VICOR CORP
Form 10-Q
February 27, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

__ 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	04-2742817
(State of Incorporation)	(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 þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
The number of shares outstanding of each of the issuer s classes of common stock as of January 31, 2008 was:

Common Stock, $.01 par value 29,811,197
Class B Common Stock, $.01 par value 11,824,952

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Item 1 Financial Statements

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

Assets	September 30, 2007	December 31, 2006 (As Restated)
Current assets:		
Cash and cash equivalents	$ 49,504	$ 35,860
Restricted cash and short-term investments	1,045	1,045
Short-term investments	28,542	81,681
Accounts receivable, less allowance of $404 in 2007 and $583 in 2006	28,242	30,399
Insurance receivable for litigation settlements		12,800
Inventories, net	21,905	22,001
Deferred tax assets	3,648	3,702
Other current assets	2,505	2,181
Total current assets	135,391	189,669
Property, plant and equipment, net	50,464	51,573
Other assets	5,386	5,691
	$ 191,241	$ 246,933
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 9,843	$ 7,273
Accrued compensation and benefits	5,212	5,192
Accrued expenses	3,823	4,189
Accrual for litigation settlements	240	50,000
Income taxes payable	628	2,049
Deferred revenue	853	76
Total current liabilities	20,599	68,779
Deferred income taxes	4,377	4,389

Minority interests	3,679	3,593
Stockholders equity:		
Preferred Stock		
Class B Common Stock	118	119
Common Stock	384	382
Additional paid-in capital	159,011	158,021
Retained earnings	124,766	133,405
Accumulated other comprehensive income	134	72
Treasury stock, at cost	(121,827)	(121,827)
Total stockholders equity	162,586	170,172
	$ 191,241	$ 246,933

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006 (As restated)	2007	2006 (As restated)
Net revenues	$ 47,693	$ 46,932	$ 141,880	$ 144,014
Cost of revenues	29,789	26,981	84,150	81,852
Gross margin	17,904	19,951	57,730	62,162
Operating expenses:				
Selling, general and administrative	12,314	11,225	36,490	33,796
Research and development	7,735	7,961	22,802	23,531
(Gain) loss from litigation-related settlements, net	0	0	(1,353)	0
Total operating expenses	20,049	19,186	57,939	57,327
Income (loss) from operations	(2,145)	765	(209)	4,835
Other income (expense), net	1,242	1,318	3,725	3,787
Income (loss) before income taxes	(903)	2,083	3,516	8,622
(Benefit) provision for income taxes	(1,616)	(379)	(1,329)	210
Loss from equity method investment (net of tax)	170	70	1,007	242
Net income	$ 543	$ 2,392	$ 3,838	$ 8,170
Net income per common share:				
Basic	$ 0.01	$ 0.06	$ 0.09	$ 0.19
Diluted	$ 0.01	$ 0.06	$ 0.09	$ 0.19

Shares used to compute net income per share:				
Basic	41,617	41,703	41,586	41,932
Diluted	41,715	41,771	41,657	42,212
Cash dividends per share	$ 0.15	$ 0.00	$ 0.30	$ 0.27

See accompanying notes.

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

	Nine Months Ended	
	September 30, 2007	September 30, 2006 (As restated)
Operating activities:		
Net income	$ 3,838	$ 8,170
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,928	10,621
Loss from equity method investee (net of tax)	1,007	242
Stock compensation expense	498	523
(Accretion) amortization of bond (discount) premium	(437)	14
Gain on disposals of equipment	(108)	(75)
Minority interest in net income of subsidiaries	179	417
Change in current assets and liabilities, net	(33,314)	(8,852)
Net cash (used in) provided by operating activities	(19,409)	11,060
Investing activities:		
Purchases of investments	(102,060)	(105,107)
Sales and maturities of investments	155,636	109,398
Additions to property, plant and equipment	(7,427)	(4,242)
Proceeds from sale of equipment	108	0
Purchase of equity method investment	(1,000)	0
Increase in other assets	(85)	(148)
Net cash provided by (used in) investing activities	45,172	(99)
Financing activities:		
Proceeds from issuance of Common Stock	495	5,566
Dividends paid	(12,569)	(11,343)
Acquisitions of treasury stock	0	(10,835)

Net cash used in financing activities	(12,074)	(16,612)
Effect of foreign exchange rates on cash	(45)	3
Net increase (decrease) in cash and cash equivalents	13,644	(5,648)
Cash and cash equivalents at beginning of period	35,860	33,703
Cash and cash equivalents at end of period	$ 49,504	$ 28,055

See accompanying notes.

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VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements
September 30, 2007
(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, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

As described in Note 6., due to an additional investment in Great Wall Semiconductor Corporation (GWS) in May 2007, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for the three and nine months ended September 30, 2006 and as of December 31, 2006 have been retroactively restated to reflect the equity method of accounting, in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock .

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 and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for any other interim period or the year ending December 31, 2007. The balance sheet at December 31, 2006 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, 2006 (File No. 0-18277) filed by Vicor Corporation (the Company or Vicor) with the Securities and Exchange Commission.

2. Cash and Short-Term Investments

Restricted cash and short-term investments represent the amount of cash and short-term investments required to be set aside as a guarantee for certain foreign letters of credit. Restricted cash and short-term investments of $1,045,000 as of December 31, 2006, and $906,000 as of September 30, 2006 and December 31, 2005, respectively, were reclassified to conform to the 2007 presentation.

Through February 25, 2008, auctions held for several of the Company s auction rate securities with a total aggregate value of approximately $17.5 million failed. As of February 25, 2008, the Company was holding a total of approximately $44 million in auction rate securities, the significant majority of which are student loan backed securities. These municipal and corporate debt securities have their interest rates reset at auction at regular intervals ranging from seven to 90 days. The Company is in the process of reviewing this matter in order to determine the impact, if any, on the investments liquidity and/or carrying value.

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VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

3. Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (FAS 123R). Stock compensation expense for the three and nine months ended September 30 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Cost of revenues	$ 12	$ 16	$ 36	$ 65
Selling, general and administrative	104	92	268	271
Research and development	61	65	194	187
Total stock based compensation	$ 177	$ 173	$ 498	$ 523

4. Net Income per Share

The following table sets forth the computation of basic and diluted income per share for the three and nine months ended September 30 (in thousands, except per share amounts):

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006 (As restated)	2007	2006 (As restated)
Numerator:				
Net income	$ 543	$ 2,392	$ 3,838	$ 8,170
Denominator:				
Denominator for basic income per share-weighted average shares	41,617	41,703	41,586	41,932
Effect of dilutive securities:				
Employee stock options	98	68	71	280
Denominator for diluted income per share-adjusted weighted-average shares and	41,715	41,771	41,657	42,212

assumed conversions								
Basic income per share	$	0.01	$	0.06	$	0.09	$	0.19
Diluted income per share	$	0.01	$	0.06	$	0.09	$	0.19

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

4. Net Income per Share (Continued)

Options to purchase 925,363 and 1,467,531 shares of Common Stock were outstanding for the three months ended September 30, 2007 and 2006, respectively, and options to purchase 1,000,808 and 611,095 shares of Common Stock were outstanding for the nine months ended September 30, 2007 and 2006, respectively, but were not included in the computation of diluted income per share because the options exercise prices were greater than the average market price of the Common Stock and, therefore, the effect would have been antidilutive.

5. 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.

Inventories were as follows as of September 30, 2007 and December 31, 2006 (in thousands):

	September 30, 2007	December 31, 2006
Raw materials	$ 23,039	$ 23,805
Work-in-process	3,072	2,319
Finished goods	4,128	4,240
	30,239	30,364
Inventory reserves	(8,334)	(8,363)
Net balance	$ 21,905	$ 22,001

6. Investments

In May 2007, the Audit Committee of the Board of Directors approved an additional investment of $1,000,000 in non-voting convertible preferred stock of Great Wall Semiconductor Corporation (GWS) and agreed to an additional investment of $1,000,000 if certain conditions were met by November 2007. Those conditions were not met by November 2007. However, the Company did make the additional $1,000,000 investment in February 2008, which will increase its ownership in GWS to approximately 30%. The additional $1,000,000 investment was approved by the Audit Committee of the Company s Board of Directors. The Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008 due to the additional investment. The Company s total gross investment in GWS was $4,000,000 as of September 30, 2007 and $3,000,000 as of December 31, 2006. GWS designs, develops and manufactures high performance power semiconductors. A director of Vicor is the founder, President, Chairman of the Board, Chief Executive Officer and the majority voting shareholder of GWS.

The Company considered the requirements of FASB Interpretation No. 46 (revised December 2003),

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VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

6. Investments (Continued)

Consolidation of Variable Interest Entities (FIN 46R), in accounting for the additional investment in GWS, and determined that GWS is a variable interest entity. However, the Company concluded that it is not the primary beneficiary. As a result, the Company is accounting for the investment under the equity method of accounting in accordance with Accounting Principles Board Opinion No. 18, The Equity Method for Accounting for Investments in Common Stock (APB 18). The Company has also considered FIN No. 35, Criteria for Applying the Equity Method of Accounting for Investments in Common Stock (FIN 35) and EITF 02-14, Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock (EITF 02-14). The additional investment made in May 2007 resulted in the Company owning approximately 24% of GWS which management believes, along with other qualitative factors considered, gives the Company significant influence over GWS. In addition, the Company has an option to purchase an additional 1.5% of GWS for $90,000. The Company also believes that its investment in GWS represents in-substance common stock. As a result, the additional investment requires the Company to account for the investment in GWS under the equity method of accounting and to retroactively restate its previously issued consolidated financial statements. Previously, the Company accounted for the investment as a cost method investment as management believed it did not have significant influence over GWS. At December 31, 2006, the Company owned approximately 17.5% of GWS.

In accordance with APB 18, each investment in GWS has been accounted for as a step acquisition using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141). The allocation of the purchase price included acquired intangible assets, including core and developed technology as well as in-process research and development (IPR&D). The excess of the purchase price over the fair value allocated to the net assets is goodwill. The core and developed technology is being amortized over three years. The amounts allocated to IPR&D were charged to expense in accordance with FAS 141, which specifies that the amount assigned to the acquired intangible assets to be used in a particular research and development project that have no alternative future use shall be charged to expense at the acquisition date. The amounts included in other assets in the accompanying consolidated balance sheets related to the net GWS investment were $818,000 and $826,000 as of September 30, 2007 and December 31, 2006, respectively, as follows (in thousands):

	September 30, 2007	December 31, 2006
Equity method goodwill	$ 762	$ 775
Intangible assets, net of amortization	56	51
	$ 818	$ 826

The negative net equity of GWS was approximately ($900,000) at September 30, 2007 and ($1,000,000) at December 31, 2006.

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VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

6. Investments (Continued)

Loss from equity method investment (net of tax) for the three and nine months ended September 30 consists of the following (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006 (As restated)	2007	2006 (As restated)
Allocation of losses from equity method investment (net of tax)	$ 159	$ 33	$ 307	$ 123
Amortization of intangible assets (net of tax)	11	37	80	119
Other than temporary decline in investment	-	-	620	-
	$ 170	$ 70	$ 1,007	$ 242

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

	As Restated	As Previously Reported
As of December 31, 2006:		
Other assets	$ 5,691	$ 6,865
Total assets	246,933	248,107
Retained earnings	133,405	134,579
Total stockholder s equity	170,172	171,346
Three months ended September 30, 2006:		
Loss from equity method investment, net	$ 70	$ -
Net income	2,392	2,462
Net income per share diluted	0.06	0.06
Nine months ended September 30, 2006:		
Loss from equity method investment, net	$ 242	$ -
Net income	8,170	8,412
Net income per share diluted	0.19	0.20

As a result of the accounting change, retained earnings as of January 1, 2006 decreased by $1,853,000 from $175,660,000 to $173,807,000 due to the expensing of IPR&D of $908,000, the allocation of equity method investment losses of $643,000 and amortization expense for the acquired intangible assets of

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VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

6. Investments (Continued)

$302,000. This represents the retroactive application of the equity method of accounting for the period from August 2003, the date of the Company s initial investment in GWS, through December 31, 2005.

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

7. 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 nine months ended September 30, 2007 and 2006 was as follows (in thousands):

	2007	2006
Balance at the beginning of the period	$ 1,046	$ 755
Accruals for warranties for products sold in the period	637	144
Fulfillment of warranty obligations	(443)	(130)
Revisions of estimated obligations	(275)	(143)
Balance at the end of the period	$ 965	$ 626

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

8. Income Taxes

In 2007, the tax provision is based on the estimated annual effective tax rate for 2007, which includes estimated federal, state and foreign income taxes on the Company s projected annual pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, and increases in accrued interest for potential liabilities, offset by the expected utilization of foreign net operating loss carryforwards and the release of certain valuation allowances related to temporary book versus tax differences. During the second quarter of 2007, the Company reversed approximately $300,000 of previously unidentified excess tax reserves identified during the quarter. The impact on the second quarter of 2007, as well as on prior periods, was not material. The expense was also partially offset by a discrete item of $169,000 representing refunds of interest received and recorded as a benefit during the first quarter of 2007 as final settlement related to the audit of the Company s federal tax returns for tax years 1994 though 2002 by the Internal Revenue Service and the reduction in tax reserves discussed below. In 2006, the tax provision was based on an estimated annual effective tax rate for 2006, which included estimated federal, state and foreign income taxes on the Company s projected annual pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, offset by the expected utilization of remaining net operating loss carryforwards and certain tax credit carryforwards and the reduction in tax reserves discussed below. In the third quarter of 2007 and 2006, the Company reduced its tax reserves by $1,517,000 and $618,000, respectively, due to closing tax periods in certain jurisdictions and other tax reserves no longer considered necessary.

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

The Company has reviewed the tax positions taken, or to be taken, in its tax returns for all tax years currently open to examination by a taxing authority in accordance with the recognition and measurement standards of FIN 48. At September 30, 2007, the total amount of unrecognized tax benefits, that is the aggregate tax effect of differences between tax return positions and the benefits recognized in the Company s financial statements, is approximately $1,300,000, including accrued interest, all of which, if recognized, may decrease the Company s income tax provision and effective tax rate. Included in the balance of unrecognized tax benefits at September 30, 2007 is approximately $1,000,000, including interest, related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months, principally due to the closing of tax years in certain jurisdictions.

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

8. Income Taxes (Continued)

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. As of September 30, 2007, the Company had accrued approximately $380,000 for the potential payment of interest and recorded approximately $25,000 and $125,000 of income tax expense for interest, net of related tax benefits, for the three and nine months ended September 30, 2007.

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

9. Comprehensive Income (Loss)

The following table sets forth the computation of comprehensive income (loss) for the three and nine months ended September 30 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006 (As restated)	2007	2006 (As restated)
Net income	$ 543	$ 2,392	$ 3,838	$ 8,170
Foreign currency translation gain (loss)	88	(40)	58	(14)
Unrealized (losses) gains on available for sale securities	(2)	41	4	140
Comprehensive income	$ 629	$ 2,393	$ 3,900	$ 8,296

10. Legal Proceedings

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

VICOR CORPORATION
Notes to Condensed Consolidated Financial Statements (Continued)
September 30, 2007
(Unaudited)

10. Legal Proceedings (Continued)

2001, and the lawsuit that the Company had filed against Artesyn in February 2001. The full amount of the gain, net of a $177,000 contingency accrued by the Company for its litigation counsel, has been included in (Gain) loss from litigation-related settlements, net in the accompanying condensed consolidated statement of operations. On February 22, 2007, the Company announced that it had reached an agreement in principle with Ericsson, Inc., to settle a lawsuit brought by Ericsson against the Company in California state court. Under the terms of the settlement agreement entered into on March 29, 2007, after a Court ordered mediation, the Company paid $50.0 million to Ericsson, of which $12.8 million was paid by the Company s insurance carriers. Accordingly, the Company recorded a net loss of $37.2 million from the litigation-related settlements in the fourth quarter of 2006. The Company is seeking further recoveries from the insurance carriers. The Company s decision to enter into the settlement followed an adverse ruling by the Court in January, 2007 in connection with a settlement between Ericsson and co-defendants Exar Corporation (Exar) and Rohm Device USA, LLC (Rohm), two of the Company s component suppliers prior to 2002. The Company s writ of mandate appeal of this ruling was denied in April, 2007. In September 2007, the Company filed a notice of appeal of the Court s decision upholding the Ericsson-Exar-Rohm settlement, which is pending. In December 2007, the Court awarded Exar and Rohm amounts for certain statutory and discovery costs associated with this ruling. Since this matter was outstanding as of June 30, 2007, the Company accrued $240,000 in the second quarter of 2007 as a result of the Court s decision, which is included in Accrual for litigation settlements in the condensed consolidated balance sheet and in (Gain) loss from litigation-related settlements, net in the condensed consolidated statement of operations.

On August 18, 2005, the Company filed an action in The Superior Court of the Commonwealth of Massachusetts, County of Essex (the Massachusetts Court) against Concurrent Computer Corporation (Concurrent) in response to a demand made by Concurrent in connection with breach of contract and breach of product warranty claims against the Company. On August 1, 2007, the Company reached an agreement in principle to settle the lawsuit with Concurrent for $2,350,000, all of which will be paid by the Company s insurance carriers. The settlement agreement was finalized effective August 28, 2007, upon which the Company made the settlement payment of $2,350,000 to Concurrent and in turn received payment for that same amount from its insurance carriers. There was no impact on the consolidated statement of operations for the three and nine months ended September 30, 2007 as a result of the settlement.

In addition, the Company is involved in certain other litigation and claims incidental to the conduct of its business. While the outcome of lawsuits and claims against the Company cannot be predicted with certainty, 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.

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

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

The segments follow the same accounting policies as described in the Summary of Significant Accounting Policies described in the Company s 2006 Annual Report on Form 10-K. The effects of all intersegment and/or intercompany transactions are eliminated in the consolidated financial statements.

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

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11. Segment Information (Continued)

The following table provides significant segment financial data as of and for the three months ended September 30, 2007 and 2006 (in thousands):

	Brick	V*I Chip	Picor	Corporate	Eliminations	Total
2007:						
Net revenues	$ 45,220	$ 2,404	$ 1,101	$ -	$ (1,032)	$ 47,693
Income (loss) from operations	4,718	(6,179)	(697)	(126)	139	(2,145)
Total assets	138,902	12,078	7,348	107,263	(74,350)	191,241
Depreciation and amortization	1,753	519	96	376	-	2,744
2006:						
Net revenues	$ 46,249	$ 517	$ 1,208	$ -	$ (1,042)	$ 46,932
Income (loss) from operations	7,419	(6,350)	(279)	(214)	189	765
Total assets (as restated)	110,382	8,550	7,072	149,975	(43,980)	231,999
Depreciation and amortization	2,249	485	84	466	-	3,284

The following table provides significant segment financial data as of and for the nine months ended September 30, 2007 and 2006 (in thousands):

	Brick	V*I Chip	Picor	Corporate	Eliminations	Total
2007:						
Net revenues	$ 136,697	$ 4,797	$ 3,378	$ -	$ (2,992)	$ 141,880
Income (loss) from operations	18,485	(17,816)	(1,995)	691	426	(209)
Total assets	138,902	12,078	7,348	107,263	(74,350)	191,241
Depreciation and amortization	5,779	1,507	308	1,334	-	8,928
2006:						
Net revenues	$ 141,631	$ 1,984	$ 2,616	$ -	$ (2,217)	$ 144,014
Income (loss) from operations	24,857	(18,302)	(1,635)	(769)	684	4,835
Total assets (as restated)	110,382	8,550	7,072	149,975	(43,980)	231,999
Depreciation and amortization	7,493	1,404	240	1,484	-	10,621

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

12. Dividends

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

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12. Dividends (Continued)

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

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. The Board of Directors anticipates reviewing its dividend policy on a semi-annual basis.

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

13. Impact of Recently Issued Accounting Standards

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

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

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

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13. Impact of Recently Issued Accounting Standards (Continued)

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

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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 identif forward-looking statements. Forward-looking statements also include statements regarding V*I Chip bookings, shipments, the pace of new design wins with early adopters and gaining broader acceptance within its target markets and our plans to expand capacity with incremental investments in equipment. 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, 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, the impact of write-downs in the value of assets, the effects of equity accounting with respect to certain affiliates, as well as those factors described in the risk factors set forth in the Annual Report on Form 10-K under Part I, Item I Business, Competition, Patents, and Licensing, under Part I, Item 1A Risk Factors, under Part I, Item 3 Legal Proce 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.

Critical Accounting Policies and Estimates

Please refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 for a complete summary of the critical accounting policies and estimates. See below for a discussion of a change in the accounting for the Company s investment in Great Wall Semiconductor Corporation.

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Other Investments

The accounting for investment transactions is reviewed for compliance with Accounting Principles Board Opinion No. 18, The Equity Method for Accounting for Investments in Common Stock (APB 18) and/or FASB Interpretation No.46 Revised (FIN 46R), Consolidation of Variable Interest Entities . As discussed in Note 6. to the unaudited condensed consolidated financial statements, the Company previously accounted for the investment in Great Wall Semiconductor Corporation (GWS) under APB 18 as a cost method investment as management believed it did not have significant influence over GWS. An additional investment in GWS in May 2007 resulted in the Company owning approximately 24% of GWS which management believes, along with other qualitative factors considered, gives the Company significant influence over GWS. As a result of the additional investment, the Company is required to account for the investment in GWS under the equity method of accounting and to retroactively restate its previously issued consolidated financial statements to reflect the equity method of accounting, in accordance with APB 18.

Income Taxes

The Company accounts for income taxes in accordance with FASB Statement No. 109, Accounting for Income Taxes . Effective January 1, 2007, the Company adopted FIN 48, Accounting for Uncertainty in Income Taxes (FIN48), an interpretation of FAS 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a material impact on the Company s financial position or results of operations.

Results of Operations

Three months ended September 30, 2007 compared to three months ended September 30, 2006

Net revenues for the third quarter of 2007 were $47,693,000, an increase of $761,000 or 1.6%, as compared to $46,932,000 for the same period a year ago, and an increase of 1.0% on a sequential basis from the second quarter of 2007. The increase in net revenues from the prior year resulted primarily from an increase in V*I Chip revenues of $1,806,000, partially offset by a decrease in shipments of standard and custom products for the Brick segment of $1,028,000. Additionally, orders during the quarter increased by 8.8% compared with the second quarter of 2007. The book-to-bill ratio for the third quarter of 2007 was 1.17:1 as compared to 1.00:1 for the third quarter of 2006 and 1.09:1 in the second quarter of 2007.

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Gross margin for the third quarter of 2007 decreased $2,047,000, or 10.3%, to $17,904,000 from $19,951,000 for the third quarter of 2006, and decreased to 37.5% from 42.5% as a percentage of net revenues. The primary components of the decrease in gross margin dollars and percentage were due to product mix as well as an issue with certain product returns and warranty expense. During the third quarter of 2007, the Company replaced certain products and established reserves for future replacements of these products, which were manufactured with a purchased component that exhibited an unacceptable failure rate. As a result, gross margin in the third and second quarters of 2007 were negatively impacted by approximately $720,000 and $260,000, respectively, from a combination of product returns which affected net revenues and charges to cost of sales for warranty costs.

Selling, general and administrative expenses were $12,314,000 for the period, an increase of $1,089,000 or 9.7%, from $11,225,000 for the same period in 2006. As a percentage of net revenues, selling, general and administrative expenses increased to 25.8% from 23.9%. The principal components of the $1,089,000 increase were $529,000, or 11.3%, of increased compensation expense primarily due to annual compensation adjustments in May 2007, $371,000, or 97.3%, in increased legal fees due to the litigation with Ericsson Wireless Communications, Inc., Exar Corporation and Rohm Device USA, LLC, and Concurrent Computer Corporation (Concurrent) (see Part II Item 1 Legal Proceedings), $136,000, or 48.8%, in increased travel expenses, $86,000, or 11.7%, in increased expenses associated with the Vicor Integration Architects (VIAs), $76,000, or 26.5%, in increased audit and tax expenses, and $61,000, or 5.3%, in increased commissions expense, which was partially offset by a decrease in training expense of $93,000, or 24.0%, as well as a decrease in bad debt expense of $93,000, or 68.8%. The increases in VIA expenses was principally due to increased employee benefit plan expense of $79,000, and increased bad debt of $39,000, and partially offset by $49,000 of decreased sub-contract labor costs. In November 2007, the Company received a reimbursement payment of approximately $718,000 from its insurance carriers for a portion of legal costs in connection with the litigation with Concurrent, reducing legal expense in the fourth quarter of 2007. Prior to the fourth quarter, it was not certain that the insurance carrier would reimburse these costs.

Research and development expenses decreased $226,000 or 2.8%, to $7,735,000, from $7,961,000 and decreased as a percentage of net revenues to 16.2% from 17.0% from the same period in 2006. The principal components of the $226,000 decrease were $169,000, or 100%, of decreased costs due to the allocation of a portion of Picor non-recurring engineering charges being charged to cost of sales and not research and development, $96,000, or 14.9%, of decreased expenses associated with the VIAs, $40,000, or 3.6%, of decreased project materials, $36,000, or 8.0%, of decreased facilities expense, and $22,000, or 5.7%, of decreased depreciation expense, which was partially offset by an increase of $170,000, or 3.5%, of increased compensation expense primarily due to annual compensation adjustments in May 2007. The decrease in VIA expenses was principally due to decreased supplies and services of $94,000.

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The major changes in the components of the other income (expense) for the three months ended September 30, net were as follows (in thousands):

	2007	2006	Increase (decrease)
Interest income	$ 983	$ 1,483	$ (500)
Foreign currency gains (losses)	185	(94)	279
Minority interest in net income of subsidiaries	(90)	(113)	23
Gain on disposals	86	-	86
Other	78	42	36
	$ 1,242	$ 1,318	$ (76)

The decrease in interest income is due to lower average balances on the Company s cash equivalents and short-term investments, principally due to the $37,200,000 net payment to Ericsson made at the end of March 2007 (see Part II Item 1- Legal Proceedings). The increase in foreign currency gains is due to favorable exchange rates in 2007 as compared to 2006. The Company s exposure to market risk for fluctuations in foreign currency exchange rates relates primarily to the operations of Vicor Japan Co. Ltd. (VJCL) and changes in the dollar/yen exchange rate. In addition, the functional currency of the Company s subsidiaries in Europe and Hong Kong is the U.S. dollar. The decrease in minority interest in net income of subsidiaries is due to lower income at certain minority interest entities.

Income (loss) before income taxes was $(903,000) for the third quarter of 2007 compared to $2,083,000 for the same period in 2006.

In 2007, the tax provision is based on the estimated annual effective tax rate for 2007, which includes estimated federal, state and foreign income taxes on the Company s projected annual pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, and increases in accrued interest for potential liabilities, offset by the expected utilization of foreign net operating loss carryforwards, the release of certain valuation allowances related to temporary book versus tax differences and the reduction in the tax reserves discussed below. In 2006, the tax provision is based on an estimated annual effective tax rate for 2006, which included estimated federal, state and foreign income taxes on the Company s projected annual pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, offset by the expected utilization of remaining net operating loss carryforwards and certain tax credit carryforwards. During the third quarter of 2006, the estimated tax rate for 2006 was reduced from 17% to 9%, which resulted in a net tax benefit for the third quarter of 2006. The principal reason for the change in the rate was a reduction in the expected pre-tax income for 2006. In the third quarter of 2007 and 2006, the Company reduced its tax reserves by $1,517,000 and $618,000, respectively, due to closing tax

periods in certain jurisdictions and other tax reserves no longer considered necessary.

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Loss from equity method investment (net of tax) increased $100,000 to $170,000 from $70,000 for the same period in 2006. This was principally due to higher equity method investment losses allocated to the Company. As described in Note 6. to the condensed consolidated financial statements, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for the three and nine months ended September 30, 2006 and as of December 31, 2006 have been retroactively restated to reflect the equity method of accounting, in accordance with APB 18. The Company made an additional $1,000,000 investment in GWS in February 2008. The Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008 due to the additional investment.

Basic and diluted income per share was $0.01 for the third quarter of 2007 compared to $0.06 for the third quarter of 2006.

Nine months ended September 30, 2007 compared to Nine months ended September 30, 2006

Net revenues for the first nine months of 2007 were $141,880,000, a decrease of $2,134,000 or 1.5%, as compared to $144,014,000 for the same period a year ago. The decrease in net revenues from the prior year resulted from a decrease in shipments of standard and custom products for the Brick segment of $4,934,000, partially offset by increases in V*I Chip revenues of $2,703,000 and Picor revenues of $97,000. Orders during the period increased by 15.1% compared with the last nine months of 2006. The book-to-bill ratio for the first nine months of 2007 was 1.09:1 as compared to 1.00:1 for the same period a year ago, and 0.93:1 for the last nine months of 2006.

Gross margin for the first nine months of 2007 decreased $4,432,000, or 7.1%, to $57,730,000 from $62,162,000, and decreased to 40.7% from 43.2% as a percentage of net revenues for the same period a year ago. The primary components of the decrease in gross margin dollars and percentage were due to the decrease in net revenues, product mix and an issue with certain product returns and warranty expense. During the third quarter of 2007, the Company replaced certain products and established reserves for future replacements of these products, which were manufactured with a purchased component that exhibited an unacceptable failure rate. As a result, gross margin in the third and second quarters of 2007 were negatively impacted by approximately $720,000 and $260,000, respectively, from a combination of product returns which affected net revenues and charges to cost of sales for warranty costs.

Selling, general and administrative expenses were $36,490,000 for the first nine months of 2007, an increase of $2,694,000, or 8.0%, over the same period in 2006. As a percentage of net revenues, selling, general and administrative expenses increased to 25.7% from 23.5%. The principal components of the $2,694,000 increase were $1,292,000, or 9.1%, of increased compensation expense primarily due to annual compensation adjustments in May 2007, $996,000, or 72.1%, in increased legal fees due to the litigation with Ericsson Wireless Communications, Inc., Exar Corporation and Rohm Device USA, LLC, and Concurrent Computer Corporation (Concurrent) (see Part II Item 1 Legal Proceedings), $362,000, or 41.4%, of increased travel expenses, $264,000, or 31.4%, of increased audit and tax expenses, $143,000, or 4.1%, of increased

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commissions due to changes in the mix of revenues subject to commissions, and $113,000, or 44.0%, of increased outside services. The principal components partially offsetting the above increases were $105,000, or 10.7%, of decreased training expenses and $397,000, or 15.6%, of decreased costs associated with the VIAs, primarily due to a decreased commissions expense of $265,000 and decreased sub-contract labor costs of $115,000. In November 2007, the Company received a reimbursement payment of approximately $718,000 from its insurance carriers for a portion of legal costs in connection with the litigation with Concurrent, reducing legal expense in the fourth quarter of 2007. Prior to the fourth quarter, it was not certain that the insurance carrier would reimburse these costs.

Research and development expenses decreased $729,000, or 3.1%, to $22,802,000 and decreased as a percentage of net revenues to 16.1% from 16.3%. The principal components of the $729,000 decrease were $435,000, or 100%, of decreased costs due to the allocation of a portion of Picor non-recurring engineering charges being charged to cost of sales and not research and development, $129,000, or 4.7%, in decreased project materials associated with the Company s new V*I Chip products, $205,000, or 11.2%, of decreased costs associated with the VIAs, $114,000, or 9.9%, of decreased depreciation and amortization costs, $94,000, or 7.1%, of decreased facility costs, $50,000, or 38.5%, of decreased manufacturing supplies, $43,000, or 96.2%, of decreased sub-contract labor costs, and $40,000, or 23.8%, of decreased travel expenses. The principal component partially offsetting the above decreases was $429,000, or 2.9%, in increased compensation expense primarily due to annual compensation adjustments in May 2007.

In the second quarter of 2007, the Company entered into separate settlement agreements with Artesyn and Lucent/Tyco, under which, the Company received total payments of $1,770,000 in full settlement of the Company s Patent infringement claims against Lucent/Tyco and Artesyn, and which settled the lawsuits that the Company had filed against Lucent/Tyco in May 2000 and in April 2001, and the lawsuit that the Company had filed against Artesyn in February 2001. The full amount of the payments, net of a $177,000 contingency fee accrued by the Company for its litigation counsel, has been included in (Gain) loss from litigation-related settlements, net in the accompanying condensed consolidated statement of operations. In December 2007, the Court awarded Exar and Rohm amounts for certain statutory and discovery costs associated with this ruling. Since this matter was outstanding as of June 30, 2007, the Company accrued $240,000 in the second quarter of 2007 as a result of the Court s decision, which is included in (Gain) loss from litigation-related settlement, net in the accompanying condensed consolidated statement of operations.

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The major changes in the components of the other income (expense) for the nine months ended September 30, net were as follows (in thousands):

	2007	2006	Increase (decrease)
Interest income	$ 3,494	$ 3,965	$ (471)
Foreign currency gains	149	117	32
Minority interest in net income of subsidiaries	(179)	(417)	238
Gain on disposals	108	75	33
Other	153	47	106
	$ 3,725	$ 3,787	$ (62)

The decrease in interest income is due to lower average balances on the Company s cash equivalents and short-term investments, principally due to the $37,200,000 net payment to Ericsson made at the end of March 2007 (see Part II Item 1- Legal Proceedings). The increase in foreign currency gains is due to favorable exchange rates in 2007 as compared to 2006. The Company s exposure to market risk for fluctuations in foreign currency exchange rates relates primarily to the operations of Vicor Japan Co. Ltd. (VJCL) and changes in the dollar/yen exchange rate. In addition, the functional currency of the Company s subsidiaries in Europe and Hong Kong is the U.S. dollar. The decrease in minority interest in the net income of subsidiaries was due to lower income at certain minority interest entities.

Income before income taxes was $3,516,000 for the first nine months of 2007 compared to $8,622,000 for the same period in 2006.

In 2007, the tax provision is based on the estimated annual effective tax rate for 2007, which includes estimated federal, state and foreign income taxes on the Company s projected annual pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s consolidated income tax returns, and increases in accrued interest for potential liabilities, offset by the expected utilization of foreign net operating loss carryforwards and the release of certain valuation allowances related to temporary book versus tax differences. During the second quarter of 2007, the Company reversed approximately $300,000 of previously unidentified excess tax reserves identified during the quarter. The impact on the second quarter of 2007, as well as on prior periods, was not material. The expense was also offset by a discrete item of $169,000 representing refunds of interest received and recorded as a benefit during the first quarter of 2007 as final settlement related to the audit of the Company s federal tax returns for tax years 1994 though 2002 by the Internal Revenue Service and the reduction in the tax reserves discussed below. In 2006, the tax provision was based on an estimated annual effective tax rate for 2006, which included estimated federal, state and foreign income taxes on the Company s projected annual pre-tax income, estimated federal and state income taxes for certain minority-owned subsidiaries that are not part of the Company s

consolidated income tax returns, offset by the expected utilization of remaining net operating loss carryforwards and certain tax credit

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(Continued)

carryforwards. In the third quarter of 2007 and 2006, the Company reduced its tax reserves by $1,517,000 and $618,000, respectively, due to closing tax periods in certain jurisdictions and other tax reserves no longer considered necessary.

Loss from equity method investment (net of tax) increased $765,000 to $1,007,000 from $242,000 for the same period in 2006. This was principally due to the equity method investment in GWS being adjusted for a decline in value judged to be other than temporary of $620,000 in the second quarter and due to higher equity method investment losses allocated to the Company. As described in Note 6. to the condensed consolidated financial statements, the Company changed its method of accounting for its investment in GWS from the cost method to the equity method of accounting. As a result, the financial statements for the three and nine months ended September 30, 2006 and as of December 31, 2006 have been retroactively restated to reflect the equity method of accounting, in accordance with APB 18. The Company made an additional $1,000,000 investment in GWS in February 2008. The Company expects that it will take an impairment charge of approximately $700,000 in the first quarter of 2008 due to the additional investment.

Diluted income per share was $0.09 for the first nine months of 2007, compared to $0.19 for the first nine months of 2006.

Liquidity and Capital Resources

At September 30, 2007 the Company had $49,504,000 in unrestricted cash and cash equivalents. The ratio of current assets to current liabilities was 6.6:1 at September 30, 2007 compared to 2.8:1 at December 31, 2006. Working capital decreased $6,098,000 from $120,890,000 at December 31, 2006 to $114,792,000 at September 30, 2007.