

2006 Annual Report



Vicor Corporation

PRESIDENT'S LETTER

In 2006, revenues increased by 7% to \$192 million from \$179 million in 2005. Continued productivity improvements led to an increase in gross margin by 7% to 42.6% from 39.8% in 2005. However, a net litigation related loss of \$37.2 million caused a net loss of \$29.7 million or (\$.71) per diluted share compared to net income of \$3.9 million or \$.09 per diluted share in 2005.

For the fourth quarter, the Company's results were impacted by the settlement of a lawsuit. The Company agreed to pay \$50 million in the settlement and has recovered \$12.8 million from its insurance carriers. Accordingly, the Company recorded a net loss of \$37.2 million.

Financial results for 2006 were also impacted by demand falling short of expectations. Starting in the second quarter, a slowdown in key end markets for bricks and delays in V•I Chip demand caused disappointments in bookings, book-to-bill, revenues and profitability levels. However, looking past these setbacks, 2006 was a year of substantial progress.

In 2006, the development of V•I Chips reached key milestones and we made strategic investments in V•I Chip Sales, Marketing and Applications Engineering groups. While V•I Chip revenue growth fell short of expectations due to delays in significant programs, the prospect for future revenue growth solidified. Early adopters, pleased with V•I Chip performance in initial test sockets, started pursuing applications that take full advantage of V•I Chips as Factorized Power components. Adoption by blue chip customers and growing interest in key end markets bodes well for the future of V•I Chips and the underlying Factorized Power architecture, though it may take longer than expected to translate technological superiority into major market penetration.

We anticipate that 2007 will bring a substantial increase in V•I Chip shipments as past design wins turn into production orders. Active V•I Chip programs now ramping up (e.g., high-end EDP) have been in development for more than a couple of years. Some early customers, such as a server customer, have already expanded their use of V•I Chips from one program into another. The release of additional DC input products will expand our reach into the marketplace. We are also beginning to focus on AC input applications, such as flat panel displays, which, as with other consumer electronic applications, value thin profile, small size and high efficiency creating distinct opportunity for us and our partners.

As we continue to make strategic investments in V•I Chip technology and products, we are also beginning to focus on better ways to leverage the technology into an expanded product portfolio for our Brick Business Unit. After a false start, we believe that we now have a winning concept for bricks and configurable products made of V•I Chips that uses unique mechanical and thermal management flexibilities to enhance power system capabilities within the realm of the brick paradigm. While significant revenue opportunity for such novel brick products is years out, providing bricks with advanced density, efficiency and cost effectiveness should accelerate growth based on high mix, low volume applications with a broad customer base traditionally served by our brick business model.

In the meantime, with an expanded product line of classic bricks giving designers more choices between power and price, the Brick Business Unit made progress last year with the addition of hundreds of new customers in key industries including communications, data processing, industrial control, test equipment, medical, and defense electronics. Through our unique mass-customization capability, the Brick Business Unit continues to offer its customers tens of thousands of standard and custom high-performance power conversion components delivered worldwide with very short development and manufacturing cycle times. Further, with its proven attributes, our brick paradigm will seek to leverage a "V•I Chip inside" strategy that can take it far beyond the limitations of bricks built from conventional technology.

Finally in 2006, Picor made the transition from being focused on performing the key role of developing the control chips within V•I Chips to establishing a Picor brand name associated with unique products that take advantage of a common technology base on a smaller scale. These exciting products will begin rolling out starting at the end of the second quarter of 2007 and later in the year and into next year.

I would like to express my sincere thanks to our valued employees and shareholders for your continued support.

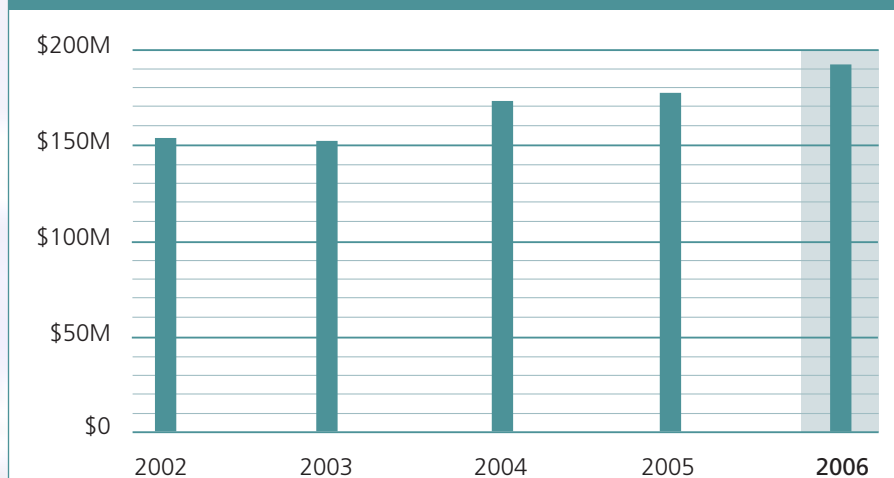


Patrizio Vinciarelli
President and Chairman of the Board
April 30, 2007

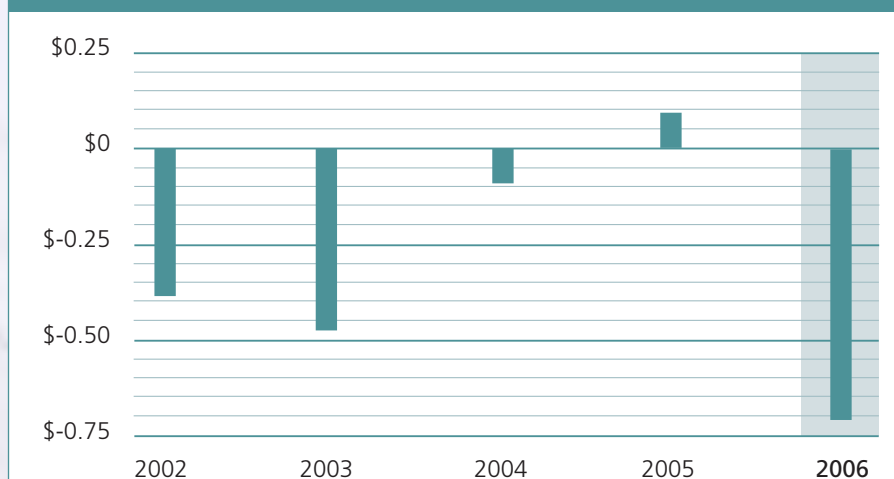
2002-2006 FINANCIAL HIGHLIGHTS

<i>(In thousands, except per share amounts)</i>	2002	2003	2004	2005	2006
Net Revenues	\$152,591	\$151,421	\$171,580	\$179,351	\$192,047
Income (Loss) from Operations	(24,502)	(25,703)	(4,035)	3,380	(33,182)
Net Income (Loss)	(15,942)	(19,535)	(3,723)	3,916	(29,738)
Net Income (Loss) Per Share, Diluted	(0.38)	(0.47)	(0.09)	0.09	(0.71)
Weighted Average Shares, Diluted	42,337	41,896	42,022	42,089	41,839
Working Capital	153,167	141,547	148,419	150,385	120,890
Total Assets	278,445	251,464	244,882	245,755	248,107
Total Liabilities	30,412	24,806	24,259	28,965	76,761
Stockholders' Equity	\$248,033	\$226,658	\$220,623	\$216,790	\$171,346
Return on Average Equity	(6.2%)	(8.2%)	(1.7%)	1.8%	(15.3%)

Net Revenues



Net Income (Loss) per Share



CORPORATE OFFICERS

Mark A. Glazer

Chief Financial Officer, Treasurer and Secretary

H. Allen Henderson

Vice President, Vicor Corporation
President, Westcor Division

Barry Kelleher

Senior Vice President, Global Operations and
President, Brick Business Unit

Richard J. Nagel, Jr.

Vice President, Chief Accounting Officer

Douglas W. Richardson

Vice President, Chief Information Officer

Patrizio Vinciarelli

Chairman of the Board,
President and Chief Executive Officer

Richard E. Zengilowski

Vice President, Human Resources

BOARD OF DIRECTORS

Samuel J. Anderson

President and Chief Executive Officer,
Great Wall Semiconductor Corporation

M. Michael Ansour ^{a,c}

Managing Member, March Partners LLC

Estia J. Eichten ^{a,c}

Senior Scientist, Fermi National Accelerator Laboratory

Barry Kelleher

Senior Vice President, Global Operations and
President, Brick Business Unit

Jay M. Prager

Independent Consultant,
Product Development and Intellectual Property

David T. Riddiford ^{a,c}

Private Investor

Patrizio Vinciarelli

Chairman of the Board,
President and Chief Executive Officer

COMMON STOCK

Vicor shares are traded on the NASDAQ Stock Market[®]
under the symbol "VICR".

TRANSFER AGENT

Computershare Trust Co., N.A.
Canton, Massachusetts
1-877-282-1169

COUNSEL

Goodwin Procter LLP
Boston, Massachusetts

AUDITORS

Ernst & Young LLP
Boston, Massachusetts

FORM 10-K

A copy of the Company's Form 10-K, filed with
the Securities and Exchange Commission, is enclosed.
Additional copies are available by contacting Investor Relations.

^a Audit Committee

^c Compensation Committee

CORPORATE PROFILE

Vicor Corporation designs, develops, manufactures and markets modular power components and complete power systems used primarily by original equipment manufacturers (OEMs) in the communications, data processing, industrial control, test equipment, medical and defense electronics markets. Built into virtually all electronic products, power systems convert electric power from a primary source—a wall outlet, for example—into low, stable voltages required by electronic circuits.

At the heart of Vicor's product line are high density DC-DC converters that come in thousands of combinations of input voltage, output voltage, and power levels. Accessory components integrate other power system functions. Together, these products allow users to meet their unique power requirements by selecting and interconnecting standard, modular parts. The benefits include rapid, flexible design of complete power systems at any power level; the high performance and reliability of Vicor's field-proven technology; and low cost associated with automated component manufacture and simplified power system design.

Engineers use the combined advantages of Vicor component power to create compact, highly functional, economical products with streamlined development cycles that minimize time to market.



This report contains certain forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. You can identify these statements by our use of the words "may," "will," "would," "should," "plans," "expects," "anticipates," "believes," "is designed to," "continue," "estimate," "prospective," "project," "intend," "assumes," and other similar expressions. These statements are based upon the Company's current expectations and estimates as to the prospective events and circumstances which may or may not be within the Company's control and as to which there can be no assurance. Actual results could differ materially from those projected or anticipated in the forward-looking statements as a result of various factors, including our ability to develop and market new products and technologies cost-effectively, to leverage design wins into increased product sales, to continue to make progress with key customers and prospects, to decrease manufacturing costs, to enter into licensing agreements that amplify the market opportunity and accelerate market penetration, to realize significant royalties under license agreements, to achieve a sustainable increased bookings rate over a longer period, to hire key personnel and to continue to build our three business units, to successfully enforce our intellectual property rights, to successfully defend outstanding litigation, and to successfully leverage the V•I Chips in standard products to promote market acceptance of Factorized Power, factors impacting the Company's various end markets, as well as those risks and uncertainties identified in the Company's Annual Report on Form 10-K.

You should read the risk factors that are set forth in the Company's most recent Form 10-K, a copy of which is enclosed. However, the risk factors contained in that Form 10-K may not be exhaustive. Therefore, the information in that Form 10-K should be read together with other reports and documents that the Company files with the Securities and Exchange Commission (the "SEC") from time to time, including the Company's Forms 10-Q and 8-K and Proxy Statements, which may supplement, modify, supersede or update those risk factors. Copies of the Company's recent SEC filings may be obtained without charge by contacting Investor Relations or through the Investor Relations section of the Company's website at vicorpower.com under the section titled "SEC Filings". The Company does not undertake any obligation to update any forward-looking statements as a result of future events or developments.

