trial decision in each of these patent infringement lawsuits relating to claim construction of the Reset Patent. The District Court's decisions rejected assertions that the Reset Patent claims are invalid for indefiniteness; and affirmed Vicor's interpretation of several terms used in the Reset Patent claims. However, the District Court adopted interpretations of certain terms of the Reset Patent claims that are contrary to Vicor's position. On May 24, 2004, the United States Court of Appeals for the Federal Circuit affirmed the decisions issued in January 2003 by the District Court. Vicor believes that the District Court's decisions, and the affirmation of these decisions by the Federal Circuit, strengthens its position regarding validity of the patent, but reduces the cumulative amount of infringing power supplies and the corresponding amount of potential damages. The Federal Circuit has referred the proceedings back to the District Court for trials on validity of the Reset Patent and infringement and damages by Lucent, Tyco and Artesyn.

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 consolidated statements of operations. The District Court has not yet set dates for the remaining trials. There can be no assurance that Vicor and VLT will ultimately prevail with respect to any of these claims or, if they prevail, as to the amount of damages that would be awarded.

In May 2004, Ericsson Wireless Communications, Inc. v. Vicor Corporation was filed in Superior Court of the State of California, County of San Diego. The plaintiff has brought an action against the Company claiming unspecified damages for failure of out-of warranty products previously purchased by it from the Company. In November 2004, Ericsson filed a First Amended Complaint adding claims against Exar Corporation, a former vendor of the Company. The Company filed cross-claims against Exar, and third-party claims against Rohm Device USA, LLC and Rohm Co., Ltd., the original manufacturer(s) of the component which Exar sold to the Company. The Company has denied the claims made against it and intends to vigorously defend the claims made against it.

On March 4, 2005, Exar filed a declaratory judgment action against Vicor in the Superior Court of the State of California, County of Santa Clara, in which Exar seeks a declaration by the Court that Exar is not obligated to reimburse or indemnify Vicor for any claims brought against Vicor for alleged damages incurred as a result of the use of Exar components in Vicor products. The Company has brought cross-claims against Exar, and third-party claims against Rohm Device USA, LLC and Rohm Co., Ltd., for declaratory judgment. The Company intends to vigorously assert its cross-claims against Exar.

On August 18, 2005, the Company filed an action in The Superior Court of the Commonwealth of Massachusetts, County of Essex ("the 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 September 22, 2005, Concurrent filed a Demand For Arbitration with The American Arbitration Association. Concurrent is seeking \$1,500,000 in replacement costs, plus incidental, consequential and any other damages to be determined. On March 8, 2006 the Court allowed Concurrent's motion to compel arbitration. The Company has denied the claims made against it and intends to vigorously defend the claims made against it.

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.

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:

2004	High	Low
First Quarter	\$ 13.98	\$ 10.62
Second Quarter	19.20	12.28
Third Quarter	18.59	9.93
Fourth Quarter	13.57	8.54
2005	High	Low
First Quarter	\$ 14.30	\$ 10.16
Second Quarter	14.59	9.77
Third Quarter	16.14	12.75
Fourth Quarter	17.31	14.21

As of February 28, 2006, there were approximately 302 holders of record of the Company’s Common Stock and approximately 19 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 July 22, 2004, the Company’s Board of Directors approved an annual cash dividend for 2004 of \$.08 per share of the Company’s stock. The total dividend of approximately \$3,371,000 was paid on August 31, 2004 to shareholders of record at the close of business on August 11, 2004.

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 payable on March 20, 2006 to shareholders of record at the close of business on February 28, 2006. The Board of Directors anticipates reviewing its dividend policy on a semi-annual basis.

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased</u>	<u>Average Price Paid per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs</u>
October 1 - 31, 2005	—	\$ —	—	\$ 21,643,000
November 1 - 30, 2005	—	—	—	21,643,000
December 1 - 31, 2005	139,500	16.25	139,500	19,376,000
Total	139,500	\$ 16.25	139,500	\$ 19,376,000

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.

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, 2005, 2004 and 2003 and with respect to the Company's balance sheets as of December 31, 2005 and 2004 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, 2002 and 2001 and with respect to the Company's balance sheets as of December 31, 2003, 2002 and 2001 are derived from the Company's audited consolidated financial statements, 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.

<u>Statement of Operations Data</u>	<u>Year Ended December 31,</u>				
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(In thousands except per share data)				
Net revenues	\$ 179,351	\$ 171,580	\$ 151,421	\$ 152,591	\$ 195,910
Income (loss) from operations	3,380	(4,035)	(25,703)	(24,502)	(5,017)
Net income (loss)	3,916	(3,723)	(19,535)	(15,942)	(559)
Net income (loss) per share — basic	.09	(.09)	(.47)	(.38)	(.01)
Net income (loss) per share — diluted	.09	(.09)	(.47)	(.38)	(.01)
Weighted average shares — basic	41,923	42,022	41,896	42,337	42,342
Weighted average shares — diluted	42,089	42,022	41,896	42,337	42,342
Cash dividends per share	\$.12	\$.08	\$ —	\$ —	\$ —

<u>Balance Sheet Data</u>	<u>At December 31,</u>				
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(In thousands)				
Working capital	\$ 150,385	\$ 148,419	\$ 141,547	\$ 153,167	\$ 153,478
Total assets	245,755	244,882	251,464	278,445	289,622
Long-term debt	—	—	—	—	—
Total liabilities	28,965	24,259	24,806	30,412	24,785
Stockholders' equity	216,790	220,623	226,658	248,033	264,837

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 30 independent sales representative organizations in North and South America and, internationally, through 42 independent distributors. Export sales as a percentage of total revenues were approximately 42%, 41% and 38% in 2005, 2004 and 2003, respectively. The Company operates in one industry segment.

For the year ended December 31, 2005 revenues increased to \$179,351,000 from \$171,580,000 for 2004. The Company had income before taxes of \$4,880,000 in 2005 compared with a loss before taxes of \$2,403,000 in 2004. The Company reported net income in 2005 of \$3,916,000 compared with a net loss of \$3,723,000 in 2004, and a diluted income per share of \$.09 in 2005 compared with a diluted loss per share of \$.09 in 2004.

The book to bill ratio for the third and fourth quarters of 2005 was 1.03:1 and .95:1, respectively. The book to bill ratio for the year ended December 31, 2005 was 1.01:1 compared with 1.00:1 in 2004. In light of the fact that bookings and sales can vary significantly from quarter to quarter, the Company does not believe that this quarterly change in the book to bill ratio is indicative of a trend at this time. The Company ended 2005 with approximately \$38.6 million in backlog compared to \$36.3 million at the end of 2004.

The gross margin for 2005 improved to 39.8% compared with 36.9% in 2004. The gross margins improved throughout the year due to higher levels of shipments and increased productivity due to manufacturing efficiencies resulting in lower average unit costs, partially offset by an increase in inventory reserves. During the second quarter of 2005, the Company provided additional reserves of approximately \$1,600,000 for potential obsolete inventory arising primarily from the EU RoHS initiative and the conversion of second-generation products 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 related to raw material inventories in support of pilot production of V•I Chips.

In 2005, depreciation and amortization was \$17.1 million, a decrease of approximately \$3.8 million from 2004, and capital additions were \$8.9 million, an increase of approximately \$3.9 million from 2004. Due to assets which either are now or will be fully depreciated in 2006, the Company expects depreciation and amortization to be less in 2006 than 2005.

Inventories decreased by approximately \$9.0 million to \$17.2 million as compared with \$26.2 million at the end of 2004, primarily due to a reduction in raw materials from a concerted effort to reduce inventory levels and an increase in reserves as mentioned in the gross margin section above.

Significant attention across many functional areas of the Company continues to be focused on the design, development, introduction and production of the new FPA products (see Part I, Item I — "The Products — Factorized Power Architecture"). The Company introduced the first families of these products in 2003. Revenues to date from FPA products have not been significant.

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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,		
	2005	2004	2003
Net revenues	100.0%	100.0%	100.0%
Gross margin	39.8%	36.9%	25.8%
Selling, general and administrative expenses	22.8%	24.0%	27.3%
Research and development expenses	16.4%	15.3%	15.5%
Income (loss) before income taxes	2.7%	(1.4)%	(16.4)%

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, and 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. Historically, the Company estimated reserves for its inventory at all significant locations based upon its known backlog and historical usage, and assumptions about future demand and market conditions. In the second quarter of 2005, the Company revised its method for estimating inventory reserves at the Andover location, its principal manufacturing location. The revised model 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. 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.

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

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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 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. The Company periodically evaluates whether any indicators of impairment surrounding the investment in Great Wall Semiconductor Corporation (“GWS”) are present and, if so, whether any adjustments to the carrying value of the investments in GWS should be recorded. Deterioration or changes in the Company’s or GWS’ business in the future could lead to such impairment adjustments in future periods.

Warranty

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 asset 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 portion of the deferred tax assets is warranted at December 31, 2005. 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 operates in numerous taxing jurisdictions and is, therefore, subject to a variety of income and related taxes. The Company has provided for potential tax liabilities due in various jurisdictions which it judges to be probable and reasonably estimable in accordance with Statement of Financial Accounting Standards No. 5 “Accounting for Contingencies”. Judgment is required in determining the income tax expense and related tax liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. The Company believes it has reasonably estimated its accrued taxes for all jurisdictions for all open tax periods. The Company periodically assesses the adequacy of its tax and related accruals on a quarterly basis and adjusts appropriately as events warrant and open tax periods close. It is possible that the final tax outcome of these matters will be different from management’s estimate reflected in the income tax provisions and accrued taxes. Such differences could have a material impact on the Company’s income tax provision and operating results in the period in which such determination is made.

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

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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 contingent loss in accordance with FAS 5. In determining the amount of a contingent 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.

Year Ended December 31, 2005 compared to Year Ended December 31, 2004

Net revenues for fiscal 2005 were \$179,351,000 an increase of \$7,771,000, or 4.5%, as compared to \$171,580,000 for the same period a year ago. The increase in net revenues resulted primarily from an increase in unit shipments of standard and custom products of approximately \$8,147,000, partially offset by a decrease in license revenue of \$376,000. Orders for fiscal year 2005 increased by 6.5% compared with 2004. Subject to continuing demand and productivity improvements, the Company expects modest growth in revenues and further improvements in gross margins will lead to what we believe will be a profitable 2006. The book-to-bill ratio for 2005 was 1.01:1 compared to 1.00:1 for 2004. Both first- and second-generation products are sold to similar customers.

Gross margin for fiscal 2005 increased \$8,119,000, or 12.8%, to \$71,407,000 from \$63,288,000 in 2004 and increased as a percentage of net revenues from 36.9% to 39.8%. The primary components of the increase in gross margin dollars and percentage were due to the higher levels of shipments and increased productivity due to manufacturing efficiencies resulting in lower average unit costs. These increases were partially offset by an increase in inventory reserve expense of approximately \$3,700,000 compared to 2004. During the second quarter of 2005, the Company provided additional reserves of approximately \$1,600,000 for potential obsolete inventory arising primarily from the EU RoHS initiative and the conversion of second-generation products 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 related to raw material inventories in support of pilot production of V•I Chips.

Selling, general and administrative expenses were \$40,811,000 for 2005, a decrease of \$301,000, or 0.7%, over the same period in 2004. As a percentage of net revenues, selling, general and administrative expenses decreased to 22.8% from 24.0%, primarily due to the increase in net revenues. The principal components of the \$301,000 decrease were \$1,068,000, or 48.9%, of decreased legal fees and \$553,000, or 23.0%, of decreased depreciation expense, primarily due to certain computer hardware and software becoming fully depreciated in 2004. The overall decrease in legal expense was primarily due to litigation with Exar Corporation that was settled in July 2004 and for reimbursements of legal fees from the Company's insurance carrier beginning in the third quarter of 2004, which reduces legal expense, in connection with the litigation with Ericsson Wireless Communications, Inc. (see Part I, Item 3 — "Legal Proceedings"). The principal components partially offsetting the above decreases were \$412,000, or 143.3%, of increased provision for potential bad debts principally due to a reduction in the allowance for doubtful accounts of \$300,000 in 2004 due to the Company's favorable collection of accounts receivable in 2004, \$316,000, or 32.8%, in increased audit and tax fees due to the requirements of complying with the Sarbanes-Oxley Act of 2002, and \$441,000, or 7.8%, in increased costs associated with Vicor Japan Co., Ltd. and the Vicor Integration Architects ("VIAs").

Research and development expenses increased \$3,255,000, or 12.4%, to \$29,466,000 in 2005 from \$26,211,000 in 2004 and increased as a percentage of net revenues to 16.4% from 15.3%. The principal components of the \$3,255,000 increase were \$1,812,000, or 11.3%, of increased compensation expense, principally due to increased headcount, \$668,000, or 20.0%, of increased project material costs, \$198,000, or 14.0%, of increased facilities costs and \$168,000, or 77.9%, in increased supplies. The increases in compensation expense, project material costs and supplies were principally due to the development efforts associated with the Company's new FPA products.

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

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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):

	2005	2004	Increase (Decrease)
Interest income	\$ 3,124	\$ 1,764	\$ 1,360
Minority interest in net income of subsidiaries	(807)	(527)	(280)
Foreign currency (losses) gains	(771)	268	(1,039)
Other than temporary decline in Scipher plc, investment	—	(70)	70
Loss on disposal of equipment	(41)	(47)	6
Other	(5)	244	(249)
	<u>\$ 1,500</u>	<u>\$ 1,632</u>	<u>\$ (132)</u>

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 losses is due to the unfavorable exchange rates in 2005 as compared to 2004, principally in Japan.

Income before income taxes was \$4,880,000 in 2005 compared to a loss before income taxes of \$2,403,000 for 2004.

The provision for income taxes totaled \$964,000 in 2005 as compared to a provision of \$1,320,000 in 2004. The Company's effective tax rate was 19.8% and 54.9% for 2005 and 2004, respectively. Tax provisions in 2005 and 2004 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 2005, the Company reduced its tax reserves by \$770,000 due to closing tax periods in certain jurisdictions, offset by an increase in reserves during the year of approximately \$412,000 for potential liabilities. During the third quarter of 2004, the Company provided additional tax expense for potential liabilities related to certain jurisdictions under examination aggregating \$950,000, partially offset by a reduction in the tax reserves for certain jurisdictions due to tax periods closing aggregating \$650,000. The Company will continue to assess its effective tax rate and the need for valuation allowances against its deferred tax assets.

Basic and diluted income per share was \$0.09 for the year ended December 31, 2005, compared to basic and diluted loss per share of \$(0.09) for the year ended December 31, 2004.

Year Ended December 31, 2004 compared to Year Ended December 31, 2003

Net revenues for fiscal 2004 were \$171,580,000 an increase of \$20,159,000, or 13.3%, as compared to \$151,421,000 for the same period a year ago. The increase in net revenues resulted primarily from an increase in unit shipments of standard and custom products of approximately \$20,552,000, partially offset by a decrease in license revenue of \$393,000. Orders for fiscal year 2004 increased by 9.4% compared with 2003. The book-to-bill ratio for 2004 was 1.00:1 compared to 1.03:1 for 2003. Both first- and second-generation products are sold to similar customers. The decrease in license revenue was due to receipt of the final royalty payment from Nagano Japan Radio Company, Ltd. ("NJRC") in January 2004. Going forward, license revenues will be less than prior periods unless and until the Company enters into new license agreements.

Gross margin for fiscal 2004 increased \$24,276,000, or 62.2%, to \$63,288,000 from \$39,012,000 in 2003 and increased as a percentage of net revenues from 25.8% to 36.9%. The primary components of the increase in gross margin dollars and percentage were due to the higher levels of shipments, increased productivity and cost reductions associated with the end of a general furlough program during the fourth

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quarter of 2003, and a non-recurring \$800,000 reduction in an accrual recorded through cost of revenues associated with the settlement of a commercial dispute.

Selling, general and administrative expenses were \$41,112,000 for 2004, a decrease of \$158,000, or 0.4%, over the same period in 2003. As a percentage of net revenues, selling, general and administrative expenses decreased to 24.0% from 27.3%, primarily due to the increase in net revenues. The principal components of the \$158,000 decrease were \$890,000, or 29.9%, of decreased advertising expenses, \$473,000, or 16.5%, of decreased depreciation expense, due to certain computer hardware and software becoming fully depreciated in 2004, and \$380,000, or 475.0%, of decreased bad debt expense due to the Company's favorable collection of accounts receivables. The Company had higher advertising expenses in 2003 due to the introduction of the new FPA products. These decreases were partially offset by \$602,000, or 38.0%, of increased legal expenses due to the litigation with Exar Corporation and with Ericsson Wireless Communications, Inc. (see Part I, Item 3 — "Legal Proceedings"), \$547,000, or 3.2%, of increased compensation as annual compensation adjustments resumed in 2004 and \$385,000, or 10.5%, in increased commission expense, due to the higher revenues.

Research and development expenses increased \$2,766,000, or 11.8%, to \$26,211,000 in 2004 from \$23,445,000 in 2003 and decreased slightly as a percentage of net revenues to 15.3% from 15.5%. The principal components of the \$2,766,000 increase were \$1,133,000, or 10.1%, of increased compensation expense as annual compensation adjustments resumed in 2004, \$704,000, or 31.0%, of increased project material costs, \$385,000, or 7.9%, of increased development costs associated with the automation, test and mechanical engineering groups, as less of these departments' efforts were associated with internally constructed manufacturing and test equipment in 2004 as compared to 2003, and \$263,000, or 104.8%, of increased tooling costs. The increases in compensation expense, project materials and tooling costs were principally due to development efforts associated with the Company's new FPA products.

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

	2004	2003	Increase (Decrease)
Interest income	\$ 1,764	\$ 1,514	\$ 250
Minority interest in net income of subsidiaries	(527)	(512)	(15)
Foreign currency gains	268	607	(339)
Other than temporary decline in Scipher plc, investment	(70)	(470)	400
Loss on disposal of equipment	(47)	(356)	309
Other	244	29	215
	<u>\$ 1,632</u>	<u>\$ 812</u>	<u>\$ 820</u>

Loss before income taxes was \$2,403,000 in 2004 compared to a loss before income taxes of \$24,891,000 for 2003.

The provision for income taxes totaled \$1,320,000 in 2004 as compared to a benefit of \$5,356,000 in 2003. The Company's effective tax rate was 54.9% and (21.5%) for 2004 and 2003, respectively. Tax provisions in 2004 have been provided for estimated income taxes due in various state and international taxing jurisdictions for which losses incurred by the Company cannot be offset, and for federal and state taxes for certain minority-owned subsidiaries that are not part of the Company's consolidated income tax returns. During the third quarter of 2004, the Company provided additional tax expense for potential liabilities related to certain jurisdictions under examination aggregating \$950,000, partially offset by a reduction in the tax reserves for certain jurisdictions due to tax periods closing aggregating \$650,000. During the fourth quarter of 2003, the Company revised its estimate of the effective tax rate for the year and recorded a tax benefit for a portion of the net operating losses generated in 2003 and, accordingly, revised its estimated effective tax rate applicable to 2003 to an estimated tax benefit of 21.5%. This estimated tax benefit of \$5,356,000 was a non-recurring non-cash item representing an increase in the benefit previously estimated by the Company based on the changes in the deductible and taxable temporary differences for 2003. The effect of the change in the estimated effective tax rate on net income was approximately \$5,107,000. The corresponding effect on the net income per share was \$.12 for the quarter and for the year ended December 31, 2003.

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Basic and diluted loss per share was \$(0.09) for the year ended December 31, 2004, compared to basic and diluted loss per share of \$(0.47) for the year ended December 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2005 the Company had \$34,024,000 in cash and cash equivalents. The ratio of current assets to current liabilities was 7.6:1 at December 31, 2005 compared to 8.6:1 at December 31, 2004. Working capital increased \$1,966,000, from \$148,419,000 at December 31, 2004 to \$150,385,000 at December 31, 2005. The primary factors affecting the working capital increase were an increase in short-term investments of \$11,321,000 and an increase in accounts receivable of \$4,713,000. These increases were partially offset by a decrease in inventory of \$9,061,000, primarily due to a reduction in raw materials from a concerted effort to reduce inventory levels and an increase in reserves, an increase in accounts payable of \$2,935,000 and a decrease in cash and cash equivalents of \$2,253,000. The primary source of cash for the twelve months ended December 31, 2005 was \$29,271,000 from operating activities and \$3,578,000 in net proceeds from the issuance of Common Stock upon the exercise of stock options. The primary uses of cash for the twelve months ended December 31, 2005 were for the net purchases of short-term investments of \$15,186,000, the acquisition of equipment of \$8,944,000, the acquisition of treasury stock of \$5,544,000 and the payment of a common stock dividend of \$5,025,000.

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 (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 spent approximately \$5,544,000 for the repurchase of 452,200 shares of Common Stock during the twelve months ended December 31, 2005. As of December 31, 2005, the Company had approximately \$19,376,000 remaining under the plan.

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 payable on March 20, 2006 to shareholders of record at the close of business on February 28, 2006. The Board of Directors anticipates reviewing its dividend policy on a semi-annual basis.

The table below summarizes the Company's contractual obligations as of December 31, 2005 (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	Years 2 & 3	Years 4 & 5	More Than 5 Years
Operating leases	\$ 2,815	\$ 1,161	\$ 1,341	\$ 313	\$ —
Purchase obligations	2,593	280	561	561	1,191
Total	<u>\$ 5,408</u>	<u>\$ 1,441</u>	<u>\$ 1,902</u>	<u>\$ 874</u>	<u>\$ 1,191</u>

The Company's primary liquidity needs are for making continuing investments in manufacturing equipment, particularly equipment for the Company's new FPA products. The Company believes that cash generated from operations and the total of its cash and cash equivalents, together with other sources of liquidity, will be sufficient to fund planned operations and capital equipment purchases for the foreseeable future. At December 31, 2005, the Company also had approximately \$929,000 of capital expenditure commitments, principally for manufacturing equipment.

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, short-term and long-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 and long-term investments consist mainly of corporate debt securities. These debt securities are all highly-rated investments, in which a significant portion have interest rates reset at auction at regular intervals. As a result, the Company believes there is minimal market risk to these investments. Our annual interest income would change by approximately \$1,000,000 in 2005 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 VJCL and changes in the dollar/yen exchange rate. Relative to foreign currency exposure against the yen existing at December 31, 2005, a 10% unfavorable movement in the dollar/yen exchange rate would increase the foreign currency loss by approximately \$200,000. 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 exposed to foreign exchange fluctuations.

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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FINANCIAL STATEMENTS

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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, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(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 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, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, 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.

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, 2005, 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 9, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 9, 2006

VICOR CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004

	2005	2004
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,024	\$ 36,277
Short-term investments	88,692	77,371
Accounts receivable, less allowance of \$635 in 2005 and \$468 in 2004	28,072	23,359
Inventories, net	17,168	26,229
Deferred tax assets	2,673	2,497
Other current assets	2,518	2,245
Total current assets	173,147	167,978
Long-term investments	3,348	—
Property, plant and equipment, net	59,114	67,001
Other assets	10,146	9,903
	<u>\$ 245,755</u>	<u>\$ 244,882</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,741	\$ 5,806
Accrued compensation and benefits	4,583	4,265
Accrued expenses	3,016	2,815
Income taxes payable	6,279	6,367
Deferred revenue	143	306
Total current liabilities	22,762	19,559
Deferred income taxes	3,172	3,173
Commitments and contingencies	—	—
Minority interests	3,031	1,527
Stockholders' equity:		
Preferred Stock, \$.01 par value, 1,000,000 shares authorized; 360,001 shares issued and none outstanding in 2005 and 2004	—	—
Class B Common Stock: 10 votes per share, \$.01 par value, 14,000,000 shares authorized, 11,854,952 shares issued and outstanding in 2005 (11,867,100 in 2004)	119	119
Common Stock: 1 vote per share, \$.01 par value, 62,000,000 shares authorized, 37,670,533 shares issued and 30,097,835 shares outstanding (37,281,087 shares issued and 30,160,589 shares outstanding in 2004)	377	373
Additional paid-in capital	151,698	148,821
Retained earnings	175,660	176,769
Accumulated other comprehensive (loss) income	(72)	(11)
Treasury stock at cost: 7,572,698 shares in 2005 (7,120,498 shares in 2004)	(110,992)	(105,448)
Total stockholders' equity	216,790	220,623
	<u>\$ 245,755</u>	<u>\$ 244,882</u>

See accompanying notes

VICOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2005, 2004 and 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands, except per share amounts)		
Net revenues	\$ 179,351	\$ 171,580	\$ 151,421
Cost of revenues	107,944	108,292	112,409
Gross margin	71,407	63,288	39,012
Operating expenses:			
Selling, general and administrative	40,811	41,112	41,270
Research and development	29,466	26,211	23,445
Gain from litigation-related settlement, net	(2,250)	—	—
Total operating expenses	68,027	67,323	64,715
Income (loss) from operations	3,380	(4,035)	(25,703)
Other income (expense), net	1,500	1,632	812
Income (loss) before income taxes	4,880	(2,403)	(24,891)
Provision (benefit) for income taxes	964	1,320	(5,356)
Net income (loss)	\$ 3,916	\$ (3,723)	\$ (19,535)
Net income (loss) per common share:			
Basic	\$.09	\$ (.09)	\$ (.47)
Diluted	\$.09	\$ (.09)	\$ (.47)
Shares used to compute net income (loss) per share:			
Basic	41,923	42,022	41,896
Diluted	42,089	42,022	41,896
Cash dividends per share	\$.12	\$.08	—

See accompanying notes

VICOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2005, 2004 and 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands)		
Operating activities:			
Net income (loss)	\$ 3,916	\$ (3,723)	\$ (19,535)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	17,082	20,898	22,397
Minority interest in net income of subsidiaries	807	527	512
Amortization of bond premium	573	1,002	800
Deferred income taxes	(133)	—	(1,051)
Loss on disposal of equipment	41	47	356
Other than temporary decline in investment	—	70	470
Loss on sale of investments	—	—	100
Proceeds from sale of investment shares	—	—	273
Change in current assets and liabilities, net	6,985	(2,939)	15,110
Net cash provided by operating activities	<u>29,271</u>	<u>15,882</u>	<u>19,432</u>
Investing activities:			
Purchase of short-term and long-term investments	(115,932)	(75,357)	(95,033)
Sales and maturities of short-term and long-term investments	100,746	63,619	78,073
Additions to property, plant and equipment	(8,944)	(5,022)	(5,797)
Proceeds from sale of equipment	—	6	—
Increase in other assets	(573)	(2,414)	(2,839)
Net cash used in investing activities	<u>(24,703)</u>	<u>(19,168)</u>	<u>(25,596)</u>
Financing activities:			
Proceeds from exercise of stock options	3,578	2,344	775
Common stock dividends	(5,025)	(3,371)	—
Acquisitions of treasury stock	(5,544)	(1,088)	(2,562)
Net cash used in financing activities	<u>(6,991)</u>	<u>(2,115)</u>	<u>(1,787)</u>
Effect of foreign exchange rates on cash	170	(45)	(196)
Net decrease in cash and cash equivalents	<u>(2,253)</u>	<u>(5,446)</u>	<u>(8,147)</u>
Cash and cash equivalents at beginning of year	36,277	41,723	49,870
Cash and cash equivalents at end of year	<u>\$ 34,024</u>	<u>\$ 36,277</u>	<u>\$ 41,723</u>
Change in current assets and liabilities:			
Accounts receivable	\$ (4,941)	\$ (784)	\$ 103
Inventories, net	8,913	(4,095)	8,364
Other current assets	(279)	1,858	7,144
Accounts payable and accrued liabilities	3,545	31	1
Income taxes payable	(90)	(98)	(56)
Deferred revenue	(163)	149	(446)
	<u>\$ 6,985</u>	<u>\$ (2,939)</u>	<u>\$ 15,110</u>
Supplemental disclosures:			
Cash paid during the year for income taxes, net of refunds	\$ 1,085	\$ 1,307	\$ (12,020)

See accompanying notes

VICOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2005, 2004 and 2003

	<u>Class B Common Stock</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
	(In thousands)						
Balance at December 31, 2002	\$ 119	\$ 369	\$ 145,706	\$ 203,398	\$ 239	\$ (101,798)	\$ 248,033
Sales of Common Stock		2	773				775
Conversion of Class B Common Stock to Common Stock							—
Purchase of treasury stock						(2,562)	(2,562)
Net loss for 2003				(19,535)			(19,535)
Unrealized loss on investments					(96)		(96)
Currency translation adjustments					43		43
Comprehensive loss							(19,588)
Balance at December 31, 2003	119	371	146,479	183,863	186	(104,360)	226,658
Sales of Common Stock		2	2,342				2,344
Conversion of Class B Common Stock to Common Stock							—
Purchase of treasury stock						(1,088)	(1,088)
Common stock dividends				(3,371)			(3,371)
Net loss for 2004				(3,723)			(3,723)
Unrealized loss on investments					(243)		(243)
Currency translation adjustments					46		46
Comprehensive loss							(3,920)
Balance at December 31, 2004	119	373	148,821	176,769	(11)	(105,448)	220,623
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				3,916			3,916
Unrealized gain on investments					33		33
Currency translation adjustments					(94)		(94)
Comprehensive income							3,855
Balance at December 31, 2005	<u>\$ 119</u>	<u>\$ 377</u>	<u>\$ 151,698</u>	<u>\$ 175,660</u>	<u>\$ (72)</u>	<u>\$ (110,992)</u>	<u>\$ 216,790</u>

See accompanying notes

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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.

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.

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, including 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 transaction gains (losses), included in other income (expense), net, were approximately (\$771,000), \$268,000 and \$607,000 in 2005, 2004 and 2003, respectively.

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

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

nature of the securities there are no unrealized gains or losses at the balance sheet dates. As of December 31, 2005, approximately \$906,000 of cash was restricted as a guarantee for certain foreign letters of credit.

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.

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.

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 corporate debt securities. The Company's investment policy, approved by the Board of Directors, limits the amount the Company may invest in any one type of investment, 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 five 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

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 other 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".

Advertising expense

The cost of advertising is expensed as incurred. The Company incurred \$1,913,000, \$1,960,000 and \$2,535,000 in advertising costs during 2005, 2004 and 2003, 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):

	2005	2004	2003
Numerator:			
Net income (loss)	\$ 3,916	\$ (3,723)	\$ (19,535)
Denominator:			
Denominator for basic income (loss) per share — weighted average shares	41,923	42,022	41,896
Effect of dilutive securities:			
Employee stock options	166	—	—
Denominator for diluted income (loss) per share — adjusted weighted-average shares and assumed conversions	42,089	42,022	41,896
Basic income (loss) per share	\$.09	\$ (.09)	\$ (.47)
Diluted income (loss) per share	\$.09	\$ (.09)	\$ (.47)

Options to purchase 1,213,679 shares of Common Stock were outstanding during 2005 but were not included in the computation of diluted income per share because the options' exercise prices were greater

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

than the average market price of the Common Stock and, therefore, the effect would have been antidilutive. Options to purchase 3,035,350 and 3,809,603 shares of Common Stock in 2004 and 2003 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, 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.

Stock-based compensation

The Company uses 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.

Pro forma information regarding net income (loss) and net income (loss) per share is required by FAS 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 described in FAS 123. 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:

Vicor:	2005	2004	2003
Risk-free interest rate	3.9%	3.4%	2.6%
Expected dividend yield	.38%	—	—
Expected volatility	.59	.68	.68
Expected lives	4.0 years	4.0 years	4.0 years
Picor:	2005	2004	2003
Risk-free interest rate	4.4%	4.4%	4.0%
Expected dividend yield	—	—	—
Expected volatility	.43	.43	.45
Expected lives	6.5 years	6.5 years	6.5 years

The weighted-average fair value of Vicor options granted was \$7.02, \$7.05 and \$4.62 in 2005, 2004 and 2003, respectively. The weighted-average contractual life for Vicor options outstanding as of December 31, 2005 is 3.2 years.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The weighted-average fair value of Picor options granted was \$.32, \$.33 and \$.21 in 2005, 2004 and 2003, respectively. The weighted-average contractual life for Picor options outstanding as of December 31, 2005 is 7.1 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 subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics 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 values 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 following table sets forth a reconciliation of reported net income (loss) to pro forma net income (loss) (in thousands except for earnings per share information):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income (loss), as reported	\$ 3,916	\$ (3,723)	\$ (19,535)
Total stock-based employee compensation expense determined under fair-value based methods for all awards, net of related tax effects	(845)	(1,983)	(2,935)
Pro forma net income (loss)	<u>\$ 3,071</u>	<u>\$ (5,706)</u>	<u>\$ (22,470)</u>
Net income (loss) per share, as reported:			
Basic	\$.09	\$ (.09)	\$ (.47)
Diluted	\$.09	\$ (.09)	\$ (.47)
Pro forma net income (loss) per share:			
Basic	\$.07	\$ (.14)	\$ (.54)
Diluted	\$.07	\$ (.14)	\$ (.54)

The above table includes compensation expense for Picor options of \$105,000, \$96,000 and \$60,000 for the years 2005, 2004 and 2003, respectively. The 2004 and 2003 expense has been revised to include these Picor amounts. The fair value of Picor common stock was estimated by obtaining an independent valuation of Picor.

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.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain amounts in the 2004 and 2003 financial statements were reclassified to conform to the 2005 presentation.

Impact of recently issued accounting standards

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4" ("FAS 151"). FAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing" to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. In addition, FAS 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of FAS 151 are effective for fiscal years beginning after June 15, 2005. The Company is currently evaluating the provisions of FAS 151 and does not believe that its adoption will have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards 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.

FAS 123(R) permits public companies to adopt its requirements using one of two methods. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of FAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of FAS 123 for all awards granted to employees prior to the effective date of FAS 123(R) that remain unvested on the effective date. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under FAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption. The Company will be adopting the "modified prospective" method when applying FAS 123(R).

As permitted by FAS 123, the Company currently accounts for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The Company will be required to adopt FAS 123(R) on January 1, 2006, the commencement of its first quarter of fiscal 2006. The adoption of FAS 123(R)'s fair value method is not expected to have a significant impact on the Company's results of operations or its overall financial position. While the evaluation has not been finalized, the Company currently estimates that expense related to share-based payments to employees will not have a significant impact on diluted earnings per share in the first quarter of fiscal 2006.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("FAS 154"). This statement establishes new standards on accounting for changes in accounting principles. Pursuant to FAS 154, all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. FAS 154 supersedes APB Opinion 20 and FAS 3, though it carries forward the guidance in those pronouncements with respect to accounting for changes in estimates, changes in the reporting entity and the correction of errors. This statement is effective for accounting changes and corrections of errors made in

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

fiscal years beginning after December 15, 2005. The Company does not believe the adoption of this standard will have a material impact on our financial position or results of operations.

3. SHORT-TERM AND LONG-TERM INVESTMENTS

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

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2005				
U.S. corporate securities	\$ 35,301	\$ —	\$ (261)	\$ 35,040
Obligations of states and political subdivisions	57,025	—	(25)	57,000
	<u>\$ 92,326</u>	<u>\$ —</u>	<u>\$ (286)</u>	<u>\$ 92,040</u>
December 31, 2004				
U.S. corporate securities	\$ 47,639	\$ 1	\$ (320)	\$ 47,320
Obligations of states and political subdivisions	30,075	—	(24)	30,051
	<u>\$ 77,714</u>	<u>\$ 1</u>	<u>\$ (344)</u>	<u>\$ 77,371</u>

The amortized cost and estimated fair value of debt securities at December 31, 2005, by contractual maturities, are shown below (in thousands):

	<u>Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 4,001	\$ 3,990
Due in one year to two years	4,763	4,739
Due after two years	83,562	83,311
	<u>\$ 92,326</u>	<u>\$ 92,040</u>

At December 31, 2005, the Company held available-for-sale securities with an aggregate fair value of approximately \$5,006,000 that have been in a continuous unrealized loss position for less than twelve months, with aggregate gross unrealized losses of approximately \$13,000. At December 31, 2005, the Company held available-for-sale securities with an aggregate fair value of approximately \$25,059,000 that have been in a continuous unrealized loss position for more than twelve months, with aggregate gross unrealized losses of approximately \$273,000. The Company believes that the impairment to those investments are not other-than-temporary at this time as these corporate debt securities are all highly rated investments which have been subject to routine market changes that have not been significant to date and the Company has the ability and intent to hold the investments through a period of market recovery.

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVENTORIES

Inventories were as follows (in thousands):

	December 31,	
	2005	2004
Raw materials	\$ 21,519	\$ 27,212
Work-in-process	2,502	2,568
Finished goods	3,838	4,293
	<u>27,859</u>	<u>34,073</u>
Inventory reserves	(10,691)	(7,844)
	<u>\$ 17,168</u>	<u>\$ 26,229</u>

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 Restriction of Hazardous Substances ("RoHS") initiative and the conversion of second-generation products 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 related to raw material inventories in support of pilot production of V•I Chips.

5. 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 were as follows (in thousands):

	December 31,	
	2005	2004
Land	\$ 2,089	\$ 2,089
Buildings and improvements	40,575	40,554
Machinery and equipment	167,865	173,494
Furniture and fixtures	5,514	5,423
Construction-in-progress	2,383	956
	<u>218,426</u>	<u>222,516</u>
Less accumulated depreciation and amortization	159,312	155,515
	<u>\$ 59,114</u>	<u>\$ 67,001</u>

Depreciation expense for the years ended December 31, 2005, 2004 and 2003 was approximately \$16,790,000, \$20,334,000 and \$21,811,000, respectively.

At December 31, 2005, the Company had approximately \$929,000 of capital expenditure commitments.

6. 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. The Company's total

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. INVESTMENTS (Continued)

investment in GWS was \$3,000,000 as of December 31, 2005 and 2004. A director of Vicor is founder, president and a shareholder of GWS. GWS is majority owned and controlled by an unrelated company. In addition to the investment, the Company and GWS have entered into a cross-license agreement and the Company purchases certain components from GWS. Revenues under the cross-license agreement and purchases from GWS were not significant in 2005, 2004 or 2003.

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 investments in GWS, and determined that GWS is not a variable interest entity. As a result, the Company has accounted for the investment under Accounting Principles Board Opinion No. 18, "The Equity Method for Accounting for Investments in Common Stock" (APB 18), as a cost method investment as management believes it does not have significant influence over GWS. The investment in GWS is included in other assets in the accompanying consolidated balance sheets. The Company periodically evaluates whether any indicators of impairment surrounding the GWS investment are present and, if so, consider whether any adjustments to the carrying value of the investments in GWS should be recorded.

The Company does not believe there is any impairment to the carrying value of this investment as of December 31, 2005.

7. 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 2005 as required by the provisions of FAS 142, and determined that there was no impairment to the carrying value. The Company has no other goodwill on the balance sheet at December 31, 2005 and 2004.

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

	December 31,	
	2005	2004
Patent costs	\$ 5,701	\$ 5,362
Less accumulated amortization	2,429	2,390
	<u>\$ 3,272</u>	<u>\$ 2,972</u>

Amortization expense was approximately \$292,000, \$564,000 and \$586,000 in 2005, 2004 and 2003, respectively. The estimated amortization expense for the next five years is as follows (in thousands):

Year	
2006	\$ 339
2007	321
2008	311
2009	310
2010	306

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. PRODUCT WARRANTIES

Product warranty activity for the years ended December 31, 2005, 2004 and 2003 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Balance at the beginning of the period	\$ 1,042	\$ 1,268	\$ 1,379
Accruals for warranties for products sold in the period	173	301	609
Fulfillment of warranty obligations	(180)	(120)	(345)
Revisions of estimated obligations	(280)	(407)	(375)
Balance at the end of the period	<u>\$ 755</u>	<u>\$ 1,042</u>	<u>\$ 1,268</u>

9. 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 2005 and 2004, the Company spent \$5,544,000 and \$1,088,000, respectively, in the repurchase of 452,200 and 111,300 shares, respectively, of its Common Stock under the November 2000 Plan. At December 31, 2005, the Company had approximately \$19,376,000 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.

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 payable on March 20, 2006 to shareholders of record at the close of business on February 28, 2006. The Board of Directors anticipates reviewing its dividend policy on a semi-annual basis.

During 2005, a total of 377,298 shares of Common Stock were issued upon the exercise of stock options, and 12,148 shares of Class B Common Stock were converted into 12,148 shares of Common Stock.

At December 31, 2005, there were 17,726,563 shares of Vicor Common Stock reserved for issuance under Vicor stock options and upon conversion of Class B Common Stock.

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. OTHER INCOME (EXPENSE), NET

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest income	\$ 3,124	\$ 1,764	\$ 1,514
Minority interest in net income of subsidiaries	(807)	(527)	(512)
Foreign currency (losses) gains	(771)	268	607
Other than temporary decline in Scipher plc investment	—	(70)	(470)
Loss on disposal of equipment	(41)	(47)	(356)
Other	(5)	244	29
	<u>\$ 1,500</u>	<u>\$ 1,632</u>	<u>\$ 812</u>

11. EMPLOYEE BENEFIT PLANS**Vicor Stock Options**

Under the Company's Amended and Restated 2000 Stock Option and Incentive Plan (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.

Under the 1998 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. 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 2,000,000 shares of Common Stock were reserved for issuance under the 1998 Plan. The period of time during which an option may be exercised and the vesting periods will be determined by the Compensation Committee. The term of each option may not exceed ten years from the date of grant.

Under 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-

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. EMPLOYEE BENEFIT PLANS (Continued)

employee directors. A total of 4,000,000 shares of Common Stock were 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.

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 and approval of the 1993 Plan, the Board of Directors terminated the granting of options under the 1984 Plan.

Activity as to Vicor stock options is as follows:

	2005	2004	2003
Outstanding at beginning of year	3,035,350	3,809,603	4,552,749
Granted	78,160	63,880	112,620
Forfeited and expired	(475,964)	(595,046)	(707,144)
Exercised	(377,298)	(243,087)	(148,622)
Outstanding at end of year	2,260,248	3,035,350	3,809,603
Exercisable at end of year	1,918,674	2,385,819	2,653,481
Weighted-average exercise price:			
Outstanding at beginning of year	\$ 18.04	\$ 18.28	\$ 18.84
Granted	\$ 14.04	\$ 13.58	\$ 8.93
Forfeited and expired	\$ 23.78	\$ 22.55	\$ 23.29
Exercised	\$ 9.47	\$ 9.65	\$ 5.21
Outstanding at end of year	\$ 18.14	\$ 18.04	\$ 18.28
Exercisable at end of year	\$ 19.30	\$ 19.44	\$ 19.31
Price range per share of outstanding options	\$ 5.98-54.50	\$ 5.98-54.50	\$ 5.98-54.50
Price range per share of options granted	\$ 9.99-16.91	\$ 10.00-18.09	\$ 5.98-11.59
Price range per share of options exercised	\$ 5.98-16.43	\$ 5.98-17.63	\$ 1.83-11.00
Available for grant at end of year	3,611,363	3,213,559	2,683,793

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. EMPLOYEE BENEFIT PLANS (Continued)

The following table summarizes information about Vicor stock options outstanding as of December 31, 2005:

	<u>Range of Exercise Prices</u>			
	<u>\$5.98-\$12.06</u>	<u>\$12.29-\$16.43</u>	<u>\$16.46-\$28.25</u>	<u>\$28.44-\$54.50</u>
Options Outstanding:				
Number Outstanding	715,517	612,583	684,749	247,399
Options Exercisable:				
Number Exercisable	535,667	505,451	635,118	242,438
Weighted-Average Remaining Contractual Life	3.51	2.83	3.37	2.69
Weighted-Average Exercise Price	\$ 10.01	\$ 15.22	\$ 21.68	\$ 39.04
Weighted-Average Exercise Price	\$ 10.81	\$ 15.45	\$ 21.97	\$ 39.11

Picor Stock Options

Under the Picor Corporation 2001 Stock Option and Incentive Plan (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.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. EMPLOYEE BENEFIT PLANS (Continued)

Activity as to Picor stock options is as follows:

	2005	2004	2003
Outstanding at beginning of year	3,290,000	2,782,820	3,162,000
Granted	212,000	577,200	1,404,340
Forfeited and expired	(60,000)	(70,020)	(1,783,520)
Exercised	—	—	—
Outstanding at end of year	<u>3,442,000</u>	<u>3,290,000</u>	<u>2,782,820</u>
Exercisable at end of year	<u>1,683,280</u>	<u>1,049,280</u>	<u>518,400</u>
Weighted-average exercise price:			
Outstanding at beginning of year	\$.43	\$.36	\$.25
Granted	\$.75	\$.75	\$.47
Forfeited and expired	\$.25	\$.31	\$.25
Exercised	\$ —	\$ —	\$ —
Outstanding at end of year	\$.45	\$.43	\$.36
Exercisable at end of year	\$.36	\$.31	\$.25
Price range per share of outstanding options	<u>\$.25-.75</u>	<u>\$.25-.75</u>	<u>\$.25-.75</u>
Price range per share of options granted	<u>\$.75</u>	<u>\$.75</u>	<u>\$.25-.75</u>
Price range per share of options exercised	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Available for grant at end of year	<u>6,558,000</u>	<u>6,710,000</u>	<u>7,217,180</u>

The following table summarizes information about Picor stock options outstanding as of December 31, 2005:

	Range of Exercise Prices	
	\$.25	\$.75
Options Outstanding:		
Number Outstanding	2,054,400	1,387,600
Weighted-Average Remaining Contractual Life	6.39	8.22
Options Exercisable:		
Number Exercisable	1,328,160	355,120

All Picor share and per share data have been restated to reflect a four-for-one stock split of Picor Common Stock effected in the form of a stock dividend and authorized by the Picor Board of Directors on March 6, 2006.

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

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. EMPLOYEE BENEFIT PLANS (Continued)

currently vest at a rate of 20% per year based upon years of service. The Company's contribution to the plan was approximately \$622,000, \$628,000 and \$640,000 in 2005, 2004 and 2003, 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, 2005, 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.

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,	
	2005	2004
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,767	\$ 8,341
Inventory reserves	4,351	3,148
Research and development tax credit carryforwards	2,451	1,965
Investment tax credit carryforwards	1,493	1,539
Vacation accrual	1,019	879
Scipher investment basis difference	824	824
Bad debt reserves	236	187
Warranty reserve	206	322
Other	616	509
Total deferred tax assets	<u>15,963</u>	<u>17,714</u>
Less: Valuation allowance for deferred tax assets	<u>(8,050)</u>	<u>(7,213)</u>
Net deferred tax assets	7,913	10,501
Deferred tax liabilities:		
Depreciation	(6,279)	(9,596)
Patent amortization	(1,347)	(1,165)
Other	(786)	(416)
Total deferred tax liabilities	<u>(8,412)</u>	<u>(11,177)</u>
Net deferred tax liabilities	<u>\$ (499)</u>	<u>\$ (676)</u>

The Company has assessed the need for a valuation allowance against its deferred tax assets and concluded that a valuation allowance for a portion of the deferred tax assets is warranted at December 31, 2005 and 2004. 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.

VICOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Domestic	\$ 5,073	\$ (3,311)	\$ (24,357)
Foreign	(193)	908	(534)
	<u>\$ 4,880</u>	<u>\$ (2,403)</u>	<u>\$ (24,891)</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current:			
Federal	\$ 942	\$ 1,075	\$ 248
Foreign	75	185	—
State	80	60	—
	<u>1,097</u>	<u>1,320</u>	<u>248</u>
Deferred:			
Federal	(133)	—	(5,604)
	<u>\$ 964</u>	<u>\$ 1,320</u>	<u>\$ (5,356)</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Statutory federal tax rate	35.0%	(35.0)%	(35.0)%
State income taxes, net of federal income tax benefit	2.5	(1.8)	(3.5)
Alternative minimum tax	5.5	1.6	0.2
Meals and entertainment expense	2.9	5.5	0.6
Foreign income taxes	2.3	2.1	—
Foreign Sales Corporation/ ETI benefit	(11.5)	—	(1.5)
Reduction in tax reserves	(7.3)	—	—
Other	0.1	—	0.8
(Decrease) increase in valuation allowance	(9.7)	82.5	16.9
	<u>19.8%</u>	<u>54.9%</u>	<u>(21.5)%</u>

Tax provisions in 2005 and 2004 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 2005, the Company reduced its tax reserves by \$770,000 due to closing tax periods in certain jurisdictions, offset by an increase in reserves during the year of approximately \$412,000 for potential liabilities. During the third quarter of 2004, the Company provided additional tax expense for potential liabilities related to certain jurisdictions under examination aggregating \$950,000, partially offset by a reduction in the tax reserves for certain jurisdictions due to tax periods closing aggregating \$650,000.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

During the fourth quarter of 2003, the Company revised its estimate of the effective tax rate for the year and recorded a tax benefit for a portion of the net operating losses generated in 2003. Such benefit was provided as it is more likely than not that a portion of deferred tax assets related to the net operating losses will be realized. In reaching this conclusion, the Company evaluated all relevant criteria including the existence of temporary differences reversing in the carryforward period, primarily depreciation. As a result, the effective tax rate was revised to an estimated tax benefit of 21.5% and, accordingly, an income tax benefit was recorded in the fourth quarter of 2003 of approximately \$5,107,000.

The research and development tax credit carryforwards expire beginning in 2015 for state purposes and 2023 for federal purposes. The federal and state net operating losses of approximately \$11,500,000 expire beginning in 2023 and 2006, respectively, of which the Company has benefited approximately \$4,200,000.

The Company operates in numerous taxing jurisdictions and is, therefore, subject to a variety of income and related taxes. The Company has provided for potential tax liabilities due in various jurisdictions which it judges to be probable and reasonably estimable in accordance with Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies". Judgment is required in determining the income tax expense and related tax liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. The Company believes it has reasonably estimated its accrued taxes for all jurisdictions for all open tax periods. The Company periodically assesses the adequacy of its tax and related accruals on a quarterly basis and adjusts appropriately as events warrant and open tax periods close. It is possible that the final tax outcome of these matters will be different from management's estimate reflected in the income tax provisions and accrued taxes. Such differences could have a material impact on the Company's income tax provision and operating results in the period in which such determination is made.

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 have been agreed to by the Joint Committee on Taxation of the U.S. Department of the Treasury. While the Company is awaiting the final audit assessment from the IRS, it believes that its tax accruals are adequate to cover the ultimate assessment.

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):

<u>Year</u>	
2006	\$ 1,161
2007	805
2008	536
2009	242
2010 and thereafter	71

Rent expense was approximately \$1,420,000, \$1,346,000 and \$1,279,000 in 2005, 2004 and 2003, respectively. The Company also pays executory costs such as taxes, maintenance and insurance.

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 \$280,000 annually, subject to semi-annual price adjustments, through March 2015.

Vicor and VLT, Inc. ("VLT"), a wholly owned subsidiary of the Company, are pursuing Reset Patent infringement claims directly against Artesyn Technologies, Lucent Technologies and Tyco Electronics Power

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. COMMITMENTS AND CONTINGENCIES (Continued)

Systems, Inc. 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 January 2003, the District Court issued a pre-trial decision in each of these patent infringement lawsuits relating to claim construction of the Reset Patent. The District Court's decisions rejected assertions that the Reset Patent claims are invalid for indefiniteness; and affirmed Vicor's interpretation of several terms used in the Reset Patent claims. However, the District Court adopted interpretations of certain terms of the Reset Patent claims that are contrary to Vicor's position. On May 24, 2004, the United States Court of Appeals for the Federal Circuit affirmed the decisions issued in January 2003 by the District Court. Vicor believes that the District Court's decisions, and the affirmation of these decisions by the Federal Circuit, strengthens its position regarding validity of the patent, but reduces the cumulative amount of infringing power supplies and the corresponding amount of potential damages. The Federal Circuit has referred the proceedings back to the District Court for trials on validity of the Reset Patent and infringement and damages by Lucent, Tyco and Artesyn.

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 consolidated statements of operations. The District Court has not yet set dates for the remaining trials. There can be no assurance that Vicor and VLT will ultimately prevail with respect to any of these claims or, if they prevail, as to the amount of damages that would be awarded.

In May 2004, Ericsson Wireless Communications, Inc. v. Vicor Corporation was filed in Superior Court of the State of California, County of San Diego. The plaintiff has brought an action against the Company claiming unspecified damages for failure of out-of warranty products previously purchased by it from the Company. In November 2004, Ericsson filed a First Amended Complaint adding claims against Exar Corporation, a former vendor of the Company. The Company filed cross-claims against Exar, and third-party claims against Rohm Device USA, LLC and Rohm Co., Ltd., the original manufacturer(s) of the component which Exar sold to the Company. The Company has denied the claims made against it and intends to vigorously defend the claims made against it.

On March 4, 2005, Exar filed a declaratory judgment action against Vicor in the Superior Court of the State of California, County of Santa Clara, in which Exar seeks a declaration by the Court that Exar is not obligated to reimburse or indemnify Vicor for any claims brought against Vicor for alleged damages incurred as a result of the use of Exar components in Vicor products. The Company has brought cross-claims against Exar, and third-party claims against Rohm Device USA, LLC and Rohm Co., Ltd., for declaratory judgment. The Company intends to vigorously assert its cross-claims against Exar.

On August 18, 2005, the Company filed an action in The Superior Court of the Commonwealth of Massachusetts, County of Essex ("the 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 September 22, 2005, Concurrent filed a Demand For Arbitration with The American Arbitration Association. Concurrent is seeking \$1,500,000 in replacement costs, plus incidental, consequential and any other damages to be determined. On March 8, 2006 the Court allowed Concurrent's motion to compel arbitration. The Company has denied the claims made against it and intends to vigorously defend the claims made against it.

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,

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. COMMITMENTS AND CONTINGENCIES (Continued)

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. The Company's chief decision maker, as defined under FAS 131, is the chief executive officer. The Company operates in one industry segment: the development, manufacture and sale of power conversion components and systems. During 2005, 2004 and 2003, no customer accounted for more than 10% of net revenues. Export sales, as a percentage of total net revenues, were approximately 42%, 41% and 38% in 2005, 2004 and 2003, respectively. Export sales and receipts are recorded and received in U.S. dollars.

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):

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
2005:					
Net revenues	\$ 43,180	\$ 44,579	\$ 45,298	\$ 46,294	\$ 179,351
Gross profit	17,045	15,579	19,014	19,769	71,407
Net income	39	89	1,708	2,080	3,916
Net income per share:					
Basic and diluted	.00	.00	.04	.05	.09
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Total</u>
2004:					
Net revenues	\$ 42,521	\$ 45,374	\$ 43,048	\$ 40,637	\$ 171,580
Gross profit	15,000	17,380	16,231	14,677	63,288
Net income (loss)	(1,190)	61	(572)	(2,022)	(3,723)
Net income (loss) per share:					
Basic and diluted	(.03)	.00	(.01)	(.05)	(.09)

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 Chief Financial Officer ("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. Part II, Item 9A(e) of this Form 10-K sets forth the report of Ernst & Young LLP, our independent registered public accounting firm, regarding its audit of Vicor's internal control over financial reporting and of management's assessment of internal control over financial reporting set forth below in this section. This section should be read in conjunction with the certifications and the Ernst & Young report for a more complete understanding of the topics presented.

(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 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, the CEO and CFO concluded that they believe the Company's disclosure controls and procedures are reasonably 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. 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, 2005, 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. 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.

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Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2005 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Our independent registered public accounting firm, Ernst & Young LLP, audited management's assessment and independently 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 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

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(e) Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Vicor Corporation

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Vicor Corporation maintained effective internal control over financial reporting as of December 31, 2005, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, 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.

In our opinion, management's assessment that Vicor Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Vicor Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Vicor Corporation as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005 of Vicor Corporation and our report dated March 9, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 9, 2006

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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 2006 annual meeting of stockholders.

ITEM 11 — EXECUTIVE COMPENSATION

Incorporated by reference from the Company's Definitive Proxy Statement for its 2006 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 2006 annual meeting of stockholders.

ITEM 13 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the Company's Definitive Proxy Statement for its 2006 annual meeting of stockholders.

ITEM 14 — PRINCIPAL ACCOUNTANT FEES AND SERVICES

Incorporated by reference from the Company's Definitive Proxy Statement for its 2006 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.

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(b) Exhibits

<u>Exhibits</u>	<u>Description of Document</u>
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(1)
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)
21.1	• Subsidiaries of the Company(8)
23.1	• Consent of Independent Registered Public Accounting Firm(8)
31.1	• Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934(8)
31.2	• Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934(8)
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(8)
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(8)

- (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.
- (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 herewith.

VICOR CORPORATION
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2005, 2004 and 2003

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>(Credit) Charge to Costs and Expenses</u>	<u>Other Charges, Deductions(1)</u>	<u>Balance at End of Period</u>
2005				
Allowance for doubtful accounts	\$ 468,000	\$ 195,000	\$ (28,000)	\$ 635,000
2004				
Allowance for doubtful accounts	\$ 807,000	\$ (217,000)	\$ (122,000)	\$ 468,000
2003				
Allowance for doubtful accounts	\$ 648,000	\$ 161,000	\$ (2,000)	\$ 807,000

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

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>(Credit) Charge to Costs and Expenses</u>	<u>Other Charges, Deductions(2)</u>	<u>Balance at End of Period</u>
2005				
Inventory reserves	\$ 7,844,000	\$ 4,777,000	\$ (1,930,000)	\$ 10,691,000
2004				
Inventory reserves	\$ 8,051,000	\$ 1,079,000	\$ (1,286,000)	\$ 7,844,000
2003				
Inventory reserves	\$ 7,562,000	\$ 1,966,000	\$ (1,477,000)	\$ 8,051,000

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

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/ Mark A. Glazer

Mark A. Glazer
Chief Financial Officer

Dated: March 13, 2006

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Patrizio Vinciarelli</u> Patrizio Vinciarelli	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 13, 2006
<u>/s/ Mark A. Glazer</u> Mark A. Glazer	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 13, 2006
<u>/s/ Estia J. Eichten</u> Estia J. Eichten	Director	March 13, 2006
<u>/s/ David T. Riddiford</u> David T. Riddiford	Director	March 13, 2006
<u>/s/ Jay M. Prager</u> Jay M. Prager	Director	March 13, 2006
<u>/s/ Barry Kelleher</u> Barry Kelleher	Director	March 13, 2006
<u>/s/ M. Michael Ansour</u> M. Michael Ansour	Director	March 13, 2006
<u>/s/ Samuel Anderson</u> Samuel Anderson	Director	March 13, 2006

PICOR CORPORATION

2001 STOCK OPTION AND INCENTIVE PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN: DEFINITIONS

The name of the plan is the Picor Corporation 2001 Stock Option and Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers and directors of Picor Corporation (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Act" means the Securities Exchange Act of 1934, as amended.

"Administrator" is defined in Section 2(a).

"Award" or "Awards," except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock Awards and Unrestricted Stock Awards.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Committee" means the Committee of the Board referred to in Section 2.

"Effective Date" means the date on which the Plan is approved by stockholders as set forth in Section 13.

"Fair Market Value" of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), NASDAQ National System or a national securities exchange, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations; provided further, however, that if the date for which Fair Market Value is determined is the first day when trading prices for the Stock are reported on NASDAQ or on a national securities exchange, the Fair Market Value shall be the "Price to the

Public" (or equivalent) set forth on the cover page for the final prospectus relating to the Company's Initial Public Offering.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Initial Public Offering" means the consummation of the first fully underwritten, firm commitment public offering pursuant to an effective registration statement under the Act covering the offer and sale by the Company of its equity securities, or such other event as a result of or following which the Stock shall be publicly held.

"Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Option" or "Stock Option" means any option to purchase shares of Stock granted pursuant to Section 5.

"Restricted Stock Award" means Awards granted pursuant to Section 6.

"Retirement" means the employee's termination of employment with the Company and its Subsidiaries after attainment of the age of 62.5 years.

"Stock" means the Common Stock, par value \$.01 per share, of the Company, subject to adjustments pursuant to Section 3.

"Subsidiary" means any corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities beginning with the Company if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50 percent or more of the economic interest or the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

"Transaction" is defined in Section 3(c).

"Unrestricted Stock Award" means any Award granted pursuant to Section 7.

SECTION 2. ADMINISTRATION OF THE PLAN: ADMINISTRATOR AUTHORITY TO SELECT PARTICIPANTS AND DETERMINE AWARDS

(a) Committee. The Plan shall be administered by either the Board or, at the discretion of the Board, a committee of the Board comprised, except as contemplated by Section 2(c), of not less than two directors (in either case, the "Administrator").

(b) Powers of Administrator. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock Awards, Unrestricted Stock Awards or any combination of the foregoing, granted to any one or more participants;

(iii) to determine the number of shares of Stock to be covered by any Award;

(iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(a)(ii), to extend at any time the period in which Stock Options may be exercised; and

(vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

Notwithstanding the foregoing, no Award shall be granted under the Plan unless the recipient of such Award has executed and delivered a Stock Restriction Agreement in substantially the form attached hereto as Exhibit A or such other form as the Administrator may determine from time to time. All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan participants.

(c) Delegation of Authority to Grant Awards. The Administrator, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Administrator's authority and duties with respect to the granting of Awards at Fair Market Value to individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act or "covered employees" within the meaning of Section 162(m) of the Code, and in the event of such delegation, such Chief Executive Officer shall be deemed a one-person Committee of the Board. Any such delegation by the Administrator shall include a limitation as to the amount of Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price of any Option, the conversion ratio or price of other Awards and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

(d) Indemnification. Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and Committee (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage, judgment, settlement or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors' and officers' liability insurance coverage which may be in effect from time to time.

SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) Stock Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 10,000,000 shares, subject to adjustment as provided in Section 3(b). For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, canceled, reacquired by the Company, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. Subject to such overall limitation, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that from and after the date on which the Company becomes subject to the deduction limit imposed by Section 162(m) of the Code, Stock Options with respect to no more than 1,600,000 shares of Stock may be granted to any one individual participant during any one calendar year period. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company and held in its treasury.

(b) Changes in Stock. If, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, (ii) the number of Stock Options that can be granted to any one individual participant, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, and (iv) the price for each share subject to any then outstanding Stock Options under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options) as to which such Stock Options remain exercisable. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

The Administrator may also adjust the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration material changes in accounting practices or principles, extraordinary dividends, acquisitions or dispositions of stock or property or any other event if it is determined by the Administrator that such adjustment is appropriate to avoid distortion in the operation of the Plan, provided that no such adjustment shall be made in the case of an Incentive Stock Option, without the consent of

the participant, if it would constitute a modification, extension or renewal of the Option within the meaning of Section 424(h) of the Code.

(c) Mergers and Other Transactions. In the case of and subject to the consummation of (i) the dissolution or liquidation of the Company, (ii) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (iii) a merger, reorganization or consolidation in which the holders of the Company's outstanding voting power immediately prior to such transaction do not own a majority of the outstanding voting power of the surviving or resulting entity immediately upon completion of such transaction, (iv) the sale of all of the Stock of the Company to an unrelated person or entity or (v) any other transaction in which the owners of the Company's outstanding voting power prior to such transaction do not own at least a majority of the outstanding voting power of the relevant entity after the transaction (in each case, a "Transaction"), as of the effective date of such Transaction, all Options that are not exercisable shall become fully exercisable and all other Awards which are not vested shall become fully vested, except as the Administrator may otherwise specify with respect to particular Awards. Upon the effectiveness of the Transaction, the Plan and all outstanding Options and other Awards granted hereunder shall terminate, unless provision is made in connection with the Transaction for the assumption of Awards heretofore granted, or the substitution of such Awards of new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as provided in Section 3(b) above. In the event of such termination, each optionee shall be permitted to exercise for a period of at least 15 days prior to the date of such termination all outstanding Options held by such optionee which are then exercisable or become exercisable upon the effectiveness of the Transaction.

(d) Substitute Awards. The Administrator may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Administrator may direct that the substitute awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances. Any substitute Awards granted under the Plan shall not count against the share limitations set forth in Section 3(a).

SECTION 4. ELIGIBILITY

Participants in the Plan will be such full or part-time officers and other employees and directors of the Company and its Subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

SECTION 5. STOCK OPTIONS

Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

No Incentive Stock Option shall be granted under the Plan after November 21, 2011.

(a) Stock Options Granted to Employees and Key Persons. The Administrator in its discretion may grant Stock Options to eligible employees and key persons of the Company or any Subsidiary. Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the participant's election, subject to such terms and conditions as the Administrator may establish, as well as in addition to other compensation.

(i) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant in the case of Incentive Stock Options. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation and an Incentive Stock Option is granted to such employee, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date.

(ii) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Incentive Stock Option shall be exercisable more than ten years after the date the option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five years from the date of grant.

(iii) Exercisability; Rights of a Stockholder. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date; provided, however, that Stock Options granted in lieu of compensation shall be exercisable in full as of the grant date. The Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods to the extent provided in the Option Award agreement:

(A) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(B) If approved by the Administrator, through the delivery (or attestation to the ownership) of shares of Stock that are not then subject to restrictions under any Company plan and that have been beneficially owned by the optionee for at least six months or have been purchased by the participant on the open market. Such surrendered shares shall be valued at Fair Market Value on the exercise date;

(C) If approved by the Administrator, by the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Administrator shall prescribe as a condition of such payment procedure; or

(D) By the optionee delivering to the Company a promissory note if the Board has unanimously authorized the loan of funds to the optionee for the purpose of enabling or assisting the optionee to effect the exercise of his Stock Option; provided that at least so much of the exercise price as represents the par value of the Stock shall be paid other than with a promissory note.

Payment instruments will be received subject to collection. No certificates for shares of Stock so purchased will be issued to optionee until the Company has completed all steps required by law to be taken in connection with the issuance and sale of the shares, including without limitation (i) receipt of a representation from the optionee at the time of exercise of the Option that the optionee is purchasing the shares for the optionee's own account and not with a view to any sale or distribution thereof, (ii) the legending of any certificate representing the shares to evidence the foregoing representations and restrictions, and (iii) obtaining from optionee payment or provision for all withholding taxes due as a result of the exercise of the Option. The delivery of certificates representing the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his or her stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award agreement or applicable provisions of laws. In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of shares attested to.

(v) Annual Limit on Incentive Stock Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

(b) Non-transferability of Options. No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee or by the optionee's legal representative or guardian in the event of the optionee's incapacity. Notwithstanding the foregoing, the Administrator, in its sole discretion, may provide in the Award agreement regarding a given Option that the optionee may transfer, without consideration for the transfer, his Non-Qualified Stock Options to members of his immediate family, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Option.

(c) Termination. Except as may otherwise be provided in this Section 5(c) or by the Administrator either in the Award agreement, or subject to Section 10 below, in writing after the Award agreement is issued, a participant's rights in all Stock Options shall automatically terminate upon the participant's termination of employment with the Company and its Subsidiaries for any reason. Notwithstanding the foregoing, the period within which to exercise the Option shall be modified as set forth below:

(i) Termination Due to Death. If the participant's employment terminates by reason of death, (1) any Option held by the participant, which, but for such participant's death, would have vested and become exercisable on or prior to the first anniversary of such termination, shall become fully exercisable and (2) any Option exercisable at the time of such termination may thereafter be exercised by the participant's legal representative or legatee for a period of 12 months from the date of death or until the Expiration Date, if earlier.

(ii) Termination Due to Disability. If the participant's employment terminates by reason of Disability (as defined in Section 22(c)(3) of the Code), (1) any Option held by the participant, which, but for such participant's Disability, would have vested and become exercisable on or prior to the first anniversary of such termination, shall become fully exercisable and (2) any Option exercisable at the time of such termination may thereafter be exercised by the participant for a period of 12 months from the date of termination or until the Expiration Date, if earlier. The death of the participant during the 12-month period provided in this Section 5(c)(ii) shall extend such period for another 12 months from the date of death or until the Expiration Date, if earlier.

(iii) Termination Due to Retirement. Any Stock Option held by an optionee whose employment by the Company and its Subsidiaries is terminated by reason of Retirement shall remain outstanding and subject to all of the terms and conditions of the Award agreement as though such optionee's employment had not ceased by reason of such Retirement.

(iv) Determination of Reason. The Administrator's determination of the reason for termination of the participant's employment shall be conclusive and binding on the participant and his or her representatives or legatees.

SECTION 6. RESTRICTED STOCK AWARDS

(a) Nature of Restricted Stock Awards. A Restricted Stock Award is an Award entitling the recipient to acquire, at par value or such other higher purchase price determined by the Administrator, shares of Stock subject to such restrictions and conditions as the Administrator may determine at the time of grant ("Restricted Stock"). Conditions may be based on continuing employment (or other business relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Restricted Stock Award is contingent on the participant executing the Restricted Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and participants.

(b) Rights as a Stockholder. Upon execution of a written instrument setting forth the Restricted Stock Award and payment of any applicable purchase price, a participant shall have the rights of a stockholder with respect to the voting of the Restricted Stock, subject to such conditions contained in the written instrument evidencing the Restricted Stock Award. Unless the Administrator shall otherwise determine, certificates evidencing the Restricted Stock shall remain in the possession of the Company until such Restricted Stock is vested as provided in Section 6(d) below, and the participant shall be required, as a condition of the grant, to deliver to the Company a stock power endorsed in blank.

(c) Restrictions. Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award agreement. If a participant's employment (or other business relationship) with the Company and its Subsidiaries terminates for any reason, the Company shall have the right to repurchase Restricted Stock that has not vested at the time of termination at its original purchase price, from the participant or the participant's legal representative.

(d) Vesting of Restricted Stock. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 10 below, in writing after the Award agreement is issued, a participant's rights in any shares of Restricted Stock that have not vested shall automatically terminate upon the participant's termination of employment (or other business relationship) with the Company and its Subsidiaries and such shares shall be subject to the Company's right of repurchase as provided in Section 6(c) above.

(e) Waiver, Deferral and Reinvestment of Dividends. The Restricted Stock Award agreement may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

SECTION 7. UNRESTRICTED STOCK AWARDS

Grant or Sale of Unrestricted Stock. The Administrator may, in its sole discretion, grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award to any participant pursuant to which such participant may receive shares of Stock free of any restrictions ("Unrestricted Stock") under the Plan. Unrestricted Stock Awards may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration, or in lieu of cash compensation due to such participant.

SECTION 8. TAX WITHHOLDING

(a) Payment by Participant. Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant. The Company's obligation to deliver stock certificates to any participant is subject to and conditioned on tax obligations being satisfied by the participant.

(b) Payment in Stock. Subject to approval by the Administrator, a participant may elect to have the minimum required tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (ii) transferring to the Company shares of Stock owned by the participant with a minimum aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the minimum withholding amount due.

SECTION 9. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

SECTION 10. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. The Administrator may provide substitute Awards at the same or reduced exercise or purchase price or with no exercise or purchase price in a manner not inconsistent with the terms of the Plan, but such price, if any, must satisfy the requirements which would apply to the substitute or amended Award if it were then initially granted under this Plan, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. If and to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code or to ensure that compensation earned under Stock Options qualifies as performance-based compensation under Section 162(m) of the Code, if and to the extent intended to so qualify, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 10 shall limit the Board's authority to take any action permitted pursuant to Section 3(c).

SECTION 11. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 12. GENERAL PROVISIONS

(a) No Distribution; Compliance with Legal Requirements. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange or similar requirements have been satisfied. The Administrator may require the placing of such stop-orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) Delivery of Stock Certificates. Stock certificates to participants under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(d) Trading Restrictions. Option exercises and other Awards under the Plan shall be subject to such Company's trading restrictions, terms and conditions, including, without limitation, the restrictions, terms and conditions set forth in a Stock Restriction Agreement executed and delivered pursuant to Section 2 hereof, as may be established or required by the Administrator, or in accordance with policies set by the Administrator, from time to time.

(e) Loans to Participants. The Company shall have the authority to make loans to participants hereunder (including to facilitate the purchase of shares) and shall further have the authority to issue shares for promissory notes hereunder.

(f) Designation of Beneficiary. Each participant to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the participant's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased participant, or if the designated beneficiaries have predeceased the participant, the beneficiary shall be the participant's estate.

SECTION 13. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon approval by the stockholders in accordance with applicable law. Subject to such approval by the stockholders and to the requirement that no Stock may be issued hereunder prior to such approval, Stock Options and other Awards may be granted hereunder on and after adoption of this Plan by the Board.

SECTION 14. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.

DATE APPROVED BY BOARD OF DIRECTORS: November 21, 2001

DATE APPROVED BY STOCKHOLDERS: November 21, 2001

As adjusted for a 3 for 1 stock dividend issued on March 8, 2006

STOCK RESTRICTION AGREEMENT
PICOR CORPORATION

Agreement made as of _____ by and between PICOR CORPORATION, a Delaware corporation with an address of P.O. Box 859, Slatersville, Rhode Island 02876 (the "Company"), and _____ (the "Stockholder"), which is the holder of options to purchase shares of common stock, par value \$.01 per share, of the Company (the "Common Stock") (collectively the shares of Common Stock issuable upon the exercise of such options, and all other shares of Common Stock acquired by the Stockholder subsequent to the date hereof are herein referred to as the "Stock").

WHEREAS, the Stockholder has been granted, as of the date first set forth above, options to purchase _____ shares of Common Stock of the Company pursuant to the Company's 2001 Stock Option and Incentive Plan (the "Equity Incentive Plan");

NOW, THEREFORE, in consideration of the mutual promises of the parties and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereby agree as follows.

SECTION 1. Voluntary Transfers. Neither the Stockholder nor any permitted transferee of his shares under Section 5 may sell, assign, transfer, exchange, pledge or otherwise dispose of any shares of Stock or any interest therein now held or hereafter acquired by such shareholder (collectively referred to as a "transfer") without first giving written notice thereof to the Company, identifying the proposed transferee, the purchase price, if any, and terms of the proposed transaction, and offering said shares to the Company for purchase by it as hereinafter provided. Within 30 days after receipt of the notice, the Company may elect to purchase all of the shares so offered and if it does not do so, said shares may be transferred within 60 days after the expiration of said 30-day period to the proposed transferee upon the price and terms specified in the notice, provided that said transferee shall thereupon become a party to this Agreement as a Stockholder in the manner provided hereinafter.

SECTION 2. Termination of Employment. Within 30 days after the voluntary or involuntary termination of all employment of a Stockholder with the Company as an employee, officer and Director thereof, except a termination by reason of death, said Stockholder and each transferee of his or her shares under Section 5 shall give written notice to the Company offering to the Company for purchase as hereinafter provided all of the shares of Stock owned on the date of termination by said Stockholder and each such transferee. Within 30 days after receipt of the notice, the Company may elect to purchase all or any part of the shares so offered and if it does not elect to do so, said shares may be retained by said Stockholder or transferee subject to all other provisions of this Agreement.

SECTION 3. Death of a Stockholder. In the event of the death of the Stockholder, his executors or administrators and each transferee of his shares under Section 5 shall, within 90 days after the date of death, give written notice thereof to the Company offering to it for purchase as hereinafter provided all of the shares of Stock owned on said date by the Stockholder and each such transferee. Within 30 days after receipt of the notice, the Company may elect to purchase all or any part of the shares so offered; and if the Company does not do so, said shares may be retained by the estate of said Stockholder or by such transferee subject to all other provisions of this Agreement.

SECTION 4. Transfers by Operation of Law. In the event that a Stockholder (i) files a voluntary petition under any bankruptcy or insolvency law, or a petition for the appointment of a receiver or makes an assignment for the benefit of creditors, or (ii) is subjected involuntarily to such a petition or assignment or to an attachment or other legal or equitable interest with respect to his shares of Stock, and such involuntary petition or assignment or attachment is not discharged within 60 days after its date, or (iii) is subjected to a transfer of shares of his Stock by operation of law, the Company shall have the right to elect to purchase all or any part of the shares of Stock which are owned by the Stockholder. Failure of the Company to elect to purchase said shares under this Section shall not affect its right to purchase the same shares under Section 1 in the event of a proposed sale, assignment, transfer, pledge or other disposition thereof by or to any receiver, petitioner, assignee, transferee or other person obtaining an interest in said shares.

SECTION 5. Exceptions to Restrictions. Except as provided above, these restrictions shall be inapplicable to:

- (a) Transfers of Stock between the Stockholder and the trustees of a trust revocable by the Stockholder alone,
- (b) Transfers of Stock between the Stockholder and his guardian or conservator, and
- (c) Transfers of Stock upon the death of the Stockholder to his executors or administrators or to trustees under his will;

provided, that such Stock in the hands of each such transferee shall remain subject to this Agreement.

SECTION 6. Transfers in Violation of Agreement. If any transfer of shares of Stock is made or attempted contrary to the provisions of this Agreement, or if shares of Stock are not offered to the Company as required by this Agreement, the Company shall have the right to purchase said shares from the owner thereof or his or her transferee at any time before or after the transfer, as hereinafter provided. In addition to any other legal or equitable remedies which it may have, the Company may enforce its rights by actions for specific performance (to the extent permitted by law) and may refuse to recognize any such transferee as one of its stockholders for

any purpose, including without limitation for purposes of dividend and voting rights, until all applicable provisions of this Agreement have been complied with.

SECTION 7. Purchase Price.

(a) Except as provided in Section 7(b) of this Agreement, unless otherwise determined by the unanimous consent of the members of the Board of Directors the purchase price per share of Stock which the Company elects to purchase pursuant to this Agreement shall be equal to the exercise price of the most recent award of an option under the Company's Equity Incentive Plan, provided that the exercise price of such option was not less than the fair market value of the Stock at the time of grant and was granted not more than three months prior to the event giving rise to the Stockholder's right to purchase such Stock. In the event no such option was awarded within such three month period, then the purchase price per share of Stock shall be the fair market value of such Stock as determined by unanimous consent of the Board of Directors.

(b) Notwithstanding any contrary provisions hereof, in the event of a proposed sale of Stock of the Stockholder under Section 1, or of the Stockholder's transferee under Section 5, to a third party in a bona fide transaction for fair value payable in cash or the equivalent currently or in future installments, the purchase price of said Stock shall be the value offered by such third party and the Company shall have the right of first refusal, exercisable within the period specified in Section 1, to purchase said Stock at such price upon terms equivalent to those offered by such third party. Such right of first refusal shall not apply to a proposed assignment, transfer, exchange, pledge or any other sale or disposition of Stock under Section 1 which does not constitute a sale as described above, and the provisions of subparagraphs (a) and (b) of this Section 7 shall apply to such other transactions.

SECTION 8. Tenders. All shares of Stock which the Company has elected to purchase hereunder shall be tendered to the Company, or to one or more substitute purchasers designated by it, at the principal office of the Company at a reasonable date and time specified by it (in any event within 30 days after the Company's election), by delivery of certificates representing such shares, endorsed in blank and in proper form for transfer against payment of the purchase price in cash or by certified or bank checks, except as provided in Section 9.

SECTION 9. Payment by Installments. If no person has been designated as a substitute purchaser by the Company pursuant to Section 8 and if the total purchase price of a single purchase of Stock by the Company exceeds 10% of its working capital as of any date within 60 days prior to the date of tender of said Stock, the Company may elect to make payment in such installments as it deems appropriate over a period not exceeding 36 months from the date of tender. Unpaid installments shall bear interest at the lowest "applicable Federal rate" established under Section 1274(d)(2) (or its successor provision) of the Internal Revenue Code which is in effect during the three month period ending with the month in which the Company elects to purchase, and shall be evidenced by a promissory note of the Company. If the Company elects to make installment payments, the seller of the purchased Stock shall be entitled to receive and hold an endorsed certificate for an equivalent number of treasury shares as collateral security for

payment of the balance of the purchase price and shall promptly re-deliver said certificate to the Company when full payment of the purchase price has been made. Unless and until the Company defaults in payment or performance of any of its obligations under this Section 9 or said promissory note, the seller shall have none of the rights of a stockholder of the Company, but after such default he shall have all voting, dividend and other rights of a record holder of the purchased Stock and of a defaulted secured creditor under the Uniform Commercial Code or other applicable law. Notwithstanding the foregoing, the net proceeds of any insurance policy on the life of a deceased Stockholder payable to and collected by the Company shall forthwith be applied to payment of the Company's obligations hereunder to the representatives of the deceased Stockholder.

SECTION 10. No Transfer of Unvested Shares. The Stockholder acknowledges and agrees that his interests in any shares of Restricted Stock awarded under the Equity Incentive Plan are subject to forfeiture and repurchase unless and until all conditions to the vesting of such shares have been satisfied under the Equity Incentive Plan and the related Restricted Stock Award, and that such shares may not be transferred in any manner unless and until all conditions to such vesting have been fulfilled and the restrictions shall have lapsed. Notwithstanding any provision hereof to the contrary, in the event the Stockholder's interests in such shares of Restricted Stock are subject to forfeiture due to the termination of the Stockholder's employment with the Company, the Company will nonetheless repurchase such shares at the purchase price set forth in Section 7, against delivery of all certificates representing such shares, duly endorsed for transfer in accordance with this Agreement. The provisions of this Section 10 shall govern in the event of any inconsistency with any other provision of this Agreement, the Equity Incentive Plan or the related Restricted Stock Award, as applicable.

SECTION 11. Waiver and Amendment. From time to time the Company may waive its rights hereunder either generally or with respect to one or more specific transfers which have been proposed, attempted or made. All action to be taken by the Company hereunder (including any amendment of this Agreement) shall be taken only with the consent of the holders of a majority of the issued and outstanding shares of Common Stock. Any Stock which the Company has elected to purchase hereunder may be disposed of by the Company (acting through its Board of Directors) in such manner as it deems appropriate, with or without further restrictions on the transfer thereof, subject to any applicable legal requirements or contractual agreements.

SECTION 12. Action by Stockholders. Unless otherwise expressly provided to the contrary herein, in any case where the holders of issued and outstanding shares of Common Stock are to consent or otherwise act under this Agreement, such action may be taken by written consent of such Stockholders or by a meeting of the Stockholders called in the manner provided for a meeting of stockholders in the by-laws of the Company.

SECTION 13. Termination. This Agreement shall terminate upon the first to occur of the following events:

(a) The consummation of a Transaction (as such term is defined in the Equity Incentive Plan);

(b) The closing of a registered underwritten public offering of the Company's equity securities; or

(c) The unanimous consent of the Board of Directors and the holders of a majority of the issued and outstanding shares of Common Stock.

SECTION 14. Legend on Certificates. Each certificate of Stock subject to this Agreement shall bear on its face the following legend:

"The shares represented by this certificate are subject to restrictions on transfer, a copy of which will be furnished by the Company to the holder of this certificate upon written request and without charge."

SECTION 15. Parties. This Agreement shall be binding upon the parties hereto and their heirs, representatives, successors and assigns. The Company may assign its rights hereunder either generally or from time to time to one or more substitute purchasers of Stock which it has the right to purchase, except as provided in Section 9. Transferees, successors or additional holders of Stock may become parties to this Agreement by endorsing a schedule attached hereto or by executing a counterpart of this Agreement. An original copy of this Agreement and of any counterpart subsequently executed shall be kept by the Secretary of the Company.

SECTION 16. Notices. All notices and elections hereunder shall be in writing and shall be delivered, transmitted by facsimile or sent by certified or registered mail, postage prepaid, to the parties at their addresses set forth above or to any subsequent address of which the Company has notified the Stockholders or any Stockholder has notified the Company. Such notices or elections shall be effective upon receipt or three days after the date mailed, whichever is sooner.

SECTION 17. Governing Law. This Agreement shall be construed under and governed by the laws of the State of Delaware, applied without regard to its conflicts of laws principles.

[Remainder of page left blank intentionally]

EXECUTED as an instrument under seal as of the date first set forth above.

PICOR CORPORATION

By: _____
Name: _____
Title: _____

STOCKHOLDER:

Name _____

The undersigned holder of shares of Common Stock of the Company hereby consents to the execution and delivery of this Agreement by the Company.

VICOR CORPORATION

By: _____
Name: _____
Title: _____

NON-QUALIFIED STOCK OPTION AGREEMENT

PICOR CORPORATION
2001 STOCK OPTION AND INCENTIVE PLAN

Name of Optionee: _____ ID: _____
No. of Option Shares: _____ Option Number: _____
Option Exercise Price per Share: _____ Grant Date: _____
Plan: _____

Pursuant to the Picor Corporation 2001 Stock Option and Incentive Plan, as amended through the date hereof (the "Plan"), Picor Corporation (the "Company") hereby grants to the Optionee named above an option (the "Stock Option") to purchase on or prior to the Expiration Date specified above all or part of the number of shares of Common Stock, par value \$.01 per share (the "Stock"), of the Company at the Option Exercise Price per Share specified above subject to the terms and conditions set forth herein and in the Plan.

1. Exercisability Schedule. No portion of this Stock Option may be exercised until such portion shall have become exercisable. Except as set forth below, and subject to the discretion of the Administrator (as defined in Section 2 of the Plan) to accelerate the exercisability schedule hereunder, this Stock Option shall be exercisable with respect to the following number of Option Shares on the dates indicated:

Number of Option Shares Exercisable	Exercisability Date	Expiration Date
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Once exercisable, this Stock Option shall continue to be exercisable at any time or times prior to the close of business on the Expiration Date, subject to the provisions hereof and the Plan.

2. Manner of Exercise.

(a) The Optionee may exercise this Stock Option only in the following manner: from time to time on or prior to the Expiration Date of this Stock Option, the Optionee may give written notice to the Administrator of his or her election to purchase some or all of the Option Shares purchasable at the time of such notice. This notice shall specify the number of Option Shares to be purchased.

Payment of the purchase price for the Option Shares may be made by one or more of the following methods: (i) in cash, by certified or bank check or other instrument acceptable to the Administrator; or (ii) through the delivery (or attestation to the ownership) of shares of Stock that have been beneficially owned by the Optionee for at least six months and are not then subject to any restrictions under any Company plan; or (iii) a combination of (i) and (ii) above. Payment instruments will be received subject to collection.

The delivery of certificates representing the Option Shares will be contingent upon the Company's receipt from the Optionee of full payment for the Option Shares, as set forth above and any agreement, statement or other evidence that the Company may require to satisfy itself that the issuance of Stock to be purchased pursuant to the exercise of Stock Options under the Plan and any subsequent resale of the shares of Stock will be in compliance with applicable laws and regulations. In the event the Optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the Optionee upon the exercise of the Stock Option shall be net of the Shares attested to.

(b) Certificates for shares of Stock purchased upon exercise of this Stock Option shall be issued and delivered to the Optionee upon compliance to the satisfaction of the Administrator with all requirements under applicable laws or regulations in connection with such issuance and with the requirements hereof and of the Plan. The determination of the Administrator as to such compliance shall be final and binding on the Optionee. The Optionee shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Stock subject to this Stock Option unless and until this Stock Option shall have been exercised pursuant to the terms hereof, the Company shall have issued and delivered the shares to the Optionee, and the Optionee's name shall have been entered as the stockholder of record on the books of the Company. Thereupon, the Optionee shall have full voting, dividend and other ownership rights with respect to such shares of Stock. The Optionee acknowledges and agrees that Stock acquired upon exercise of this Stock Option shall be subject to the terms and conditions of the Stock Restriction Agreement between the Optionee and the Company.

(c) The minimum number of shares with respect to which this Stock Option may be exercised at any one time shall be 100 shares, unless the number of shares with respect to which this Stock Option is being exercised is the total number of shares subject to exercise under this Stock Option at the time.

(d) Notwithstanding any other provision hereof or of the Plan, no portion of this Stock Option shall be exercisable after the Expiration Date hereof.

3. Termination of Employment. If the Optionee's employment by the Company or a Subsidiary (as defined in the Plan) is terminated, the period within which to exercise the Stock Option may be subject to earlier termination as set forth in the Plan.

4. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Stock Option shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

5. Transferability. Notwithstanding any agreement between the Company and the Optionee to the contrary, this Agreement is personal to the Optionee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution. This Stock Option is exercisable, during the Optionee's lifetime, only by the Optionee, and thereafter, only by the Optionee's legal representative or legatee.

6. Miscellaneous.

(a) Notice hereunder shall be given to the Company at its principal place of business, and shall be given to the Optionee at the address set forth below, or in either case at such other address as one party may subsequently furnish to the other party in writing.

(b) This Stock Option does not confer upon the Optionee any rights with respect to continuance of employment by the Company or any Subsidiary.

PICOR CORPORATION

By: _____
Name: _____
Title: _____

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned.

Dated: _____

Optionee's Signature
Optionee's name and address:

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SUBSIDIARIES OF THE COMPANY

STATE OR JURISDICTION	NAME OF INCORPORATION	
Corporation.....	Delaware, USA VLT,	Picor
Inc.....	California, USA Vicor	
GmbH.....	Germany VICR Securities	
Corporation.....	Massachusetts, USA Vicor France	
SARL.....	Vicor Italy	France
SRL.....	Vicor Hong Kong	Italy
Ltd.....	Vicor U.K.	Hong Kong
Ltd.....	United Kingdom Vicor	
B.V.....	Netherlands Vicor Japan Company,	
Ltd.....		Japan Vicor
Development Corporation.....	Delaware, USA Aegis Power Systems,	
Inc.....	Mission Power Systems,	Delaware, USA
Inc.....	Northwest Power Integration,	Delaware, USA
Inc.....	Converpower	Delaware, USA
Corporation.....	Delaware, USA Freedom Power Systems,	
Inc.....		Delaware, USA

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8, No. 33-37491) pertaining to the 1984 Stock Option Plan of Vicor Corporation,
- (2) Registration Statement (Form S-8, No. 33-65154) pertaining to the 1993 Stock Option Plan of Vicor Corporation,
- (3) Registration Statement (Form S-8, No. 333-61177) pertaining to the 1998 Stock Option and Incentive Plan of Vicor Corporation,
- (4) Registration Statement (Form S-8, No. 333-44790) pertaining to the 2000 Stock Option and Incentive Plan of Vicor Corporation, and
- (5) Registration Statement (Form S-8, No. 333-99423) pertaining to the Amended and Restated 2000 Stock Option and Incentive Plan of Vicor Corporation;

of our report dated March 9, 2006, with respect to the consolidated financial statements and schedule of Vicor Corporation and our report dated March 9, 2006 with respect to Vicor Corporation management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Vicor Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 9, 2006

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Patrizio Vinciarelli, certify that:

1. I have reviewed this annual report on Form 10-K of Vicor Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Patrizio Vinciarelli

Patrizio Vinciarelli
Chief Executive Officer

Dated: March 13, 2006

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Mark A. Glazer, certify that:

1. I have reviewed this annual report on Form 10-K of Vicor Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mark A. Glazer

Mark A. Glazer
Chief Financial Officer

Dated: March 13, 2006

Exhibit 32.1

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

In connection with the Annual Report of Vicor Corporation (the "Company") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrizio Vinciarelli, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrizio Vinciarelli

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

March 13, 2006

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

Exhibit 32.2

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

In connection with the Annual Report of Vicor Corporation (the "Company") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Glazer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark A. Glazer

Mark A. Glazer
Chief Financial Officer

March 13, 2006

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