

VICOR CORPORATION

# 2005 ANNUAL REPORT



# PRESIDENT'S LETTER



Productivity improvements restored profitability in 2005: net income of \$3,916,000, or \$.09 per diluted share compared to a net loss of \$3,723,000 or (\$.09) in 2004. Gross margin improved to 39.8% in 2005 from 36.9% in 2004 on an increase in revenues to \$179,351,000 from the prior year's \$171,580,000.

Since the burst of the telecom bubble, our margins have improved from a quarterly low of 23.6% in Q2, 2002 to 44.1% in Q1, 2006 on modest revenue growth. More significantly, we believe that the Company is now well positioned for future revenue growth and increased profitability.

Our Brick business unit has completed the transition of 2<sup>nd</sup> Gen products to the FasTrak platform. This has already delivered major improvements in yields, costs and margins, as we had anticipated. And while some of these steps have already made an initial contribution to improved financial performance, the remaining opportunity is substantial.

By streamlining our brick manufacturing operations and increasing productivity, we have created additional capacity with existing equipment in a large factory that is largely depreciated. Even though the brick technology foundation is mature, recent revenue growth is demonstrating that there is still opportunity for growth and strong financial performance. Moreover, beyond the life left in our brick power conversion technology, now 25 years old, there is great vitality in our Brick business model. With unique mass customization flexibility, we can offer greater value to a broad range of customers and applications. This high mix business model is bringing about increasing demand and, we believe, will enjoy a profitable future even after bricks give way to new generations of mass customized, configurable power products.

While expanding our customers outside of our telecom base and overcoming the technical challenges of transitioning bricks into a more cost-effective platform, we also reinvented the Company into 3 business units: Vicor, Picor and V•I Chip. With the burst of the telecom bubble, as the limits of our core technology and brick product strategy became clear, Picor and V•I Chip were conceived to enable new dimensions for growth based on a new, proprietary, disruptive technology platform: Factorized Power.

In its formative years, Picor's support mission has been to develop Application Specific Integrated Circuits (ASICs) that enable factorized power components, specifically Voltage

Transformation Modules (VTMs) and Pre-Regulator Modules (PRMs). Picor's ASICs are the chips that perform the essential control functions within VTMs and PRMs. Having performed its support mission, Picor is turning its focus to its primary mission; to leverage a shared foundation of control, power semiconductor and power processing technologies into the Picor brand of power management path and low power conversion products. Picor's planned products for the future are exciting and we expect them to be capable of supporting a substantial enterprise in power management.

With Picor's ASICs, we have developed a broad range of capabilities for DC input and AC input V•I Chips. These include low and high input voltage VTMs, low input voltage PRMs, VRMs (Voltage Regulator Modules) and PFMs (Power Factor Modules). Their performance has attracted the interest of blue chip customers and licensees in major electronic markets. Having completed the initial development of V•I Chips and transitioned into initial production, we are now combining a significant contingent of Vicor veterans with select talent hired from industries with complementary core competencies to form a new subsidiary: V•I Chip. V•I Chip's planned products for the future are exciting, and we expect them to be capable of supporting a substantial enterprise in power components. By overcoming the limitations of bricks — the first manifestation of power components — V•I Chip's products have the potential of being the universal standard building blocks of future power systems.

In Vicor, Picor and V•I Chip we see independent prospects for an exciting future. We have strengthened the ranks of these organizations to make the most of business opportunities enabled by a shared, proprietary technological foundation. And, to achieve operational excellence, we have empowered leadership teams capable of tackling their respective tasks. While much remains to be done, we have built solid foundations for an exciting and prosperous future.

A handwritten signature in black ink, reading 'Patrizio Vinciarelli'.

Patrizio Vinciarelli  
President and Chairman of the Board  
April 30, 2006

## CORPORATE PROFILE

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

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

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

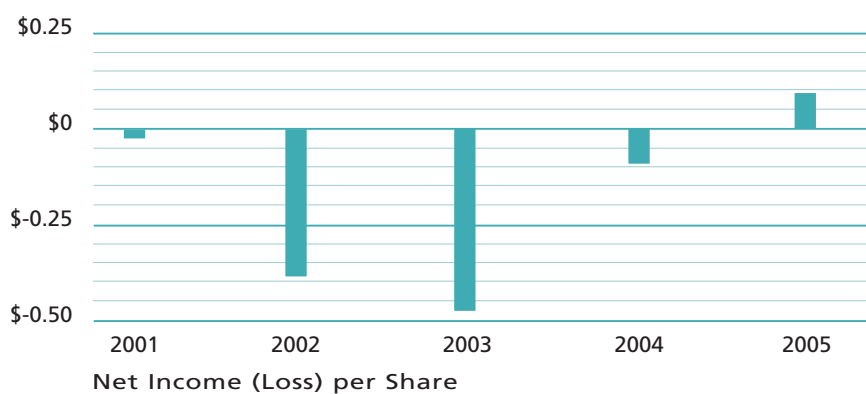
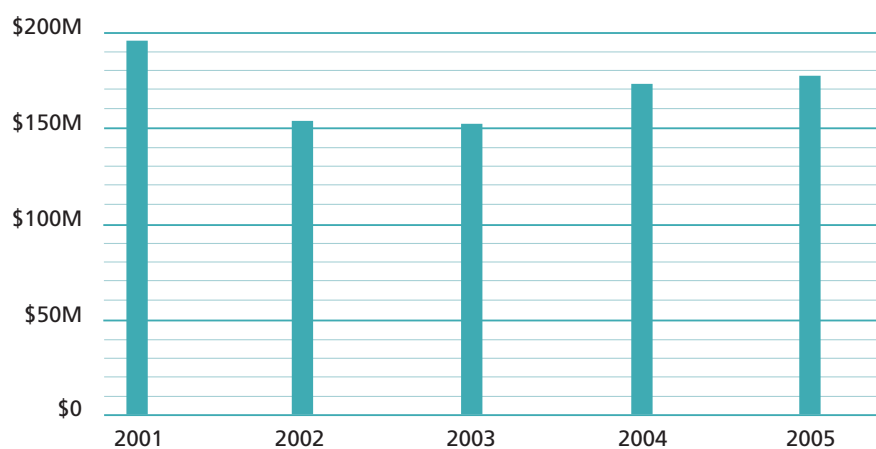
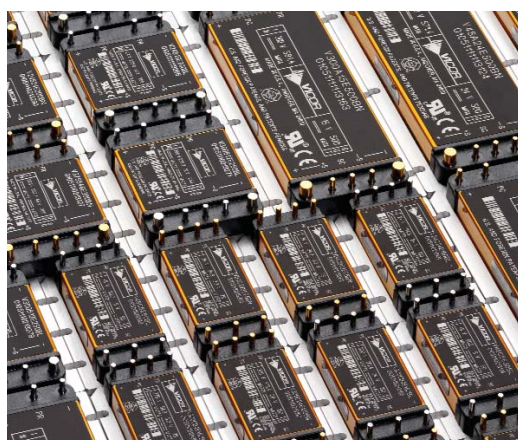


## 2001-2005

# FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

	2001	2002	2003	2004	2005
Net Revenues	\$195,910	\$152,591	\$151,421	\$171,580	\$179,351
Income (Loss) from Operations	(5,017)	(24,502)	(25,703)	(4,035)	3,380
Net Income (Loss)	(559)	(15,942)	(19,535)	(3,723)	3,916
Net Income (Loss) Per Share, Diluted	(0.01)	(0.38)	(0.47)	(0.09)	0.09
Weighted Average Shares, Diluted	42,342	42,337	41,896	42,022	42,089
Working Capital	153,478	153,167	141,547	148,419	150,385
Total Assets	289,622	278,445	251,464	244,882	245,755
Total Liabilities	24,785	30,412	24,806	24,259	28,965
Stockholders' Equity	\$264,837	\$248,033	\$226,658	\$220,623	\$216,790
Return on Average Equity	(0.2%)	(6.2%)	(8.2%)	(1.7%)	1.8%



# CORPORATE OFFICERS

## **Mark A. Glazer**

*Chief Financial Officer, Treasurer and Secretary*

## **H. Allen Henderson**

*Vice President, Vicor Corporation  
President, Westcor Division*

## **Barry Kelleher**

*Senior Vice President, Global Operations and  
General Manager of the Brick Business Unit*

## **Douglas W. Richardson**

*Vice President, Chief Information Officer*

## **Patrizio Vinciarelli**

*Chairman of the Board,  
President and Chief Executive Officer*

## **Richard E. Zengilowski**

*Vice President, Human Resources*

## **COMMON STOCK**

*Vicor shares are traded on  
The NASDAQ Stock Market®  
under the symbol "VICR".*

## **TRANSFER AGENT**

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

# BOARD OF DIRECTORS

## **Samuel J. Anderson**

*President and Chief Executive Officer,  
Great Wall Semiconductor*

## **M. Michael Ansour <sup>a,c</sup>**

*Managing Member, March Partners LLC*

## **Estia J. Eichten <sup>a,c</sup>**

*Senior Scientist,  
Fermi National Accelerator Laboratory*

## **Barry Kelleher**

*Senior Vice President, Vicor Corporation*

## **Joseph W. Kelly <sup>a</sup>**

*General Partner, Shanghai Venture Partners  
Chief Financial Officer, Ivrea Pharmaceuticals, Inc.*

## **Jay M. Prager**

*Independent Consultant, Product Development  
and Intellectual Property and formerly Senior Vice  
President, Technology of Vicor Corporation*

## **David T. Riddiford <sup>a,c</sup>**

*General Partner, PR Venture Partners, L.P.*

## **Patrizio Vinciarelli**

*Chairman of the Board,  
President and Chief Executive Officer*

## **COUNSEL**

*Goodwin Procter LLP  
Boston, Massachusetts*

## **AUDITORS**

*Ernst & Young LLP  
Boston, Massachusetts*

## **FORM 10-K**

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

<sup>a</sup> Audit Committee

<sup>c</sup> Compensation Committee

This report contains certain forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. You can identify these statements by our use of the words "may," "will," "would," "should," "plans," "expects," "anticipates," "believes," "is designed to," "continue," "estimate," "prospective," "project," "intend," "assumes," and other similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. These risks and uncertainties include our ability to develop and market new products and technologies cost-effectively, to leverage design wins into increased product sales, 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 build our business units, 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, including Consumer Electronics, Information Technology and Automotive, as well as those risks and uncertainties identified in the Company's Annual Report on Form 10-K.

You should read the risk factors that are set forth in the Company's most recent Form 10-K, a copy of which is enclosed. However, the risk factors contained in that Form 10-K may not be exhaustive. Therefore, we recommend that you read the information in that Form 10-K together with other reports and documents that we file with the SEC from time to time, including our Forms 10-Q and 8-K and Proxy Statements, which may supplement, modify, supersede or update those risk factors. Copies of the Company's recent SEC filings may be obtained without charge by contacting Investor Relations or through the Investor Relations section of the Company's website at [vicorpower.com](http://vicorpower.com) under the section titled "SEC Filings".



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[vicorpower.com](http://vicorpower.com)