

VICOR CORP
Form 10-Q
May 05, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

For the transition period from _____

**Commission File Number 0-18277
VICOR CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

(978) 470-2900

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ○
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ○ Accelerated filer ☐ Non-accelerated filer ○ Smaller reporting company ○
(Do not check if a smaller reporting company)

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

The number of shares outstanding of each of the issuer's classes of common stock as of April 30, 2010 was:

| | |
|---------------------------------------|------------|
| Common Stock, \$.01 par value | 29,916,876 |
| Class B Common Stock, \$.01 par value | 11,767,052 |

VICOR CORPORATION
INDEX TO FORM 10-Q

| | Page |
|---|-------------|
| Part I - Financial Information: | |
| <u>Item 1 - Financial Statements (Unaudited)</u> | |
| <u>Condensed Consolidated Balance Sheets at March 31, 2010 and December 31, 2009</u> | 1 |
| <u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009</u> | 2 |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and 2009</u> | 3 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 4 |
| <u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16 |
| <u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u> | 23 |
| <u>Item 4 - Controls and Procedures</u> | 23 |
| Part II - Other Information: | |
| <u>Item 1 - Legal Proceedings</u> | 24 |
| <u>Item 1A - Risk Factors</u> | 24 |
| <u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u> | 24 |
| <u>Item 3 - Defaults Upon Senior Securities</u> | 24 |
| <u>Item 4 - Submission of Matters to a Vote of Security Holders</u> | 24 |
| <u>Item 5 - Other Information</u> | 24 |
| <u>Item 6 - Exhibits</u> | 24 |
| <u>Signature(s)</u> | 25 |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |
| <u>EX-32.2</u> | |

Table of Contents

VICOR CORPORATION
Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

Item 1. Financial Statements

| | March 31, 2010 | December 31, 2009 |
|--|----------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 41,661 | \$ 40,224 |
| Restricted cash equivalents | 192 | 192 |
| Short-term investments | 572 | 2,583 |
| Accounts receivable, less allowance of \$271 in 2010 and \$260 in 2009 | 31,135 | 26,565 |
| Inventories, net | 21,710 | 21,357 |
| Deferred tax assets | 181 | 181 |
| Other current assets | 4,584 | 4,345 |
| Total current assets | 100,035 | 95,447 |
| Restricted cash and cash equivalents | 223 | 223 |
| Long-term investments, net | 28,241 | 29,995 |
| Auction rate securities rights | 929 | 962 |
| Property, plant and equipment, net | 49,051 | 49,009 |
| Other assets | 4,896 | 4,941 |
| | \$ 183,375 | \$ 180,577 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 8,923 | \$ 9,458 |
| Accrued compensation and benefits | 6,557 | 5,740 |
| Accrued expenses | 2,608 | 2,618 |
| Accrued severance charges | 44 | 259 |
| Income taxes payable | 362 | 60 |
| Deferred revenue | 3,129 | 2,521 |
| Total current liabilities | 21,623 | 20,656 |
| Long-term deferred revenue | 2,143 | 2,196 |
| Long-term income taxes payable | 488 | 384 |
| Deferred income taxes | 1,254 | 1,275 |
| Equity: | | |
| Vicor Corporation stockholders' equity: | | |
| Class B Common Stock | 118 | 118 |
| Common Stock | 384 | 384 |
| Additional paid-in capital | 161,882 | 161,746 |
| Retained earnings | 114,924 | 112,972 |
| Accumulated other comprehensive loss | (1,952) | (1,608) |

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| | | |
|---|------------|------------|
| Treasury stock, at cost | (121,827) | (121,827) |
| Total Vicor Corporation stockholders equity | 153,529 | 151,785 |
| Noncontrolling interest | 4,338 | 4,281 |
| Total equity | 157,867 | 156,066 |
| | \$ 183,375 | \$ 180,577 |

See accompanying notes.

-1-

Table of Contents

VICOR CORPORATION
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2010 | 2009 |
| Net revenues | \$51,709 | \$50,448 |
| Cost of revenues | 28,385 | 28,617 |
| Gross margin | 23,324 | 21,831 |
| Operating expenses: | | |
| Selling, general and administrative | 11,880 | 12,823 |
| Research and development | 8,868 | 7,751 |
| Severance charges | - | 3,098 |
| Total operating expenses | 20,748 | 23,672 |
| Income (loss) from operations | 2,576 | (1,841) |
| Other income, net: | | |
| Total other than temporary impairment (losses) gains on available-for-sale securities | (479) | 166 |
| Portion of loss (gain) recognized in other comprehensive income (loss) | 436 | (166) |
| Net impairment losses recognized in earnings | (43) | - |
| Other income, net | 110 | 118 |
| Total other income, net | 67 | 118 |
| Income (loss) before income taxes | 2,643 | (1,723) |
| Provision for income taxes | 638 | 428 |
| Consolidated net income (loss) | 2,005 | (2,151) |
| Less: Net income attributable to noncontrolling interest | 53 | 392 |
| Net income (loss) attributable to Vicor Corporation | \$ 1,952 | \$ (2,543) |
| Net income (loss) per common share attributable to Vicor Corporation: | | |
| Basic | \$ 0.05 | \$ (0.06) |
| Diluted | \$ 0.05 | \$ (0.06) |
| Shares used to compute net income (loss) per share attributable to Vicor Corporation: | | |
| Basic | 41,666 | 41,665 |
| Diluted | 41,700 | 41,665 |

See accompanying notes.

-2-

Table of Contents

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

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2010 | March 31, 2009 |
| Operating activities: | | |
| Consolidated net income (loss) | \$ 2,005 | \$ (2,151) |
| Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,432 | 2,625 |
| Severance charges | - | 3,098 |
| Unrealized gain on trading securities | (37) | (27) |
| Stock compensation expense | 124 | 200 |
| Credit loss on available for sale securities | 43 | - |
| Unrealized loss on auction rate security rights | 33 | 96 |
| (Decrease) increase in long-term deferred revenue | (53) | 213 |
| Deferred income taxes | 23 | - |
| Gain on disposal of equipment | - | (5) |
| Change in current assets and liabilities, net | (4,109) | (628) |
| Net cash provided by operating activities | 461 | 3,421 |
| Investing activities: | | |
| Purchases of investments | (538) | (1,092) |
| Sales and maturities of investments | 3,924 | 1,161 |
| Additions to property, plant and equipment | (2,429) | (1,029) |
| Proceeds from sale of equipment | - | 5 |
| Change in restricted cash | - | 35 |
| (Increase) decrease in other assets | (1) | 9 |
| Net cash provided by (used in) investing activities | 956 | (911) |
| Financing activities: | | |
| Proceeds from issuance of Common Stock | 12 | - |
| Net cash provided by financing activities | 12 | - |
| Effect of foreign exchange rates on cash | 8 | (13) |
| Net increase in cash and cash equivalents | 1,437 | 2,497 |
| Cash and cash equivalents at beginning of period | 40,224 | 22,639 |
| Cash and cash equivalents at end of period | \$41,661 | \$ 25,136 |

See accompanying notes.

-3-

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2010, are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2010. The balance sheet at December 31, 2009, presented herein has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, (File No. 0-18277) filed by the Company with the Securities and Exchange Commission.

2. Short-Term and Long-Term Investments

The Company's principal sources of liquidity are its existing balances of cash, cash equivalents and short-term investments, as well as cash generated from operations. Consistent with the Company's investment policy guidelines, the Company can and has historically invested its substantial cash balances in demand deposit accounts, money market funds and auction rate securities meeting certain quality criteria. All of the Company's investments are subject to credit, liquidity, market, and interest rate risk.

The Company's short-term and long-term investments are classified as either trading or available-for-sale securities. Available-for-sale securities are recorded at fair value, with unrealized gains and losses, net of tax, attributable to credit loss recorded through the statement of operations and unrealized gains and losses, net of tax, attributable to other non-credit factors recorded in Accumulated other comprehensive loss, a component of Stockholders' Equity. In determining the amount of credit loss, the Company compared the present value of cash flows expected to be collected to the amortized cost basis of the securities, considering credit default risk probabilities and changes in credit ratings as significant inputs, among other factors. Trading securities are recorded at fair value, with unrealized gains and losses recorded through the Condensed Consolidated Statements of Operations each reporting period. 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 in the Condensed Consolidated Statements of Operations. The Company periodically evaluates investments to determine if impairment is required, whether an impairment is other than temporary, and the measurement of an impairment loss. The Company considers a variety of impairment indicators such as, but not limited to, a significant deterioration in the earnings performance, credit rating, or asset quality of the investment.

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

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-----------|------------------------------|-------------------------------|----------------------------|
| <u>March 31, 2010</u> | | | | |
| Auction rate securities - student loans | \$ 19,450 | \$ - | \$ 3,016 | \$ 16,434 |
| Certificates of deposit | 2,518 | 44 | - | 2,562 |
| | \$ 21,968 | \$ 44 | \$ 3,016 | \$ 18,996 |

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-----------|------------------------------|-------------------------------|----------------------------|
| <u>December 31, 2009</u> | | | | |
| Auction rate securities - student loans | \$ 19,700 | \$ - | \$ 2,590 | \$ 17,110 |
| Certificates of deposit | 2,504 | 34 | - | 2,538 |
| | \$ 22,204 | \$ 34 | \$ 2,590 | \$ 19,648 |

All of the auction rate securities - student loans as of March 31, 2010 have been in an unrealized loss position for greater than 12 months.

The amortized cost and estimated fair value of available-for-sale securities on March 31, 2010, by contractual maturities, are shown below (in thousands):

| | Cost | Estimated Fair Value |
|------------------------------|-----------|-------------------------|
| Due in one year or less | \$ 1,203 | \$ 1,211 |
| Due in two to ten years | 1,440 | 1,476 |
| Due in ten to twenty years | - | - |
| Due in twenty to forty years | 19,325 | 16,309 |
| | \$ 21,968 | \$ 18,996 |

The following is a summary of trading securities (in thousands):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-----------|------------------------------|-------------------------------|----------------------------|
| <u>March 31, 2010</u> | | | | |
| Auction rate securities - student loans | \$ 10,750 | \$ - | \$ 933 | \$ 9,817 |

December 31, 2009

| | | | | |
|---|-----------|------|--------|-----------|
| Auction rate securities - student loans | \$ 13,900 | \$ - | \$ 970 | \$ 12,930 |
|---|-----------|------|--------|-----------|

The amortized cost and estimated fair value of trading securities on March 31, 2010 by contractual maturities, are shown below (in thousands):

| | Cost | Estimated Fair Value |
|----------------------------|------|-------------------------|
| Due in one year or less | \$ - | \$ - |
| Due in two to ten years | - | - |
| Due in ten to twenty years | - | - |

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| | | |
|------------------------------|-----------|----------|
| Due in twenty to forty years | 10,750 | 9,817 |
| | \$ 10,750 | \$ 9,817 |

-5-

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

As of March 31, 2010, the Company held \$30,200,000 of auction rate securities at par value, consisting of collateralized debt obligations, supported by pools of student loans, sponsored by state student loan agencies and corporate student loan servicing firms. The interest rates for these securities are reset at auction at regular intervals ranging from seven to 90 days. The auction rate securities held by the Company traded at par prior to February 2008 and are callable at par at the option of the issuer. On March 31, 2010, the majority of the auction rate securities held by the Company were AAA/Aaa rated by the major credit rating agencies, with all of the securities collateralized by student loans, of which most are guaranteed by the U.S. Department of Education under the Federal Family Education Loan Program.

Until February 2008, the auction rate securities market was liquid, as the investment banks conducting the periodic Dutch auctions by which interest rates for the securities had been established had committed their capital to support such auctions in the event of insufficient third-party investor demand. Starting the week of February 11, 2008, a substantial number of auctions failed, as demand from third-party investors weakened and the investment banks conducting the auctions chose not to commit capital to support such auctions (i.e., investment banks chose not to purchase securities themselves in order to balance supply and demand, thereby facilitating a successful auction, as they had done in the past). The consequences of a failed auction are (a) an investor must hold the specific security until the next scheduled auction (unless that investor chooses to sell the security to a third party outside of the auction process) and (b) the interest rate on the security generally resets to an interest rate set forth in each security's indenture.

As of March 31, 2010, the Company held auction rate securities that had experienced failed auctions totaling \$30,200,000 at par value (the Failed Auction Securities), of which \$125,000 was redeemed at par subsequent to March 31, 2010. Management is not aware of any reason to believe any of the issues of the Failed Auction Securities held by the Company are presently at risk of default. Through March 31, 2010, the Company has continued to receive interest payments on the Failed Auction Securities in accordance with the terms of their respective indentures. Management believes the Company ultimately should be able to liquidate all of its auction rate security investments without significant loss primarily due to the overall quality of the issues held and the collateral securing the substantial majority of the underlying obligations. However, current conditions in the auction rate securities market have led management to conclude the recovery period for the Failed Auction Securities exceeds 12 months. As a result, the Company continued to classify the Failed Auction Securities as long-term as of March 31, 2010, except for the \$125,000 redeemed at par subsequent to March 31, 2010, which was reclassified to short-term.

In November 2008, the Company entered into an agreement with UBS AG (UBS) regarding \$18,300,000 of auction rate securities at par value held by the Company with a broker-dealer affiliate of UBS (the UBS ARS), of which \$7,550,000 have subsequently been redeemed at par. The agreement provides the Company a contractual right (the ARS Right) that entitles the Company to sell the auction rate securities it holds with UBS to UBS at par during the period of June 30, 2010, through July 2, 2012. Until then, the Company is entitled to receive interest payments on its auction rate securities in accordance with their terms. The terms and conditions of the settlement included a release of claims against UBS and its affiliates. The ARS Right is a separate free-standing instrument accounted for separately from the UBS ARS and is accounted for as a purchased put option. The Company elected fair value accounting for the ARS Right. The election was made to mitigate volatility in earnings caused by accounting for the receipt of the ARS Right and the underlying auction rate securities under different methods. The fair value of the ARS Right was estimated by the Company to be approximately \$929,000 on March 31, 2010, a decrease of approximately \$33,000 from the estimated fair value on December 31, 2009. This decrease in fair value is recorded as an unrealized loss in

Other income (expense), net in the Condensed Consolidated Statements of Operations. While the Company has the ability to exercise the ARS Right in June 2010, it has not made a formal decision to do so. Therefore, the total amount of the UBS ARS of \$10,750,000 at par value and the ARS Right of \$929,000 on March 31, 2010 are classified as long-term trading securities. Based on the fair value measurements described in Note 3, the fair value of the UBS ARS on March 31, 2010, was estimated to be approximately \$9,817,000, an increase in fair value, net of redemptions of

\$3,150,000, of approximately \$37,000 from December 31, 2009. This increase has been recorded as an unrealized gain in Other income (expense), net in the Condensed Consolidated Statements of Operations.

The remaining balance of the Company's auction rate securities is held with a broker-dealer affiliate of Bank of America (the BofA ARS). Based on the fair value measurements described in Note 3, the fair value of the BofA ARS on March 31, 2010,

-6-

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

with a par value of \$19,450,000, was estimated by the Company to be approximately \$16,434,000, a decrease in fair value of \$426,000, net of \$250,000 of redemptions from December 31, 2009. The gross unrealized loss of \$3,016,000 on the BofA ARS consists of two types of estimate loss: an aggregate credit loss of \$507,000 and an aggregate temporary impairment of \$2,509,000. For the period, the aggregate credit loss on the BofA ARS increased by a net amount of \$43,000, which was recorded in Net impairment losses recognized in earnings in the Condensed Consolidated Statement of Operations. In determining the amount of credit loss, the Company compared the present value of cash flows expected to be collected to the amortized cost basis of the securities, considering credit default risk probabilities and changes in credit ratings as significant inputs, among other factors (See Note 3).

The following table sets forth activity related to the credit loss on the BofA ARS recognized in earnings on available-for-sale ARS securities held by the Company for the three months ended March 31, 2010 (in thousands):

| | Three Months Ended March 31, 2010 |
|--|---|
| Balance at the beginning of the period | \$ 464 |
| Reductions for securities sold during the period | (12) |
| Additions for the amount related to credit (gain) loss for which other-than-temporary impairment was not previously recognized | 55 |
| Balance at the end of the period | \$ 507 |

For the period, the Company increased the temporary impairment recorded in Accumulated other comprehensive (loss) income in the Condensed Consolidated Balance Sheet by \$383,000 to reflect a decrease in the estimated value of the BofA ARS.

At this time, the Company has no intent to sell any of the impaired BofA ARS and does not believe that it is more likely than not that the Company will be required to sell any of these securities. Management expects the securities to regain liquidity as the financial markets recover from the current economic downturn. If current market conditions deteriorate further, the Company may be required to record additional unrealized losses. If the credit rating of the security deteriorates, or the anticipated recovery in the market values does not occur, the Company may be required to adjust the carrying value of these investments through impairment charges recorded in the Condensed Consolidated Statement of Operations, and any such impairment adjustments may be material.

Based on the Company's ability to access cash and other short-term investments and its expected operating cash flows, management does not anticipate the current lack of liquidity associated with the auction rate securities held will affect the Company's ability to execute its current operating plan.

3. Fair Value Measurements

The Company accounts for certain financial assets at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions market participants would use in pricing an asset or liability. A three-level hierarchy is used to show the extent and level of judgment used to estimate fair value measurements.

The Company uses the fair value option for certain financial assets, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a case-by-case basis.

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

Assets measured at fair value on a recurring basis include the following as of March 31, 2010 (in thousands):

| | Fair Value Measurements at March 31, 2010 | | | Total Fair Value as of March 31, 2010 |
|---------------------------------|---|--|--|--|
| | Quoted Prices in Active Markets (Level 1) | Using Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Cash Equivalents: | | | | |
| Money market funds | \$ 23,084 | \$ | \$ | \$ 23,084 |
| Restricted money market | 192 | | | 192 |
| Short term investments: | | | | |
| Certificate of deposit | 447 | | | 447 |
| Auction rate securities | | 125 | | 125 |
| Long term investments: | | | | |
| Auction rate securities | | | 26,126 | 26,126 |
| Auction rate security rights | | | 929 | 929 |
| Certificate of deposit | 2,115 | | | 2,115 |
| Restricted long term investment | 223 | | | 223 |

As of March 31, 2010, there was insufficient observable auction rate security market information available to determine the fair value of the Failed Auction Securities and the ARS Right using Level 1 or Level 2 inputs. As such, the Company's investments in Failed Auction Securities were deemed to require valuation using Level 3 inputs. Management, after consulting with advisors, valued the Failed Auction Securities using analyses and pricing models similar to those used by market participants (i.e., buyers, sellers, and the broker-dealers responsible for execution of the Dutch auction pricing mechanism by which each issue's interest rate was set). Management utilized a probability weighted discounted cash flow (DCF) model to determine the estimated fair value of these securities as of March 31, 2010. The major assumptions used in preparing the DCF model included estimates for the amount and timing of future interest and principal payments based on default probability assumptions used to measure the credit loss of approximately 3% for AAA rated securities, the rate of return required by investors to own these securities in the current environment, which we estimate to be 5% above the risk free rate of return, and the estimated timeframe for successful auctions for these securities to occur being three to five years. In making these assumptions, management considered relevant factors including: the formula applicable to each security defining the interest rate paid to investors in the event of a failed auction; forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering the guarantees by the U.S. Department of Education of the underlying student loans, guarantees by other third parties, and additional credit enhancements provided through other means; and publicly available pricing data for recently issued student loan asset-backed securities not subject to auctions. The estimate of the rate of return required by investors to own these securities also considered the currently reduced liquidity for auction rate securities. An increase or decrease in the liquidity risk premium (i.e., the discount rate) of 100 basis points as used in the model would decrease or increase, respectively, the fair value of the Failed Auction Securities by approximately \$1,200,000.

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

The following table summarizes the change in the fair values for those assets valued on a recurring basis utilizing Level 3 inputs for the three months ended March 31, 2010 (in thousands):

| | Level 3 |
|--|----------|
| Balance at the beginning of the period | \$28,852 |
| Redemptions | (1,250) |
| Transfers into Level 2 categorization (1) | (125) |
| Unrealized gain on trading securities included in Other income (expense), net | 4 |
| Credit losses on available for sales securities included in Other income(expense), net | (43) |
| Unrealized gain (loss) included in Other comprehensive (loss) income | (383) |
| Balance at the end of the period | \$27,055 |

(1) Transfers into Level 2 categorization represent redemptions of the Company's auction rate securities subsequent to March 31, 2010.

4. Stock Based Compensation

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of stock option awards. Stock-based compensation expense for the three months ended March 31 was as follows (in thousands):

| | Three Months Ended March 31, | |
|-------------------------------------|------------------------------------|--------|
| | 2010 | 2009 |
| Cost of revenues | \$ 4 | \$ 4 |
| Selling, general and administrative | 84 | 149 |
| Research and development | 36 | 47 |
| Total stock based compensation | \$ 124 | \$ 200 |

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

5. Net Income (Loss) per Share

The following table sets forth the computation of basic and diluted income (loss) per share for the three months ended March 31 (in thousands, except per share amounts):

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2010 | 2009 |
| Numerator: | | |
| Net income (loss) attributable to Vicor Corporation | \$ 1,952 | \$ (2,543) |
| Denominator: | | |
| Denominator for basic income (loss) per share-weighted average shares (1) | 41,666 | 41,665 |
| Effect of dilutive securities: | | |
| Employee stock options (2) | 34 | - |
| Denominator for diluted income (loss) per share - adjusted weighted-average shares and assumed conversions | 41,700 | 41,665 |
| Basic income (loss) per share | \$ 0.05 | \$ (0.06) |
| Diluted income (loss) per share | \$ 0.05 | \$ (0.06) |

(1) Denominator represents weighted average number of Common Shares and Class B Common Shares outstanding.

(2) Options to purchase 589,814 shares of Common Stock for the three months ended March 31, 2010 were not

included in the computation of diluted income per share because the options exercise prices were greater than the average market price of the Common Stock and, therefore, the effect would be antidilutive. Options to purchase 988,538 shares of Common Stock were outstanding for the three months ended March 31, 2009, but were not included in the calculation of net loss per share as the effect would have been antidilutive.

6. Inventories

Inventories are valued at the lower of cost (determined using the first-in, first-out method) or net realizable value. The Company provides reserves for inventories estimated to be excess, obsolete or unmarketable. The Company's estimation process for assessing net realizable value 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.

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

Inventories were as follows (in thousands):

| | March 31, 2010 | December 31, 2009 |
|--------------------|----------------|-------------------|
| Raw materials | \$ 19,290 | \$ 18,675 |
| Work-in-process | 2,771 | 3,434 |
| Finished goods | 5,432 | 5,191 |
| | 27,493 | 27,300 |
| Inventory reserves | (5,783) | (5,943) |
| Net balance | \$ 21,710 | \$ 21,357 |

7. Other Investments

The Company's gross investment in non-voting convertible preferred stock of Great Wall Semiconductor Corporation (GWS) totaled \$5,000,000 as of March 31, 2010, and December 31, 2009, giving the Company an approximately 30% ownership interest in GWS. GWS and its subsidiary design and sell semiconductors, conduct research and development activities, develop and license patents, and litigate against those who infringe upon patented technology. A director of the Company is the founder, Chairman of the Board, President and Chief Executive Officer (CEO), as well as the majority voting shareholder, of GWS. The Company and GWS are parties to an intellectual property cross-licensing agreement, a license agreement and two supply agreements, and the Company purchases certain components from GWS. Purchases from GWS totaled approximately \$671,000 and \$341,000 for the three months ended March 31, 2010, and 2009, respectively.

The Company accounts for its investment in GWS under the equity method of accounting. The Company has determined that, while GWS is a variable interest entity, the Company is not the primary beneficiary. The key factors in the Company's assessment were that the CEO of GWS has: (i) the power to direct the activities of GWS that most significantly impact its economic performance, and (ii) has an obligation to absorb losses or the right to receive benefits from GWS, respectively, that could potentially be significant to GWS.

There was no allocation of equity method income (loss) for the three months ended March 31, 2010 and 2009, as GWS incurred a net loss in each period. Due to an adjustment to the investment for a decline in value judged to be other than temporary during the fourth quarter of 2008, the amounts included in Other assets in the accompanying Condensed Consolidated Balance Sheets related to the net GWS investment were zero as of March 31, 2010, and December 31, 2009.

8. Severance Charges

During 2009, the Company initiated workforce reductions and pre-tax charges were recorded for the cost of severance and other employee-related costs involving cash payments during 2009 and 2010 based on each employee's respective length of service. Total severance charges of \$4,099,000 were recorded in 2009, of which \$3,098,000 was recorded in the first quarter of 2009. These charges were recorded as Severance charges in the Condensed Consolidated Statement of Operations. The related liability is presented as Accrued severance charges in the Condensed Consolidated Balance Sheets.

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

A summary of the activity related to the severance charges, by segment, for the three months ended March 31, 2010 is as follows (in thousands):

| | BBU | V*I Chip | Total |
|---------------------------------|--------|-------------|--------|
| Balance as of December 31, 2009 | \$ 255 | \$ 4 | \$ 259 |
| Payments | (211) | (4) | (215) |
| Balance as of March 31, 2010 | \$ 44 | \$ - | \$ 44 |

9. 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 Condensed Consolidated Balance Sheets.

Product warranty activity for the three months ended March 31, was as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2010 | 2009 |
| Balance at the beginning of the period | \$ 772 | \$ 896 |
| Accruals for warranties for products sold in the period | 47 | 31 |
| Fulfillment of warranty obligations | (9) | (42) |
| Revisions of estimated obligations | (90) | 19 |
| Balance at the end of the period | \$ 720 | \$ 904 |

10. Income Taxes

In 2010, the tax provision is based on the estimated annual effective tax rate for 2010, which includes estimated federal, state and foreign income taxes on the Company's projected annual pre-tax income and estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company's consolidated income tax returns, offset by the expected utilization of federal and foreign net operating loss carryforwards. The tax provision in 2009 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 estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company's consolidated income tax returns. The 2010 and 2009 tax provisions also include discrete items, principally expense for increases in state taxes and accrued interest for potential liabilities.

The Company recorded income tax expense for the three months ended March 31, 2009, based on a discrete-period computation because it believed a reliable estimate of its effective annual tax rate could not be made at that time. This was due to the difficulty in accurately forecasting the expected ordinary income (loss) for the year and that small variations in any forecast would have caused wide variability in the estimated tax rate. That variability in the

estimated effective annual tax rate is more limited when projecting annual pre-tax income for 2010 and, thus, the Company utilized the effective tax rate method in calculating the tax provision for the three months ended March 31, 2010.

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

The provision for income taxes and the effective income tax rate for the three months ended March 31, were as follows (dollars in thousands):

| | Three Months Ended | |
|----------------------------|--------------------|---------|
| | March 31 | |
| | 2010 | 2009 |
| Provision for income taxes | \$ 638 | \$ 428 |
| Effective income tax rate | 24.1% | (24.8%) |

The increase in the provision for income taxes in the three months ended March 31, 2010, compared to 2009 was principally due to the impact of using the effective tax rate method versus a discrete-period computation and increases in expense for state taxes, partially offset by lower tax expense in 2010 for one of the minority-owned subsidiaries that is not part of the Company's consolidated income tax returns.

In January 2010, the Company received notices from the Commonwealth of Massachusetts and the State of New York that its Massachusetts corporate excise tax returns and New York corporate tax returns, respectively, for tax years 2006 and 2007 had been selected for audit. In April 2010, Vicor Japan Company, Ltd. received notice from the Regional Taxation Bureau that its corporate tax and tax returns, respectively, for tax years from 2007 to 2009 have been selected for audit. The audit with the State of New York was settled in April for an immaterial amount. There are no other income tax audits currently in process.

11. Comprehensive Income (Loss)

The following table sets forth the computation of Comprehensive income (loss) for the three months ended March 31, (in thousands):

| | Three Months Ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2010 | 2009 |
| Consolidated net income (loss) | \$2,005 | \$(2,151) |
| Foreign currency translation gains (losses) | 34 | (145) |
| Unrealized (losses) gains (net of tax) on available-for-sale securities | (378) | (166) |
| Comprehensive income (loss) | 1,661 | (2,462) |
| Less: comprehensive income attributable to noncontrolling interest | 57 | 386 |
| Comprehensive income (loss) attributable to Vicor Corporation | \$1,604 | \$(2,848) |

12. Commitments and Contingencies

At March 31, 2010, the Company had approximately \$1,478,000 of capital expenditure commitments.

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

On February 22, 2007, the Company announced it had reached an agreement in principle with Ericsson, Inc., the U.S. affiliate of LM Ericsson, to settle a lawsuit brought by Ericsson against the Company in California state court. Under the terms of the settlement agreement entered into on March 29, 2007, after a court ordered mediation, the Company paid \$50,000,000 to Ericsson, of which \$12,800,000 was reimbursed by the Company's insurance carriers. Accordingly, the Company recorded a net loss of \$37,200,000 from the litigation-related settlements in the fourth quarter of 2006. The Company has been seeking further reimbursement from its insurance carriers. On November 14, 2008, a jury in the United States District Court for the District of Massachusetts found in favor of the Company in a lawsuit against certain of its insurance carriers with respect to the Ericsson settlement. The jury awarded \$17,300,000 in damages to Vicor, although the verdict is subject to challenge in the trial court and on appeal. Both parties filed certain motions subsequent to the ruling and, on March 2, 2009, the judge in the case rendered his decision on the subsequent motions, reducing the jury award by \$4,000,000. On March 26, 2009, the U.S. District Court, District of Massachusetts issued its judgment in the matter, affirming the award of \$13,300,000, plus prejudgment interest from the date of breach on March 29, 2007, through March 26, 2009, the date of judgment in the amount of approximately \$3,179,000. The insurance carriers have filed their appeal to this total judgment in the amount of approximately \$16,479,000.

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.

13. Segment Information

The Company has organized its business segments according to its key product lines. The Brick Business Unit segment (BBU) designs, develops, manufactures and markets the Company's modular power converters and configurable products, and also includes the operations of the Company's Westcor division, the six entities comprising Vicor Custom Power, and Vicor Japan Company, Ltd. (VJCL). V*I Chip designs, develops, manufactures and markets the Company's Factorized Power Architecture (FPA) products. Picor designs, develops, manufactures and markets Power Management Integrated Circuits and related products for use in a variety of power system applications. Picor develops these products to be sold as part of Vicor's products or to third parties for separate applications.

The following table provides significant segment financial data as of and for the three months ended March 31, 2010 and 2009 (in thousands):

| | BBU | V*I Chip | Picor | Corporate | Eliminations | Total |
|-------------------------------|-----------|----------|----------|-----------|--------------|-----------|
| 2010: | | | | | | |
| Net revenues | \$ 47,177 | \$ 5,280 | \$ 1,810 | \$ - | \$ (2,558) | \$ 51,709 |
| Income (loss) from operations | 9,834 | (6,443) | (690) | (137) | 12 | 2,576 |
| Total assets | 218,102 | 21,394 | 9,556 | 95,516 | (161,193) | 183,375 |
| Depreciation and amortization | 1,155 | 798 | 115 | 364 | - | 2,432 |
| 2009: | | | | | | |
| Net revenues | \$ 48,761 | \$ 3,251 | \$ 1,285 | \$ - | \$ (2,849) | \$ 50,448 |
| Income (loss) from operations | 6,018 | (6,403) | (1,224) | (168) | (64) | (1,841) |
| Total assets | 183,415 | 13,891 | 9,367 | 89,584 | (124,496) | 171,761 |
| Depreciation and amortization | 1,417 | 735 | 92 | 381 | - | 2,625 |

The elimination for net revenues is principally related to inter-segment revenues of Picor to BBU and V*I Chip and for inter-segment revenues of V*I Chip to BBU. The elimination for total assets is principally related to inter-segment receivables due to BBU for the funding of V*I Chip operations and for the purchase of equipment for both V*I Chip

and Picor.

Table of Contents

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(unaudited)

14. **Impact of Recently Issued Accounting Standards**

Effective January 1, 2010, the Company adopted new accounting guidance related to the Consolidation of Variable Interest Entities. The new accounting standard replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The new standard also provides additional reconsideration events for determining whether an entity is a variable interest entity and requirements for ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. The adoption of this new accounting guidance did not have a material effect on the Company's financial position or results of operations.

Effective January 1, 2010, the Company adopted new accounting guidance on fair value measurements and disclosures. The new guidance requires more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The adoption of this new accounting guidance did not have a material effect on the Company's financial position or results of operations.

-15-

Table of Contents

VICOR CORPORATION
Management's Discussion and Analysis of
Financial Condition and Results of Operation
March 31, 2010

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

Except for historical information contained herein, some matters discussed in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words believes, expects, anticipates, intend, estimate, plans, assumes, may, will, would, should, continue, prospective, project, and other similar expressions identify forward-looking statements. Forward-looking statements also include statements regarding the derivation of a portion of the Company's sales in each quarter from orders booked in the same quarter, the Company's plans to invest in research and development and manufacturing equipment, the Company's belief regarding market risk being mitigated because of limited foreign exchange fluctuation exposure, the Company's continued success depending in part on its ability to attract and retain qualified personnel, the Company's belief that cash generated from operations and the total of its cash and cash equivalents and short-term investments will be sufficient for the foreseeable future, the Company's intention regarding protecting its rights under its patents and the Company's expectation that no current litigation or claims will have a material adverse impact on its financial position or results of operations. These statements are based upon the Company's current expectations and estimates as to the prospective events and circumstances which may or may not be within the Company's control and as to which there can be no assurance. Actual results could differ materially from those projected in the forward-looking statements as a result of various factors, including our ability to develop and market new products and technologies cost effectively, to leverage design wins into increased product sales, to continue to make progress with key customers and prospects, to decrease manufacturing costs, to enter into licensing agreements that amplify the market opportunity and accelerate market penetration, to realize significant royalties under license agreements, to achieve a sustainable increased bookings rate over a longer period, to hire key personnel and to continue to build our three business units, to successfully enforce our intellectual property rights, to successfully defend outstanding litigation, to successfully leverage the V*I Chips in standard products to promote market acceptance of Factorized Power Architecture, to develop or maintain an effective system of internal controls, to obtain required financial information for certain investments on a timely basis, and factors impacting the Company's various end markets, the impact of write-downs in the value of assets, the effects of equity accounting with respect to certain affiliates, the failure of auction rate securities to sell at their reset dates as well as those factors described in the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, under Part I, Item I Business, under Part I, Item 1A Risk Factors, under Part I, Item 3 Legal Proceedings, and under Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. 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, 8-K and 10-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.

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 customers in the higher-performance, higher-power segments of the power systems market, including defense electronics, enterprise and high performance computing, industrial equipment and automation, and vehicles and transportation, through a network of independent sales representative organizations in North and South America and, internationally, through independent distributors. Export sales as a percentage of total revenues for the three months ended March 31, 2010 and 2009 were approximately 49% and 35%, respectively.

The Company has organized its business segments according to its key product lines. The Brick Business Unit segment (BBU) designs, develops, manufactures and markets the Company's modular power converters and configurable products, and also includes the operations of the Company's Westcor division, the six entities comprising

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

-16-

Table of Contents

VICOR CORPORATION
Management's Discussion and Analysis of
Financial Condition and Results of Operation
March 31, 2010

Revenues for the first quarter increased by 2.5% to \$51,709,000, compared to \$50,448,000 for the corresponding period a year ago, and increased 5.2% on a sequential basis from \$49,138,000 for the fourth quarter of 2009. Gross margin increased to \$23,324,000 for the first quarter of 2010, compared to \$21,831,000 for the corresponding period a year ago, and increased on a sequential basis from \$22,497,000 for the fourth quarter of 2009. Gross margin, as a percentage of revenue, increased to 45.1% for the first quarter of 2010 compared to 43.3% for the first quarter of 2009, but decreased on a sequential basis from 45.8% for the fourth quarter of 2009. Net income (loss) attributable to Vicor Corporation for the first quarter was \$1,952,000, or \$0.05 per diluted share, compared to net income (loss) attributable to Vicor Corporation of \$(2,543,000), or \$(0.06) per diluted share, for the corresponding period a year ago and net income (loss) attributable to Vicor Corporation of \$2,309,000, or \$0.06 per diluted share, for the fourth quarter of 2009.

The book-to-bill ratio, calculated by the dollar amount of orders placed with scheduled delivery dates within one year divided by the net revenues in the respective period, was 1.39:1 for the first quarter of 2010, compared to 1.16:1 for the fourth quarter of 2009. Backlog, representing the total of purchase orders received for which product has not yet been shipped, was \$78,400,000 at the end of the first quarter of 2010, as compared to \$58,500,000 at the end of the fourth quarter of 2009.

Operating expenses for the three months ended March 31, 2010, decreased \$2,924,000, or 12.4%, to \$20,748,000 from \$23,672,000 for the same period in 2009, principally due to a pre-tax charge of \$3,098,000 recorded in the first quarter of 2009 for severance and other employee-related costs in connection with a workforce reduction implemented during the quarter and a decrease in selling, general and administrative expenses of \$943,000, partially offset by an increase in research and development expenses of \$1,117,000. The key decreases in selling, general and administrative expenses were compensation expenses of \$627,000, commission expense of \$342,000 and legal fees of \$134,000. The key increases in research and development expenses were compensation expenses of \$465,000, outside services of \$242,000 and project materials of \$176,000.

Other income (expense), net for the three months ended March 31, 2010 decreased \$51,000 to \$67,000 from \$118,000 in 2009. The primary reason for the decrease was a decrease in interest income of \$75,000.

For the three months ended March 31, 2010, depreciation and amortization was \$2,432,000, and capital additions were \$2,429,000, compared to \$2,625,000 and \$1,029,000, respectively, for the first three months of 2009.

Inventories increased by approximately \$353,000 or 1.7% to \$21,710,000, as compared with \$21,357,000 at December 31, 2009. The increase was primarily attributed to increases in BBU and Picor inventories of approximately \$271,000 and \$200,000, respectively, partially offset by a decrease in V*I Chip's inventories of \$118,000.

Critical Accounting Policies and Estimates

Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a complete summary of the critical accounting policies and estimates.

Three months ended March 31, 2010, compared to three months ended March 31, 2009

Net revenues for the first quarter of March 31, 2010, were \$51,709,000, an increase of \$1,261,000 or 2.5%, as compared to \$50,448,000 for the same period a year ago, and an increase of 5.2% on a sequential basis from the fourth quarter of 2009.

Table of Contents

VICOR CORPORATION
 Management's Discussion and Analysis of
 Financial Condition and Results of Operation

March 31, 2010

The components of revenue were as follows (dollars in thousands):

| | Three Months Ended | | | |
|----------|--------------------|-------------------|---------------------|--------|
| | March 31, 2010 | March 31, 2009 | Increase (decrease) | |
| | | | \$ | % |
| BBU | \$47,178 | \$48,760 | \$(1,582) | (3.2)% |
| V*I Chip | 3,885 | 1,276 | 2,609 | 204.5% |
| Picor | 646 | 412 | 234 | 56.8% |
| Total | \$51,709 | \$50,448 | \$ 1,261 | 2.5% |

Orders during the three months ending March 31, 2010 increased by 25.4% compared with the fourth quarter of 2009. This increase was caused by an increase in BBU orders of 9.8% and an increase in V*I Chip orders during the period of 223.8%. The consolidated book to bill ratio for the three months ending March 31, 2010, was 1.39:1, as compared to 0.99:1 for the corresponding period a year ago, and 1.16:1 for the fourth quarter of 2009. The quarterly book-to-bill ratio has been volatile and management believes that the ratio is not always an accurate indicator of the amount or timing of future revenue.

Gross margin for the first quarter of 2010 increased \$1,493,000, or 6.8%, to \$23,324,000 from \$21,831,000 in the first quarter of 2009. Gross margin, as a percentage of net revenues, increased to 45.1% from 43.3% as a percentage of net revenues. The primary components of the increase in gross margin dollars and percentage were the increase in net revenues and lower brick production costs.

Selling, general and administrative expenses were \$11,880,000 for the period, a decrease of \$943,000, or 7.4%, as compared to \$12,823,000 for the same period in 2009. Selling, general and administrative expenses as a percentage of net revenues, decreased to 23.0% from 25.4% for the same period in 2009.

-18-

Table of Contents

VICOR CORPORATION
Management's Discussion and Analysis of
Financial Condition and Results of Operation

March 31, 2010

The components of the \$943,000 decrease were as follows (in thousands):

| | Increase (decrease) | |
|----------------------------------|---------------------|-------------|
| Compensation | \$(627) | (9.1)% (1) |
| Commissions expense | (342) | (18.3)% (2) |
| Legal fees | (134) | (42.3)% (3) |
| Depreciation and amortization | (70) | (8.7)% |
| Advertising expenses | 35 | 6.6% |
| Travel expenses | 45 | 13.8% |
| Outside Services | 65 | 50.2% |
| Audit and tax fees | 159 | 43.1% (4) |
| Other, net | (74) | (2.5)% |
| | \$(943) | (7.4)% |

(1) Decrease primarily attributable to the workforce reductions completed in the first, second and third quarters of 2009, partially offset by an increase in fringe expense due to increases in premiums for employee health benefits.

(2) Decrease primarily attributed to changes in the mix of revenues subject to commissions.

(3) Decrease primarily attributed to a

decrease in activity associated with the Company's lawsuit brought against certain of its insurance carriers with respect to the Ericsson, Inc. settlement of product liability litigation in the first quarter of 2010 compared to 2009.

- (4) Increase is primarily attributed to expenses incurred in the first quarter of 2010 related to the year-end audit and filing of our 2009 Form 10-K.

Research and development expenses were \$8,868,000 for the period, an increase of \$1,117,000, or 14.4%, as compared to \$7,751,000 for the same period in 2009. As a percentage of net revenues, research and development increased to 17.1% from 15.4%.

Table of Contents

VICOR CORPORATION
 Management's Discussion and Analysis of
 Financial Condition and Results of Operation

March 31, 2010

The components of the \$1,117,000 increase were as follows (in thousands):

| | Increase (decrease) | | |
|--------------------|---------------------|---------|-----|
| Compensation | \$ 465 | 8.2% | (1) |
| Outside services | 242 | 128.1% | (2) |
| Project materials | 176 | 25.1% | (3) |
| Deferred costs | 158 | 66.6% | (4) |
| Tooling expenses | 63 | 247.8% | |
| Personnel expenses | 61 | 162.0% | |
| Other, net | (48) | (2.05)% | |
| | \$1,117 | 14.4% | |

(1) Increase primarily attributed to an increase in research and development personnel for the V*I Chip and Picor business units, and an increase in fringe expense due to increases in premiums for employee health benefits.

(2) Increase primarily attributed to increased outside services at Vicor Custom subsidiaries.

(3) Increase primarily attributed to an increase in

project materials associated with the development of V*I Chip and Picor products.

- (4) Increase primarily attributed to a decrease in deferred costs capitalized for certain non-recurring engineering projects for which the related revenues have been deferred.

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

| | 2010 | 2009 | Increase (decrease) |
|---|--------|--------|------------------------|
| Interest income | \$ 155 | \$ 230 | \$ (75) |
| Foreign currency losses | (67) | (64) | (3) |
| Unrealized loss on auction rate securities rights | (33) | (96) | 63 |
| Unrealized gain on trading securities | 37 | 27 | 10 |
| Credit loss on available for sale securities | (43) | | (43) |
| Other | 18 | 21 | (3) |
| | \$ 67 | \$ 118 | \$ (51) |

The decrease in interest income is due to lower average balances on the Company's short and long-term investments as well as a 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. The functional currency of the Company's subsidiaries in Europe and Hong Kong is the U.S. dollar. The unrealized gains (losses) and credit loss on the Company's auction rate securities and securities rights results from the change in fair value of these investments during the period.

Income (loss) before income taxes was \$2,643,000 for the first quarter of 2010 compared to \$(1,723,000) for the same period in 2009.

Table of Contents

VICOR CORPORATION
 Management's Discussion and Analysis of
 Financial Condition and Results of Operation
 March 31, 2010

The provision for income taxes and the effective income tax rate for the three months ended March 31, were as follows (dollars in thousands):

| | Three Months Ended | |
|----------------------------|--------------------|---------|
| | March 31, | |
| | 2010 | 2009 |
| Provision for income taxes | \$ 638 | \$ 428 |
| Effective income tax rate | 24.1% | (24.8%) |

The increase in the provision for income taxes in the three months ended March 31, 2010, compared to 2009 was principally due to the impact of using an effective tax rate method in 2010 versus a discrete-period computation in 2009 and increases in expense for state taxes, partially offset by lower tax expense in 2010 for one of the minority-owned subsidiaries that is not part of the Company's consolidated income tax returns.

Net income of noncontrolling interest decreased \$339,000 to \$53,000 in first quarter of 2010 from \$392,000 for the same period in 2009. This was due to lower net income at certain entities in which the Company holds a noncontrolling interest.

Basic and diluted income (loss) per share attributable to Vicor Corporation was \$0.05 for the first quarter of 2010 compared to \$(0.06) for the first quarter of 2009.

Liquidity and Capital Resources

At March 31, 2010, the Company had \$41,661,000 in unrestricted cash and cash equivalents. The ratio of current assets to current liabilities was 4.6:1 at March 31, 2010, and December 31, 2009. Working capital increased \$3,621,000 to \$78,412,000 at March 31, 2010, from \$74,791,000 at December 31, 2009. The primary factors affecting the working capital increase were increases in accounts receivable of \$4,570,000, cash and cash equivalents of \$1,437,000, inventories of \$353,000, other current assets of \$239,000, as well as a decrease in accounts payable of \$535,000, offset by decreases in short term investments of \$2,011,000, as well as increases in accrued compensation and benefits of \$817,000, deferred revenue of \$608,000, and income taxes payable of \$302,000. The primary source of cash for the three months ended March 31, 2010, was \$3,386,000 in net sales of short-term and long-term investments and \$461,000 from operating activities. The primary use of cash for the three months ended March 31, 2010 was \$2,429,000 for the purchase of equipment.

As of March 31, 2010, the Company held \$30,075,000 of auction rate securities classified as long-term investments and \$125,000 classified as short-term investments. Please see Note 2 of the Company's Condensed Consolidated Financial Statements for a discussion of the securities and the Company's accounting treatment thereof.

In November 2000, the Board of Directors of the Company authorized the repurchase of up to \$30,000,000 of the Company's Common Stock (the November 2000 Plan). The November 2000 Plan authorizes the Company to make such repurchases from time to time in the open market or through privately negotiated transactions. The timing and amounts of stock repurchases are at the discretion of management based on its view of economic and financial market conditions. The Company did not repurchase shares of Common Stock during the three months ended March 31, 2010. As of March 31, 2010, the Company had approximately \$8,541,000 remaining under the November 2000 Plan.

The Company's primary liquidity needs are for making continuing investments in manufacturing equipment, particularly equipment to increase capacity for our V*I Chip products. The Company believes cash generated from operations and the total of its cash and cash equivalents and short-term investments will be sufficient to fund planned operations and capital equipment purchases for the foreseeable future. The Company had approximately \$1,478,000 of capital expenditure commitments, principally for manufacturing equipment, as of March 31, 2010.

Table of Contents

VICOR CORPORATION
Management's Discussion and Analysis of
Financial Condition and Results of Operation
March 31, 2010

Based on the Company's ability to access cash and cash equivalents and its expected operating cash flows, management does not anticipate the current lack of liquidity of the Company's BofA ARS will affect the Company's ability to execute its current operating plan.

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

-22-

Table of Contents

Vicor Corporation
March 31, 2010

Item 3 Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to a variety of market risks, including changes in interest rates affecting the return on our cash and cash equivalents and short-term investments and fluctuations in foreign currency exchange rates. As the Company's cash and cash equivalents consist principally of money market securities, which are short-term in nature, the Company believes our 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 municipal and corporate debt securities, of which the Failed Auction Securities represent a significant portion. While the Failed Auction Securities are all highly rated investments, generally with AAA/Aaa ratings, continued failure to sell at their reset dates could negatively impact the carrying value of the investments, in turn leading to impairment charges in future periods. Currently, changes in the fair value of the Failed Auction Securities held with UBS are recorded through earnings. Changes in the fair value of the Failed Auction Securities held with BofA attributable to credit loss are recorded through earnings, with the remainder of any change recorded in Accumulated other comprehensive (loss) income. Should a decline in the value of the Failed Auction Securities held with BofA be other than temporary, the losses would be recorded in

Other income (expense), net. The Company does not believe there was an other-than-temporary decline in value in these securities as of March 31, 2010.

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, as the functional currency of the Company's subsidiaries in Europe and Hong Kong is the U.S. dollar. Therefore, the Company believes market risk is mitigated since these operations are not materially exposed to foreign exchange fluctuations.

Item 4 Controls and Procedures

(a) Disclosure regarding controls and procedures.

As required by Rule 13a-15 under the Securities Exchange Act, the Company's management, with the participation of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures, as of the end of the last fiscal quarter (i.e., March 31, 2010). 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, management, including the Company's CEO and CFO, has concluded the Company's disclosure controls and procedures as of March 31, 2010, were 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. Management intends to continue to review and document the Company's disclosure controls and procedures, including internal controls over financial reporting, and may from time to time make changes to the disclosure controls and procedures to enhance their effectiveness and to ensure that the Company's systems evolve with its business.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Accordingly, management, including the CEO and CFO, recognizes the Company's disclosure controls or its internal control over financial reporting may not prevent or detect all errors and all fraud. The design of a control system must reflect the fact 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 control's

effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

(b) Changes in internal control over financial reporting.

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2010, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

-23-

Table of Contents

Vicor Corporation
Part II Other Information
March 31, 2010

Item 1 Legal Proceedings

See Note 12. Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Part I Item 1 - Financial Statements.

Item 1A Risk Factors

There have been no material changes in the risk factors described in Item 1A (Risk Factors) of the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (of Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|-----------------------|---|--|--|---|
| January 1 - 31, 2010 | - | \$ - | - | \$ 8,541,000 |
| February 1 - 28, 2010 | - | \$ - | - | \$ 8,541,000 |
| March 1 - 31, 2010 | - | \$ - | - | \$ 8,541,000 |
| Total | - | \$ - | - | \$ 8,541,000 |

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

Item 3 Defaults Upon Senior Securities

Not applicable.

Item 4 Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5 Other Information

Not applicable.

Item 6 Exhibits

| Exhibit Number | Description |
|----------------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 |
| 31.2 | |

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Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

-24-

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VICOR CORPORATION

Date: May 5, 2010

By: /s/ Patrizio Vinciarelli
Patrizio Vinciarelli
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Date: May 5, 2010

By: /s/ James A. Simms
James A. Simms
Vice President, Chief Financial Officer
(Principal Financial Officer)

-25-