Murphy Michael R
Form 4
February 14, 2007

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Discovery Group I, LLC

(Last) (First) (Middle)

191 N. WACKER DRIVE SUITE 1685,

(Street)

CHICAGO, IL 60606

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TESSCO TECHNOLOGIES INC [TESS]

3. Date of Earliest Transaction (Month/Day/Year)
02/12/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/12/2007		S		17,805 (1)	D	$ 26.5416	680,932	I	Discovery Equity Partners, L.P. (1)
Common Stock	02/12/2007		S		3,909 (2)	D	$ 26.5416	677,023	I	Pleiades Investment Partners - D, L.P. (2)
Common Stock	02/13/2007		S		11,635 (1)	D	$ 27.957	665,388	I	Discovery Equity Partners,

									L.P. (1)
Common Stock	02/13/2007		S		2,551 (2)	D	$ 27.957	662,837	I	Pleiades Investment Partners - D, L.P. (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Discovery Group I, LLC 191 N. WACKER DRIVE SUITE 1685 CHICAGO, IL 60606		X		
Donoghue Daniel J C/O DISCOVERY GROUP I, LLC 191 N. WACKER DRIVE SUITE 1685 CHICAGO, IL 60606		X		
Murphy Michael R C/O DISCOVERY GROUP I, LLC 191 N. WACKER DRIVE SUITE 1685 CHICAGO, IL 60606		X		

Signatures

Michael R. Murphy, Managing Director	02/14/2007
**Signature of Reporting Person	Date
Daniel J. Donoghue	02/14/2007
**Signature of Reporting Person	Date
Michael R. Murphy	02/14/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Discovery Group I, LLC is the General Partner of Discovery Equity Partners, L.P., which is a discretionary client of the reporting person, that owns the reported securities. The reporting person disclaims beneficial ownership of the reported securities except to the extent of its pecuniary interest therein.

(2) Discovery Group I, LLC is an investment manager for Pleiades Investment Partners - D, L.P., which is a discretionary client of the reporting person, that owns the reported securities. The reporting person disclaims beneficial ownership of the reported securities except to the extent of its pecuniary interest therein.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ALIGN="bottom" ALIGN="right">(270) (1,104)

Sales and maturities of investments

1,024 3,630 11,142

Additions to property, plant and equipment

(6,179) (7,396) (7,466)

Proceeds from sale of equipment

26 33 10

Decrease (increase) in other assets

49 (81) (55)

Net cash (used for) provided by investing activities

(5,080) (4,084) 2,527

Financing activities:

Purchases of Common Stock

(17,100)

Proceeds from issuance of Common Stock

27 9 452

Common Stock dividends paid

(6,272)

Noncontrolling interest dividends paid

(531) (378) (690)

Excess (reversal) tax benefit of share-based compensation

(451) 105 133

Net cash used in financing activities

Explanation of Responses:

(18,055) (264) (6,377)

Effect of foreign exchange rates on cash

(390) (244) 72

Net (decrease) increase in cash and cash equivalents

(28,215) 12,646 22,629

Cash and cash equivalents at beginning of period

84,554 71,908 49,279

Cash and cash equivalents at end of period

Explanation of Responses:

$56,339 $84,554 $71,908

Change in assets and liabilities:

Accounts receivable

$(821) $4,052 $7,546

Inventories, net

33 5,591 (162)

Other current assets

(1,647) 380 (224)

Accounts payable and accrued liabilities

4,580 (1,670) (3,861)

Accrued severance charges

49

Income taxes payable

(321) (84) 324

Deferred revenue

234 (410) 505

$2,107 $7,859 $4,128

Supplemental disclosures:

Cash paid during the year for income taxes, net of refunds

$(61) $975 $4,178

See accompanying notes.

VICOR CORPORATION

CONSOLIDATED STATEMENTS OF EQUITY

Years Ended December 31, 2013, 2012 and 2011

(In thousands)

	Class B Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Vicor Corporation Stockholders Equity	Noncontrolling Interest	Total Equity
Balance on December 31, 2010	$ 118	$ 385	$ 163,933	$ 133,791	$ (1,369)	$ (121,827)	$ 175,031	$ 3,981	$ 179,012
Sales of Common Stock		2	491				493		493
Common Stock dividends paid				(6,272)			(6,272)		(6,272)
Noncontrolling interest dividends paid								(690)	(690)
Excess tax benefit of stock-based compensation			133				133		133
Stock-based compensation expense			1,567				1,567		1,567
Liability stock option awards reclassified to equity			103				103		103
Components of comprehensive income, net of tax									
Net income				8,843			8,843	466	9,309
Other comprehensive income					1,047		1,047	8	1,055
Total comprehensive income							9,890	474	10,364
Balance on December 31, 2011	118	387	166,227	136,362	(322)	(121,827)	180,945	3,765	184,710
Sales of Common Stock		3	9				12		12
Noncontrolling interest dividends paid								(378)	(378)
Excess tax benefit of stock-based compensation			105				105		105
Stock-based compensation expense			1,244				1,244		1,244
Net settlement stock option exercises			(87)				(87)		(87)
Components of comprehensive income, net of tax									
Net income (loss)				(4,077)			(4,077)	279	(3,798)
Other comprehensive income (loss)					210		210	(45)	165
Total comprehensive income (loss)							(3,867)	234	(3,633)
Balance on December 31, 2012	118	390	167,498	132,285	(112)	(121,827)	178,352	3,621	181,973
Sales of Common Stock		2	25				27		27
Noncontrolling interest dividends paid								(531)	(531)
Reversal of excess tax benefit of stock-based compensation			(451)				(451)		(451)
Stock-based compensation expense			2,450				2,450		2,450
Net settlement stock option exercises			(48)				(48)		(48)
Purchase of treasury stock						(17,100)	(17,100)		(17,100)
Components of comprehensive income, net of tax									

Net income (loss)				(23,640)			(23,640)	136	(23,504)
Other comprehensive loss					(414)		(414)	(65)	(479)
Total comprehensive income (loss)							(24,054)	71	(23,983)
Balance on December 31, 2013	$ 118	$ 392	$ 169,474	$ 108,645	$ (526)	$ (138,927)	$ 139,176	$ 3,161	$ 142,337

See accompanying notes.

44

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Vicor Corporation (the Company or Vicor) designs, develops, manufactures and markets modular power converters, power system components, and power systems. The Company also licenses certain rights to its technology in return for ongoing royalties. The principal markets for the Company s power converters and systems are large Original Equipment Manufacturers and their contract manufacturers, and smaller, lower volume users which are broadly distributed across several major market areas.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation. Certain of the Company s Vicor Custom Power entities are not majority owned by the Company. These entities are consolidated by the Company as management believes that the Company has the ability to exercise control over their activities and operations.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates relate to the useful lives of fixed assets and identified intangible assets, recoverability of long-lived assets, fair value of long-term investments, allowances for doubtful accounts, the net realizable value of inventory, potential reserves relating to litigation matters, accrued liabilities, accrued taxes, deferred tax valuation allowances, assumptions pertaining to share-based payments and other reserves. Actual results could differ from those estimates, and such differences may be material to the financial statements.

Revenue recognition

Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determinable, and collection is considered probable.

The Company defers revenue and the related cost of sales on shipments to certain distributors until the distributors resell the products to their customers, based on distribution partnerships with two leading electronic components distributors. The agreements with these distributors allow the distributors to receive price adjustment credits to return qualifying products for credit, as determined by the Company, in order to reduce the amounts of slow-moving, discontinued or obsolete product from their inventory. Distributors are also granted price adjustment credits in the event of a price decrease subsequent to the date the product was shipped and billed to the distributor. Given the uncertainties associated with the levels of price adjustment credits to be granted to distributors, the sales price to the distributor is not fixed or determinable until the distributor resells the products to their customers. Therefore, the Company defers revenue and the related cost of sales on shipments to distributors until the distributors resell the products to their customers and so the Company s revenue fully reflects end customer purchases and is not impacted by distributor inventory levels. These agreements limit such returns to a certain percentage of the value of the Company s shipments to that distributor during the prior quarter. In addition, distributors are allowed to return unsold products if the Company terminates the relationship with the distributor. Title to the inventory transfers to the distributor at the time of shipment or delivery to the distributor, and payment from the distributor is due in accordance with the Company s standard payment terms. These payment terms are not contingent upon the distributors sale of the products to their customers. Upon title

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

transfer to distributors, inventory is reduced for the cost of goods shipped, the margin (sales less cost of sales) is recorded as deferred revenue and an account receivable is recorded. As of December 31, 2013, the Company had gross deferred revenue of approximately $1,269,000 and gross deferred cost of revenues of approximately $516,000 under these agreements. As of December 31, 2012, the Company had gross deferred revenue of approximately $625,000 and gross deferred cost of revenues of approximately $249,000 under these agreements.

The Company evaluates revenue arrangements with potential multi-element deliverables to determine if there is more than one unit of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there are no customer-negotiated refund or return rights for the undelivered elements. The Company enters into arrangements containing multiple elements which may include a combination of non-recurring engineering services (NRE), prototype units and production units. The Company has determined that the NRE and prototype units represent one unit of accounting and the production units a separate unit of accounting, based on an assessment of the respective standalone value. The Company defers revenue recognition for the NRE and prototype units until completion of the final milestone under the NRE arrangement, which is generally the delivery of the prototype. Recognition generally takes place within six to twelve months of the initiation of the arrangement. Revenue for the production units is recognized upon shipment, as for product revenue summarized above. During 2013, 2012 and 2011, revenue recognized under multi-element arrangements accounted for less than 3% of net revenues.

License fees are recognized as earned. The Company recognizes revenue on such arrangements only when the contract is signed, the license term has begun, all obligations have been delivered to the customer, and collection is probable.

Foreign currency translation

The financial statements of Vicor Japan Company, Ltd. (VJCL), a majority owned subsidiary, for which the functional currency is the Japanese yen, have been translated into U.S. dollars using the exchange rate in effect at the balance sheet date for balance sheet amounts and the average exchange rates in effect during the year for income statement amounts. The gains and losses resulting from the changes in exchange rates from year to year have been reported in other comprehensive income.

Transaction gains and losses and translation gains (losses) resulting from the remeasurement of foreign currency denominated assets and liabilities of the Company s foreign subsidiaries where the functional currency is the U.S. dollar are included in other income, net. Foreign currency losses included in other income, net, were approximately ($94,000), ($46,000), and ($326,000) in 2013, 2012 and 2011, respectively.

Cash and cash equivalents

Cash and cash equivalents include funds held in checking and money market accounts, certificates of deposit and debt securities with maturities of less than three months at the time of purchase. Cash and cash equivalents are valued at cost which approximates market value. The Company s money market securities, which are classified as cash equivalents on the balance sheet, are purchased and redeemed at par. The estimated fair value is equal to the cost of the securities and due to the nature of the securities there are no unrealized gains or losses at the balance sheet dates.

Short-term and long-term investments

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

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s short-term and long-term investments are classified as 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 Total Equity. In determining the amount of credit loss, the Company compares 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.

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, the net amount of which, along with interest and realized gains and losses, is included in Other income, net in the 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.

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 that 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:

Level 1	Inputs used to measure fair value are unadjusted quoted prices available in active markets for the identical assets or liabilities as of the reporting date.
Level 2	Inputs used to measure fair value, other than quoted prices included in Level 1, are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in inactive markets. Level 2 also includes assets and liabilities valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.
Level 3	Inputs used to measure fair value are unobservable inputs supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management s estimates of market participant assumptions.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these financial instruments.

Allowance for doubtful accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments, based on assessments of customers credit-risk profiles and payment histories. If the financial condition of the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company does not require collateral from its customers.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories

Inventories are valued at the lower of cost (determined using the first-in, first-out method) or net realizable value. Fixed production overhead is allocated to the inventory cost per unit based on the normal capacity of the production facilities. Abnormal production costs, including fixed cost variances from normal production capacity, if any, are charged to cost of revenues in the period incurred. All shipping and handling costs incurred in connection with the sale of products are included in cost of revenues.

The Company s estimation process for assessing net realizable value is based upon its known backlog, projected future demand, historical usage and expected market conditions. If the Company s estimated demand and/or market expectation were to change or if product sales were to decline, the Company s estimation process may cause larger inventory reserves to be recorded, resulting in larger charges to cost of revenues.

Concentrations of risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short-term and long-term investments, and trade accounts receivable. The Company maintains cash and cash equivalents and certain other financial instruments with various large financial institutions. Generally, amounts invested with these financial institutions are in excess of FDIC insurance limits. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to significant credit risk. The Company s short-term and long-term investments consist of highly rated (Aaa/AA+/A3/BBB) municipal and corporate debt securities in which a significant portion are invested in auction rate securities. As of December 31, 2013, the Company was holding a total of approximately $6,000,000 in auction rate securities, all of which are collateralized by student loans. Through December 31, 2013, auctions held for all of the Company s auction rate securities have failed. The funds associated with auction rate securities that have failed auction may not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the security is called, or the underlying securities have matured. If the credit rating of the issuer of any auction rate security held deteriorates, the Company may be required to adjust the carrying value of the investment for an other-than-temporary decline in value through an impairment charge. The Company s investment policy, approved by the Board of Directors, limits the amount the Company may invest in any issuer, thereby reducing credit risk concentrations.

The Company s products are sold worldwide to customers ranging from smaller, independent manufacturers of highly specialized electronic devices to larger original equipment manufacturers (OEMs) and their contract manufacturers. The applications in which these products are used are in the higher-performance, higher-power segments of the power systems market, including, in alphabetical order, aerospace and defense electronics, enterprise and high performance computing, industrial automation, telecommunications and networking infrastructure, test and measurement instrumentation, and vehicles and transportation. While, overall, the Company has a broad customer base and sells into a variety of industries, the Company s VI Chip subsidiary has derived a substantial portion of its revenue from one customer and the Company s Picor subsidiary has derived a substantial portion of its revenue from a limited number of customers. This concentration of revenue is a reflection of the relatively early stage of adoption of the technologies, architectures and products offered by these subsidiaries, and their targeting of market leading innovators as initial customers. Concentrations of credit risk with respect to trade accounts receivable are limited due to the number of entities comprising the Company s customer base. As of December 31, 2013, two customers accounted for approximately 12.9% and 12.5% of trade account receivables, respectively. For the year ended December 31, 2012, two customers accounted for approximately 12.7% and 10.6% of trade account receivables, respectively. Credit losses have consistently been within management s expectations.

During 2013, two customers accounted for approximately 10.9% and 10.1% of net revenues, respectively. During 2012, one customer accounted for approximately 10.1% of net revenues. During 2011, one customer

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accounted for approximately 14.9% of net revenues. International sales, based on customer location, as a percentage of total net revenues, were approximately 59.5% in 2013 and 51.1% in 2012 and 56.9% in 2011, respectively. During 2013, net revenues from customers in Hong Kong and China accounted for approximately 16.2% and 11.3%, respectively, of total net revenues. Net revenues from customers in Hong Kong and Taiwan accounted for approximately 12.5% and 9.0%, respectively, of total net revenues in 2012, and 11.8% and 15.3%, respectively, of total net revenues in 2011.

Components and materials used in the Company s products are purchased from a variety of vendors. While most of the components are available from multiple sources, some key components for certain VI Chip and Picor products, in particular, are supplied by single vendors. In instances of single source items, the Company maintains levels of inventories management consider to be appropriate to enable meeting the delivery requirements of customers. If suppliers or subcontractors cannot provide their products or services on time or to the required specifications, the Company may not be able to meet the demand for its products and its delivery times may be negatively affected.

Long-lived assets

The Company reviews property, plant and equipment and finite lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. Management determines whether the carrying value of an asset or asset group is recoverable based on comparison to the undiscounted expected future cash flows the assets are expected to generate over their remaining economic lives. If an asset is not recoverable, the impairment loss is equal to the amount by which the carrying value of the asset exceeds its fair value, which is determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. Evaluation of impairment of long-lived assets requires estimates of future operating results that are used in the preparation of the expected future undiscounted cash flows. Actual future operating results and the remaining economic lives of our long-lived assets could differ from the estimates used in assessing the recoverability of these assets. These differences could result in impairment charges, which could have a material adverse impact on the Company s results of operations.

Goodwill and other intangible assets

Goodwill is subject to an annual impairment test, at the reporting unit level, or more frequently if indicators of potential impairment exist. The Company performs the annual test in the fourth quarter. While a qualitative option is available, the performance of the quantitative test involves a two-step process. The first step of the impairment test involves comparing the fair values of the reporting unit with its carrying value, including goodwill. The Company generally determines the fair value of the reporting unit using the income approach methodology of valuation that includes the discounted cash flow method, as well as other generally accepted valuation methodologies, which requires significant judgment by management. If the carrying amount of the reporting unit exceeds the reporting unit s fair value, management performs the second step of the goodwill impairment test to determine the amount of the impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit s goodwill with the carrying value of that goodwill. The amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. These impairment tests may result in impairment losses that could have a material adverse impact on the Company s results of operations.

Values assigned to patents are amortized using the straight-line method over periods ranging from three to twenty years.

Goodwill and other intangible assets are included in Other assets in the accompanying Consolidated Balance Sheets.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other investments

The Company accounts for its investment in Great Wall Semiconductor Corporation (GWS) under the equity method of accounting.

Advertising expense

The cost of advertising is expensed as incurred. The Company incurred $1,884,000, $1,910,000 and $1,645,000 in advertising costs during 2013, 2012 and 2011, respectively.

Product warranties

The Company generally offers a two-year warranty for all of its products. The Company provides for the estimated cost of product warranties at the time product revenue is recognized. Factors that affect the Company s warranty reserves include the number of units sold, historical and anticipated rates of warranty returns and the cost per return. The Company periodically assesses the adequacy of the warranty reserves and adjusts the amounts as necessary. Warranty obligations are included in Accrued expenses in the accompanying Consolidated Balance Sheets.

Legal costs

Legal costs in connection with litigation are expensed as incurred.

Net income (loss) per common share

The Company computes basic earnings per share using the weighted average number of common shares outstanding and diluted earnings per share using the weighted average number of common shares outstanding plus the effect of outstanding dilutive stock options, if any. The following table sets forth the computation of basic and diluted income (loss) per share for the years ended December 31 (in thousands, except per share amounts):

	2013	**2012**	**2011**
Numerator:			
Net income (loss) attributable to Vicor Corporation	$ (23,640)	$ (4,077)	$ 8,843
Denominator:			
Denominator for basic income (loss) per share-weighted average shares (1)	39,195	41,811	41,797
Effect of dilutive securities:			
Employee stock options (2)			59
Denominator for diluted income (loss) per share adjusted weighted-average shares and assumed conversions (3)	39,195	41,811	41,856
Basic income (loss) per share	$ (0.60)	$ (0.10)	$ 0.21
Diluted income (loss) per share	$ (0.60)	$ (0.10)	$ 0.21

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

(2) Options to purchase 1,989,248, 545,345, and 305,268 shares of Common Stock in 2013, 2012, and 2011, respectively, were not included in the calculation of net income (loss) per share as the effect would have been antidilutive.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Denominator represents weighted average number of Common Shares and Class B Common Shares outstanding for the year, adjusted to include the dilutive effect, if any, of outstanding options.

Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. Additionally, deferred tax assets and liabilities are separated into current and noncurrent amounts based on the classification of the related assets and liabilities for financial reporting purposes or the expected reversal.

The Company follows 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. Additionally, the Company accrues interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The unrecognized tax benefits, including accrued interest and penalties, if any, are included in Long-term income taxes payable in the accompanying Consolidated Balance Sheets.

Stock-based compensation

The Company uses the Black-Scholes option-pricing model to calculate the grant-date fair value of stock option awards. The resulting compensation expense, net of expected forfeitures, for non performance-based stock options is recognized on a straight-line basis over the service period of the award, which is generally five years for stock options. For stock options with performance-based vesting provisions, recognition of compensation expense, net of expected forfeitures, commences if and when the achievement of the performance criteria is deemed probable. The compensation expense, net of expected forfeitures, for performance-based stock options is recognized over the relevant performance period.

Comprehensive income (loss)

The components of comprehensive income (loss) include, in addition to net income (loss), unrealized gains and losses on investments, net of tax and foreign currency translation adjustments related to VJCL, net of tax.

Impact of recently issued accounting standards

In July 2013, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting guidance related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. This guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2013. The Company is currently evaluating the potential impact of the adoption of this guidance on its consolidated financial statements.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

Vicor currently grants stock options under the following equity compensation plans that are shareholder-approved:

Amended and Restated 2000 Stock Option and Incentive Plan (the Vicor 2000 Plan) Under the Vicor 2000 Plan, the Board of Directors or the Compensation Committee of the Board of Directors may grant stock incentive awards based on the Company s Common Stock, including stock options, stock appreciation rights, restricted stock, performance shares, unrestricted stock, deferred stock and dividend equivalent rights. Awards may be granted to employees and other key persons, including non-employee directors. Incentive stock options may be granted to employees at a price at least equal to the fair market value per share of the Common Stock on the date of grant, and non-qualified options may be granted to non-employee directors at a price at least equal to 85% of the fair market value of the Common Stock on the date of grant. A total of 4,000,000 shares of Common Stock have been reserved for issuance under the Vicor 2000 Plan. The period of time during which an option may be exercised and the vesting periods are determined by the Compensation Committee. The term of each option may not exceed ten years from the date of grant.

1998 Stock Option and Incentive Plan (the Vicor 1998 Plan) The Vicor 1998 Plan permitted the grant of share options to its employees and other key persons, including non-employee directors for the purchase of up to 2,000,000 shares of common stock. As a result of the approval of the Vicor 2000 Plan, no further grants were made under the Vicor 1998 Plan.

Picor Corporation (Picor), a privately held majority-owned subsidiary of Vicor, currently grants stock options under the following equity compensation plan that has been approved by its Board of Directors:

2001 Stock Option and Incentive Plan, as amended (the 2001 Picor Plan) Under the 2001 Picor Plan, the Board of Directors of Picor may grant stock incentive awards based on the Picor Common Stock, including stock options, restricted stock or unrestricted stock. Awards may be granted to employees and other key persons, including non-employee directors and full or part-time officers. Incentive stock options may be granted to employees at a price at least equal to the fair market value per share of the Picor Common Stock, based on judgments made by the Company, on the date of grant. A total of 20,000,000 shares of Picor Common Stock have been reserved for issuance under the 2001 Picor Plan. The period of time during which an option may be exercised and the vesting periods are determined by the Picor Board of Directors. The term of each option may not exceed ten years from the date of grant.

VI Chip Corporation (VI Chip), a privately held majority-owned subsidiary of Vicor, currently grants stock options under the following equity compensation plan that has been approved by its Board of Directors:

2007 Stock Option and Incentive Plan, as amended (the 2007 VI Chip Plan) Under the 2007 VI Chip Plan, the Board of Directors of VI Chip may grant stock incentive awards based on the VI Chip Common Stock, including stock options, restricted stock or unrestricted stock. Awards may be granted to employees and other key persons, including non-employee directors and full or part-time officers. Incentive stock options may be granted to employees at a price at least equal to the fair market value per share of the VI Chip Common Stock, based on judgments made by the Company, on the date of grant. A total of 12,000,000 shares of VI Chip Common Stock have been reserved for issuance under the 2007 VI Chip Plan. The period of time during which an option may be exercised and the vesting periods are determined by the VI Chip Board of Directors. The term of each option may not exceed ten years from the date of grant.

All non performance-based option awards are granted at an exercise price equal to or greater than the market price for Vicor at the date of the grant, and are granted at a price equal to or greater than the estimated fair value for both Picor and VI Chip based on a discounted cash flow model, at the date of grant. Options generally vest

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

over various periods of up to six years and may be exercised for up to 10 years from the date of grant, which is the maximum contractual term. The Company uses both the graded attribution and straight-line method to recognize expense for stock-based awards.

On May 17, 2013, the Company commenced an offer (the Exchange Offer) to its employees and directors to exchange certain outstanding options to purchase shares of the Company s common stock granted under the Company s Amended and Restated 2000 Stock Option and Incentive Plan, as amended (the 2000 Plan), on a one-for-one basis, for replacement options to purchase shares of common stock, to be granted under the Company s 2000 Plan (the Option Exchange). All outstanding options under the 2000 Plan granted to employees and directors prior to January 1, 2013, whether or not vested, were eligible for the Option Exchange (Eligible Options). Eligible Options included those options with time-based vesting provisions (Time-Based Eligible Options) and those options with performance-based vesting provisions tied to the achievement of certain quarterly revenue targets by the Company s Brick Business Unit (Performance-Based Eligible Options). Options for the purchase of shares of common stock of the Company s subsidiaries, VI Chip Corporation and Picor Corporation, were not eligible for the Option Exchange.

Pursuant to the Exchange Offer, which expired June 17, 2013 (the Offer Expiration Date), 638 eligible participants tendered, and the Company accepted for exchange, options to purchase an aggregate of 1,531,077 shares of the Company s common stock, representing approximately 91% of Eligible Options. Upon acceptance, the tendered options were cancelled, and the Company granted an equivalent number of new options (the Replacement Options) under the 2000 Plan. All Replacement Options vest over five years, have a 10 year term, and have terms substantially similar to other time-based vesting options awarded under the 2000 Plan. Replacement Options granted in exchange for Time-Based Eligible Options have an exercise price equal to $6.29 (being 120% of the last reported sale price per share of the Company s common stock on the NASDAQ on the Offer Expiration Date). Replacement Options granted in exchange for Performance-Based Eligible Options have an exercise price equal to (i) $6.29 (being 120% of the last reported sale price per share of the Company s common stock on the NASDAQ on the Offer Expiration Date) with respect to Replacement Options that vest on or prior to the first anniversary of the Offer Expiration Date; (ii) $7.34 (being 140% of the last reported sale price per share of the Company s common stock on the NASDAQ on the Offer Expiration Date) with respect to Replacement Options that vest after the first anniversary of the Offer Expiration Date but on or prior to the second anniversary of the Offer Expiration Date; (iii) $8.38 (being 160% of the last reported sale price per share of the Company s common stock on the NASDAQ on the Offer Expiration Date) with respect to Replacement Options that vest after the second anniversary of the Offer Expiration Date but on or prior to the third anniversary of the Offer Expiration Date; (iv) $9.43 (being 180% of the last reported sale price per share of the Company s common stock on the NASDAQ on the Offer Expiration Date) with respect to Replacement Options that vest after the third anniversary of the Offer Expiration Date but on or prior to the fourth anniversary of the Offer Expiration Date; and (v) $10.48 (being 200% of the last reported sale price per share of the Company s common stock on the NASDAQ on the Offer Expiration Date) with respect to Replacement Options that vest after the fourth anniversary of the Offer Expiration Date.

For financial reporting purposes, the exchange of Time-Based Eligible Options for Replacement Options was considered a modification of both the exercise price and the vesting terms of the cancelled options. The accounting for these modifications resulted in total incremental expense of approximately $365,000, which, combined with the remaining unrecognized expense from the original grant date value of approximately $318,000, will be recognized over the associated service period (i.e., the five year vesting period) for each new vesting tranche. Because the Company had not previously recorded stock-based compensation expense for the Performance-Based Eligible Options, as the Company determined it was not probable the Brick Business Unit would meet the revenue targets required to trigger vesting of such options, the exchange of Replacement Options for Performance-Based Eligible Options has been accounted for as the grant of new options as of June 17, 2013, the Offer Expiration Date. As referenced above, because these Replacement Options have five different exercise

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prices (i.e., an increasing exercise price for each of the five different vesting periods, each with a different term to expiration), the value of such Replacement Options, calculated using the Black-Scholes methodology, was based on the assumption each vesting tranche represented a distinct instrument. The resulting total expense of approximately $2,300,000 will be recognized over the associated service period for each vesting tranche, as if the grant were, in substance, five grants of distinct instruments with different exercise prices and different, sequentially shorter, terms to expiration. The unrecognized compensation expense for these Replacement Options was approximately $1,765,000 as of December 31, 2013.

Under the retirement provisions of the 2000 Plan and the option agreements applicable to the Replacement Options, the Company records all stock-based compensation expense for an option grant by the earlier of (a) the end of the associated service period (i.e., the vesting period) or (b) by age 62.5 of the employee or director to whom the options were awarded. Because of the age of certain recipient employees and directors, a number of Replacement Options granted were subject to immediate recognition of the associated total stock-based compensation expense. Accordingly, as a result of the Option Exchange, the Company recorded stock-based compensation expense during the second quarter of 2013 of approximately $625,000, of which approximately $450,000 was the result of immediate expense recognition due to the age of the recipient employee or director.

Separate from the Option Exchange, on May 14, 2013, the Company awarded options to purchase, at an exercise price of $5.35 per share, an aggregate of 150,000 shares of common stock, under the 2000 Plan, to certain officers. In addition, on June 21, 2013, the Company awarded options to purchase, at an exercise price of $5.67 per share, an aggregate of 70,552 shares of common stock, under the 2000 Plan, to directors as a component of their annual compensation. The total stock-based compensation expense recognized during the second quarter of 2013 for these awards was approximately $208,000, of which approximately $190,000 was the result of immediate expense recognition due to the age of the recipient officer or director.

During the third quarter of 2010, the Company granted an aggregate of 1,243,750 Performance-Based Eligible Options. Based on the final results of the Option Exchange, a total of 66,000 of these Performance-Based Eligible Options remain outstanding as of December 31, 2013. Under the accounting rules for performance-based awards, the Company is required to assess, on an ongoing basis, the probability of whether the performance criteria will be achieved. If and when achievement is deemed probable, the Company will begin to recognize the associated compensation expense for the remaining stock options over the relevant performance period. As of December 31, 2013, the Company determined it was not probable the revenue targets would be achieved and, accordingly, has not recorded any compensation expense relating to these options since the grant date. The unrecognized compensation expense of these performance-based options was approximately $413,000 as of December 31, 2013.

On December 31, 2010, the Company granted 2,984,250 non-qualified stock options under the VI Chip 2007 Stock Option and Incentive Plan with performance-based vesting provisions tied to achievement of certain margin targets by the VI Chip subsidiary. As of December 31, 2010, the Company determined it was probable the margin targets would be achieved and, accordingly, began recording stock-based compensation expense relating to these options beginning January 1, 2011. This determination remains the same as of December 31, 2013 and, accordingly, expense has been recorded through that date. The unrecognized compensation expense for these performance-based options was approximately $727,000 as of December 31, 2013.

Stock-based compensation expense for the years ended December 31 was as follows (in thousands):

	2013	2012	2011
Cost of revenues	$ 163	$ 45	$ 68
Selling, general and administrative	1,942	864	1,188
Research and development	345	335	667
Total stock based compensation	$ 2,450	$ 1,244	$ 1,923

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The increase in stock-based compensation expense in 2013 compared to 2012 was primarily due to the Option Exchange, described above.

During 2013, 2012, and 2011, the Picor Board of Directors (the Picor Board) authorized different alternatives of net settlement to holders of Picor stock options in the tenth and final year of their respective terms. In addition, during the third quarter of 2011, the Picor Board approved an offer to repurchase up to 1,142,000 shares of Picor Common Stock from a limited number of holders who purchased these shares via exercise before October 31, 2011. As a result, the Company accrued $368,000 in the third quarter of 2011, representing the maximum repurchase obligation to these holders assuming all holders sold their shares. This resulted in additional stock-based compensation expense of $169,000 and $132,000 in Selling, general and administrative and Research and development expense, respectively, along with a charge of $67,000 against Additional paid-in-capital, in the third quarter of 2011. During the fourth quarter of 2011, the Company accounted for those options for which repurchase was ultimately not elected by the holder, reducing the accrual by $106,000, with the offset to Picor s additional paid-in capital.

The fair value for the options was estimated at the date of grant using a Black-Scholes option pricing model under all methods with the following weighted-average assumptions:

		Non Performance-based Stock Options	
Vicor:	**2013**	**2012**	**2011**
Risk-free interest rate	1.2%	0.7%	1.8%
Expected dividend yield	0.0%	0.6%	1.6%
Expected volatility	39%	52%	54%
Expected lives (years)	4.9	4.1	5.0
VI Chip:	**2013**	**2012**	**2011**
Risk-free interest rate	1.6%	1.2%	1.5%
Expected dividend yield			
Expected volatility	48%	50%	49%
Expected lives (years)	6.5	6.5	6.5
Picor:	**2013**	**2012**	**2011**
Risk-free interest rate	1.2%	1.2%	1.6%
Expected dividend yield			
Expected volatility	49%	50%	52%
Expected lives (years)	6.5	6.5	6.5

Risk-free interest rate:

Vicor The Company uses the yield on zero-coupon U.S. Treasury Strip securities for a period that is commensurate with the expected term assumption for each vesting period.

Picor and VI Chip Picor and VI Chip use the yield to maturity of a seven-year U.S. Treasury bond, as it most closely aligns to the expected exercise period.

Expected dividend yield:

Vicor The Company determines the expected dividend yield by annualizing the most recent prior cash dividends declared by the Company s Board of Directors and dividing that result by the closing stock price on the date of that dividend declaration. Dividends are not paid on options.

55

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Picor and VI Chip Picor and VI Chip have not and do not expect to declare and pay dividends in the foreseeable future. Therefore, the expected dividend yield is not applicable.

Expected volatility:

Vicor Vicor uses historical volatility to estimate the grant-date fair value of the options, using the expected term for the period over which to calculate the volatility (see below). The Company does not expect its future volatility to differ from its historical volatility. The computation of the Company s volatility is based on a simple average calculation of monthly volatilities over the expected term.

Picor As Picor is a nonpublic entity, historical volatility information is not available. An industry sector index of six publicly traded fabless semiconductor firms was developed for calculating historical volatility for Picor. Historical prices for each of the companies in the index based on the market price of the shares on each day of trading over the expected term were used to determine the historical volatility.

VI Chip As VI Chip is a nonpublic entity, historical volatility information is not available. An industry sector index of eleven publicly traded fabless semiconductor firms was developed for calculating historical volatility for VI Chip. Historical prices for each of the companies in the index based on the market price of the shares on each day of trading over the expected term were used to determine the historical volatility.

Expected term:

Vicor The Company uses historical employee exercise and option expiration data to estimate the expected term assumption for the Black-Scholes grant-date valuation. The Company believes that this historical data is currently the best estimate of the expected term of options, and that generally all groups of the Company s employees exhibit similar exercise behavior.

Picor and VI Chip Due to the lack of historical information, the simplified method as prescribed by the Securities and Exchange Commission was used to determine the expected term on grant awards that meet the definition of plain vanilla . For options that did not meet the criteria of plain vanilla , the Company calculated the expected term based on its best estimate of what the expected term would be.

Forfeiture rate:

The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term forfeitures is distinct from cancellations or expirations and represents only the unvested portion of the surrendered option. The forfeiture analysis is re-evaluated quarterly and the forfeiture rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

Vicor The Company currently expects that for Vicor options, based on an analysis of its historical forfeitures, that approximately 78% of its options will actually vest, and therefore has applied an annual forfeiture rate of 8.0% to all unvested options as of December 31, 2013. For 2012, the Company expected 76% of its options would actually vest and applied an annual forfeiture rate of 9.00%.

Picor The Company currently expects that for Picor options, based on an analysis of its historical forfeitures, that approximately 92% of its options will actually vest, and therefore has applied an annual forfeiture rate of 2.75% to all unvested options as of December 31, 2013. For 2012, the Company expected 92% of its options would actually vest and applied an annual forfeiture rate of 2.75%.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI Chip The Company currently expects that for VI Chip options, based on an analysis of its historical forfeitures, that approximately 80% of its options will actually vest, and therefore has applied an annual forfeiture rate of 7.0% to all unvested options as of December 31, 2013. For 2012, the Company expected 81% of its options would actually vest and applied an annual forfeiture rate of 7.00%.

Vicor Stock Options

A summary of the activity under Vicor s stock option plans as of December 31, 2013 and changes during the year then ended, is presented below (in thousands except for share and weighted-average data):

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding on December 31, 2012	1,796,475	$ 12.99		
Granted (1)	1,819,345	$ 7.43		
Forfeited and expired (1)	(1,624,142)	$ 13.25		
Exercised	(2,430)	$ 5.41		
Outstanding on December 31, 2013	1,989,248	$ 7.71	9.18	$ 11,399
Exercisable on December 31, 2013	54,284	$ 9.72	5.28	$ 217
Vested or expected to vest as of December 31, 2013 (2)	1,709,313	$ 7.60	9.18	$ 9,983

(1) Includes Option Exchange.

(2) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

As of December 31, 2012 and 2011, the Company had shares exercisable of 255,694 and 232,078 respectively, for which the weighted average exercise prices were $12.79 and $12.00, respectively.

During the years ended December 31, 2013, 2012, and 2011 under all plans, the total intrinsic value of Vicor options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was $15,000, $2,000, and $217,000, respectively. The total amount of cash received by the Company from options exercised in 2013, 2012 and 2011, was $13,000, $4,000, and $447,000, respectively. The total grant-date fair value of stock options that vested during the years ended December 31, 2013, 2012 and 2011 was approximately $489,000, $449,000 and $411,000, respectively.

As of December 31, 2013, there was $2,274,000 of total unrecognized compensation cost related to unvested non-performance based awards for Vicor. That cost is expected to be recognized over a weighted-average period of 2.56 years for those awards. The expense will be recognized as follows: $1,072,000 in 2014, $619,000 in 2015, $363,000 in 2016, $174,000 in 2017, and $46,000 in 2018.

The weighted-average fair value of Vicor options granted was $1.90, $2.47, and $5.79 in 2013, 2012 and 2011, respectively.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Picor Stock Options

A summary of the activity under the 2001 Picor Plan as of December 31, 2013 and changes during the year then ended, is presented below (in thousands except for share and weighted-average data):

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding on December 31, 2012	10,215,367	$ 0.65		
Granted	170,000	$ 0.64		
Forfeited and expired	(380,000)	$ 0.25		
Exercised	(601,000)	$ 0.75		
Outstanding on December 31, 2013	9,404,367	$ 0.66	6.18	$ 351
Exercisable on December 31, 2013	5,869,044	$ 0.69	5.39	$ 204
Vested or expected to vest as of December 31, 2013 (1)	9,275,632	$ 0.66	6.04	$ 347

(1) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

As of December 31, 2012 and 2011, Picor had shares exercisable of 5,329,950 and 4,684,585, respectively, for which the weighted average exercise prices were $0.69 and $0.64, respectively.

During the years ended December 31, 2013, 2012, and 2011, the total intrinsic value of Picor options exercised was $146,000, $279,000, and $262,000, respectively. The total amount of cash received by Picor from options exercised in 2013, 2012 and 2011 was $14,000, $172,000 and $5,000, respectively. The total grant-date fair value of stock options that vested during the years ended December 31, 2013, 2012 and 2011 was approximately $398,000, $61,000, and $357,000, respectively.

As of December 31, 2013, there was $840,000 of total unrecognized compensation cost related to unvested share-based awards for Picor. That cost is expected to be recognized over a weighted-average period of 2.4 years for all Picor awards. The expense will be recognized as follows: $385,000 in 2014, $316,000 in 2015, $99,000 in 2016, $37,000 in 2017, and $3,000 in 2018.

The weighted-average fair value of Picor options granted was $0.31 in 2013 and $0.32 in 2012 and 2011.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI Chip Stock Options

A summary of the activity under the 2007 VI Chip Plan as of December 31, 2013 and changes during the year then ended, is presented below (in thousands except for share and weighted-average data):

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding on December 31, 2012	10,525,000	$ 1.00		
Granted	560,000	$ 1.00		
Forfeited and expired	(340,750)	$ 1.00		
Exercised		$		
Outstanding on December 31, 2013 (1)	10,744,250	$ 1.00	4.78	$
Exercisable on December 31, 2013	7,267,600	$ 1.00	3.52	$
Vested or expected to vest as of December 31, 2013 (2)	10,273,500	$ 1.00	4.66	$

(1) Of the total VI Chip options outstanding on December 31, 2013, 5,500,000 options have been granted to the Company s Chief Executive Officer.

(2) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

As of December 31, 2012 and 2011, VI Chip had shares exercisable of 7,304,100 and 5,869,100, respectively, for which the weighted average exercise price was $1.00.

VI Chip did not have any options exercised in 2013 and 2011. The total intrinsic value of VI Chip options exercised in 2012 was negligible. The total amount of cash received by VI Chip from options exercised in 2012 was $6,000.

As of December 31, 2013, there was $895,000 of total unrecognized compensation cost related to unvested share-based awards for VI Chip. That cost is expected to be recognized over a weighted-average period of 2.4 years for all VI Chip awards. The expense will be recognized as follows: $196,000 in 2014, $194,000 in 2015, $153,000 in 2016, $138,000 in 2017 and $214,000 in 2018 and thereafter.

The weighted-average fair value of VI Chip options granted was $0.29, $0.46 and $0.53 in 2013, 2012 and 2011, respectively.

401(k) Plan

The Company sponsors a savings plan available to all domestic employees, which qualifies under Section 401(k) of the Internal Revenue Code. Employees may contribute to the plan from 1% to 80% of their pre-tax salary subject to statutory limitations. The Company matches employee contributions to the plan at a rate of 50% up to the first 3% of an employee s compensation. The Company s matching contributions currently vest at a rate of 20% per year based upon years of service. The Company s contribution to the plan was approximately $825,000, $813,000, and $810,000 in 2013, 2012 and 2011, respectively.

59

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Bonus Plan

Under the Company s 1985 Stock Bonus Plan, as amended, shares of Common Stock may be awarded to employees from time to time as determined by the Board of Directors. On December 31, 2013, 109,964 shares were available for further award. All shares awarded to employees under this plan have vested. No further awards are contemplated under this plan at the present time.

4. SHORT-TERM AND LONG-TERM INVESTMENTS

As of December 31, 2013, the Company held par value of $6,000,000 of auction rate securities. These auction rate securities consist 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 28 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.

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 December 31, 2013, the Company held auction rate securities that had experienced failed auctions totaling $6,000,000 at par value, all of which had been purchased through and are held by a broker-dealer affiliate of Bank of America, N.A. (the Failed Auction Securities). The Failed Auction Securities held by the Company are Aaa/AA+/A3/BBB rated by the major credit rating agencies, all of which are collateralized by student loans, and are guaranteed by the U.S. Department of Education under the Federal Family Education Loan Program. Management is not aware of any reason to believe any of the issuers of the Failed Auction Securities held by the Company are presently at risk of default. Through December 31, 2013, 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 Failed Auction Securities 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 December 31, 2013.

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

December 31, 2013	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Failed Auction Securities	$ 6,000	$	$ 1,175	$ 4,825
Brokered certificates of deposit	820	6		826
	$ 6,820	$ 6	$ 1,175	$ 5,651

60

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Failed Auction Securities	$ 6,100	$	$ 1,121	$ 4,979
Brokered certificates of deposit	1,280	12		1,292
Certificates of deposit	465			465
	$ 7,845	$ 12	$ 1,121	$ 6,736

All of the Failed Auction Securities as of December 31, 2013 and 2012, respectively 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 December 31, 2013, by contractual maturities, are shown below (in thousands):

	Cost	**Estimated Fair Value**
Due in one year or less	$ 460	$ 463
Due in two to ten years	360	363
Due in ten to twenty years		
Due in twenty to forty years	6,000	4,825
	$ 6,820	$ 5,651

Based on the fair value measurements described in Note 5, the fair value of the Failed Auction Securities on December 31, 2013, with a par value of $6,000,000, was estimated by the Company to be approximately $4,825,000, a decrease in fair value of $54,000, net of $100,000 of redemptions, from December 31, 2012. The gross unrealized loss of $1,175,000 on the Failed Auction Securities consists of two types of estimated loss: an aggregate credit loss of $395,000 and an aggregate temporary impairment of $780,000. For the year ended December 31, 2013, the aggregate credit loss on the Failed Auction Securities increased by a net amount of $78,000, which was recorded in Net credit (losses) gains recognized in earnings in the 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 5).

The following table represents a rollforward of the activity related to the credit loss recognized in earnings on available-for-sale auction rate securities held by the Company for the years ended December 31 (in thousands):

	2013	**2012**	**2011**
Balance at the beginning of the period	$ 317	$ 308	$ 610
Reductions for securities sold during the period	(7)		(373)
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	85	9	71
Balance at the end of the period	$ 395	$ 317	$ 308

At this time, the Company has no intent to sell any of the impaired Failed Auction Securities and does not believe it is more likely than not the Company will be required to sell any of these securities. If current market conditions deteriorate further, the Company may be required to record additional unrealized losses. If the credit rating of the security deteriorates, the Company may be required to adjust the carrying value of these investments through impairment charges recorded in the Consolidated Statement of Operations, and any such impairment adjustments may be material.

61

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 associated with the Failed Auction Securities held will affect the Company s ability to execute its current operating plan.

5. 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.

Assets measured at fair value on a recurring basis include the following as of December 31, 2013 (in thousands):

	Quoted Prices in Active Markets (Level 1)	Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2013
Cash Equivalents:				
Money market funds	$ 12,407	$	$	$ 12,407
Short-term investments:				
Brokered certificates of deposit		463		463
Long-term investments:				
Failed Auction Securities			4,825	4,825
Brokered certificates of deposit		363		363

Assets measured at fair value on a recurring basis include the following as of December 31, 2012 (in thousands):

	Quoted Prices in Active Markets (Level 1)	Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2012
Cash Equivalents:				
Money market funds	$ 12,413	$	$	$ 12,413
Long-term investments:				
Failed Auction Securities			4,979	4,979
Brokered certificates of deposit		1,292		1,292
Certificates of deposit	465			465

The Company has brokered certificates of deposit classified as Level 2 because the fair value for these investments has been determined utilizing observable inputs from non-active markets. The fair values fluctuate with changes in market interest rates obtained from information available in publicly quoted markets. Management tested the reported fair values by comparing them to net present value calculations utilizing a discount rate based on U.S. Treasury bill and bond yields for similar maturities.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2013, there was insufficient observable auction rate security market information available to determine the fair value of the Failed Auction Securities 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 December 31, 2013. 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 6.6%; the rate of return required by investors to own these securities in the current environment, which we estimate to be 5.0% above the risk free rate of return; and an estimated timeframe of three to five years for successful auctions for these securities to occur. 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 (the Penalty Rate); 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. In developing its estimate of the rate of return required by investors to own these securities, management compared the Penalty Rates of the Failed Auction Securities with yields of actively traded long-term bonds with similar characteristics and, reflecting the limited liquidity for auction rate securities and the discounts to par value seen in recent tender offers by issuers and arms length market transactions between informed buyers and sellers, estimated the implied yield (i.e., the discount to par value) necessary to complete a sale of the Failed Auction Securities. Management has calculated an increase or decrease in the liquidity risk premium of 5.0% referenced above of 1.0% (i.e., 100 basis points) as used in the model, would decrease or increase, respectively, the fair value of the Failed Auction Securities by approximately $400,000.

For purposes of the valuation process for the Failed Auction Securities, management consists of senior members of the Company s finance department. The fair value measurements for the Failed Auction Securities are reviewed and updated on a quarterly basis. The calculations are prepared by the Company s Corporate Controller, in conjunction with information provided by its valuation advisors, and include the development and substantiation of the unobservable inputs. The methodology, assumptions, and calculations are reviewed and approved by the Company s Chief Financial Officer and Chief Accounting Officer.

The significant unobservable inputs used in the fair value measurement of the Company s Failed Auction Securities are the cumulative probability of earning the maximum rate until maturity, the cumulative probability of principal return prior to maturity, the cumulative probability of default, the liquidity risk premium, and the recovery rate in default. Significant increases (decreases) in any of those inputs in isolation would result in changes in fair value measurement. Significant increases (decreases) in the cumulative probability of earning the maximum rate until maturity, the cumulative probability of principal return prior to maturity, and the recovery rate in default would result in a higher (lower) fair value measurement, while increases (decreases) in the cumulative probability of default and the liquidity risk premium would result in a lower (higher) fair value measurement.

Generally, the interrelationships are such that a change in the assumption used for the cumulative probability of principal return prior to maturity is accompanied by a directionally similar change in the assumption used for the cumulative probability of earning the maximum rate until maturity and a directionally opposite change in the assumptions used for the cumulative probability of default and the liquidity risk premium. The recovery rate in default is somewhat independent and based upon the securities specific underlying assets and published recovery rate indices.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Quantitative information about Level 3 fair value measurements as of December 31, 2013 are as follows (dollars in thousands):

	Fair Value	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Failed Auction Securities	$ 4,825	Discounted cash flow	Cumulative probability of earning the maximum rate until maturity	0.01% - 0.07% (0.04%)
			Cumulative probability of principal return prior to maturity	69.67% - 94.16% (81.92%)
			Cumulative probability of default	5.83% - 30.27% (18.05%)
			Liquidity risk premium	5.00% - 5.00% (5.00%)
			Recovery rate in default	40.00% - 40.00% (40.00%)

The following table summarizes the change in the fair values for those assets valued on a recurring basis utilizing Level 3 inputs for the year ended December 31, 2013 (in thousands):

Balance at the beginning of the period	$ 4,979
Redemptions	(100)
Credit losses on available for sales securities included in Other income, net	(78)
Unrealized gain included in Other comprehensive income (loss)	24
Balance at the end of the period	$ 4,825

6. INVENTORIES

Inventories as of December 31 were as follows (in thousands):

	2013	**2012**
Raw materials	$ 19,744	$ 21,790
Work-in-process	3,979	2,630
Finished goods	5,973	5,535
Net balance	$ 29,696	$ 29,955

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost and are depreciated and amortized over a period of three to 39 years generally under the straight-line method for financial reporting purposes and accelerated methods for income tax purposes.

64

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, plant and equipment as of December 31 were as follows (in thousands):

	2013	2012
Land	$ 2,089	$ 2,089
Buildings and improvements	43,083	42,647
Machinery and equipment	224,481	218,381
Furniture and fixtures	6,047	5,964
Construction in-progress and deposits	1,327	2,465
	277,027	271,546
Accumulated depreciation and amortization	(236,935)	(227,454)
Net balance	$ 40,092	$ 44,092

Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was approximately $10,180,000, $10,546,000, and $11,083,000 respectively. As of December 31, 2013, the Company had approximately $936,000 of capital expenditure commitments.

8. OTHER INVESTMENTS

The Company s gross investment in non-voting convertible preferred stock of GWS totaled $5,000,000 as of December 31, 2013, and December 31, 2012, giving the Company an approximately 27% 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 its patented technologies. 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 under which the Company purchases certain components from GWS. Purchases from GWS totaled approximately $1,959,000, $2,087,000, and $5,577,000 in 2013, 2012, and 2011, respectively. The Company owed GWS approximately $152,000 and $281,000 as of December 31, 2013 and 2012, 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) in 2013, 2012, and 2011 as GWS incurred a net loss in those years. The balance in the Company s net investment in GWS was zero as of December 31, 2013 and 2012.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

In 2012, the Company performed the first step of the quantitative goodwill impairment assessment for VJCL and determined the carrying value of VJCL exceeded its fair value. The Company, therefore, performed the second step of its evaluation to calculate the impairment and, as a result, recorded a full impairment charge of $2,012,000 during the fourth quarter of 2012.

Definite lived intangible assets, such as patent rights, are amortized and tested for impairment if a triggering event occurs.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Patent costs, which are included in other assets in the accompanying balance sheets, as of December 31 were as follows (in thousands):

	2013	2012
Patent costs	$ 3,170	$ 3,316
Accumulated amortization	(2,007)	(1,984)
	$ 1,163	$ 1,332

Patent renewal fees were $38,000 and $55,000 in 2013 and 2012, respectively.

Amortization expense was approximately $264,000, $314,000 and $325,000 in 2013, 2012 and 2011, respectively. The estimated future amortization expense from patent assets held as of December 31, 2013, is projected to be $169,000, $141,000, $128,000, $122,000 and $106,000, in fiscal years 2014, 2015, 2016, 2017, and 2018, respectively.

10. SEVERANCE CHARGES

In February 2013, the Company initiated and completed workforce reductions. As a result, the Company recorded a pre-tax charge of $1,361,000 in the first quarter of 2013 for the cost of severance and other employee-related costs involving cash payments based on each employee s respective length of service. These charges were recorded as Severance charges in the Consolidated Statement of Operations. The related liability is presented as Accrued severance charges in the Consolidated Balance Sheets.

A summary of the activity related to the severance charges, by segment, is as follows (in thousands):

	BBU	VI Chip	Total
Balance as of December 31, 2012	$	$	$
Charges	1,123	238	1,361
Payments	(1,074)	(238)	(1,312)
Balance as of December 31, 2013	$ 49	$	$ 49

11. PRODUCT WARRANTIES

Product warranty activity for the years ended December 31 was as follows (in thousands):

	2013	2012	2011
Balance at the beginning of the period	$ 364	$ 572	$ 649
Accruals for warranties for products sold in the period	327	439	1,392
Fulfillment of warranty obligations	(297)	(554)	(1,134)
Revisions of estimated obligations	(111)	(93)	(335)
Balance at the end of the period	$ 283	$ 364	$ 572

12. STOCKHOLDERS EQUITY

Each share of Common Stock entitles the holder thereof to one vote on all matters submitted to the stockholders.

Each share of Class B Common Stock entitles the holder thereof to ten votes on all such matters.

66

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Shares of Class B Common Stock are not transferable by a stockholder except to or among the stockholder s spouse, certain of the stockholder s relatives, and certain other defined transferees. Class B Common Stock is not listed or traded on any exchange or in any market. Class B Common Stock is convertible at the option of the holder thereof at any time and without cost to the stockholder into shares of Common Stock on a one-for-one basis.

Under a tender offer completed on April 22, 2013, the Company purchased 1,341,575 shares of Common Stock for an aggregate cost of $6,708,000.

Under a previous tender offer completed on March 7, 2013, the Company purchased 1,931,513 shares of Common Stock for an aggregate cost of $10,392,000.

In November 2000, the Board of Directors of the Company authorized the repurchase of up to $30,000,000 of the Company s Common Stock (the November 2000 Plan). The plan authorizes the Company to make repurchases from time to time in the open market or through privately negotiated transactions. The timing of this program and the amount of the stock that may be repurchased is at the discretion of management based on its view of economic and financial market conditions. There were no repurchases under the November 2000 Plan in 2013, 2012, or 2011. On December 31, 2013 and 2012, the Company had approximately $8,541,000 available for use under the November 2000 Plan.

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. Common Stock and Class B Common Stock participate in dividends and earnings equally.

On July 22, 2011, the Company s Board of Directors approved a cash dividend of $0.15 per share of the Company s stock. The total dividend of approximately $6,272,000 was paid on August 31, 2011 to shareholders of record at the close of business on August 9, 2011.

During the year ended December 31, 2013, three subsidiaries paid a total of $2,100,000 in cash dividends, of which $1,569,000 was paid to the Company and $531,000 was paid to outside shareholders. Dividends paid to outside shareholders are accounted for as a reduction in noncontrolling interest. During the year ended December 31, 2012, three subsidiaries paid a total of $1,600,000 in cash dividends, of which $1,222,000 was paid to the Company and $378,000 was paid to outside shareholders. During the year ended December 31, 2011, two subsidiaries paid a total of $2,000,000 in cash dividends, of which $1,310,000 was paid to the Company and $690,000 was paid to outside shareholders. Dividends paid to outside shareholders are accounted for as a reduction in noncontrolling interest.

During 2013, a total of 2,430 shares of Common Stock were issued upon the exercise of stock options and 8,760 shares of Class B Common Stock converted into Common Stock.

On December 31, 2013, there were 14,846,930 shares of Vicor Common Stock reserved for issuance for Vicor stock options and upon conversion of Class B Common Stock.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. OTHER INCOME, NET

The major changes in the components of the other income, net for the years ended December 31 were as follows (in thousands):

	2013	2012	2011
Interest income	$ 97	$ 136	$ 259
Foreign currency losses, net	(94)	(46)	(326)
Gain on disposal of equipment	26	33	21
Credit (losses) gains on available for sale securities	(78)	(9)	302
Other	51	80	90
	$ 2	$ 194	$ 346

14. INCOME TAXES

The tax provision is based on the annual effective tax rate for the year, which includes estimated federal, state and foreign income taxes on the Company s pre-tax income and estimated federal and state income taxes for certain noncontrolling interest subsidiaries that are not part of the Company s consolidated income tax returns. The tax provisions also include discrete items, principally related to tax credits, tax provision vs. tax return differences and accrued interest for potential liabilities.

The reconciliation of the federal statutory rate to the effective income tax rate for the years ended December 31 is as follows:

	2013	2012	2011
Statutory federal tax rate	(34.0%)	(34.0%)	35.0%
State income taxes, net of federal income tax benefit	1.1	(9.4)	3.4
Tax credits	(8.1)	0.6	(4.0)
U.S. manufacturing deduction	1.7	(3.8)	(2.0)
Permanent items	0.6	2.2	0.5
Book income attributable to noncontrolling interest	0.4	6.8	(1.4)
Foreign rate differential and deferred items	(0.2)	0.1	0.6
Increase (decrease) in tax reserves	(0.1)	0.3	0.6
Increase in valuation allowance	53.3	84.5	
Other	0.1	(0.7)	1.0
	14.8%	46.6%	33.7%

On January 2, 2013 the American Taxpayer Relief Act (ATRA) of 2012 was signed into law. Under prior law, a taxpayer was entitled to a research tax credit for qualifying amounts paid or incurred on or before December 31, 2011. The ATRA extended the research credit for two years to December 31, 2013. The extension of the research tax credit was retroactive and includes amounts paid or incurred after December 31, 2011. Since the law was enacted in 2013, the federal research tax credit for 2012 of $549,000 was recorded as a discrete item in the first quarter of 2013.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For financial reporting purposes, income (loss) before income taxes for the years ended December 31 include the following components (in thousands):

	2013	2012	2011
Domestic	$ (20,466)	$ (3,109)	$ 13,406
Foreign	1	518	626
	$ (20,465)	$ (2,591)	$ 14,032

Significant components of the provision (benefit) for income taxes for the years ended December 31 are as follows (in thousands):

	2013	2012	2011
Current:			
Federal	$ (1,848)	$ 920	$ 3,624
State	284	425	496
Foreign	112	231	455
	(1,452)	1,576	4,575
Deferred:			
Federal	4,491	(369)	148
	$ 3,039	$ 1,207	$ 4,723

The Company intends to continue to reinvest certain of its foreign earnings indefinitely. Accordingly, no U.S. income taxes have been provided for approximately $2,810,000 of unremitted earnings of international subsidiaries. As of December 31, 2013, the amount of unrecognized deferred tax liability on these earnings was $219,000.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of the Company s deferred tax assets and liabilities as of December 31 were as follows (in thousands):

	2013	2012
Deferred tax assets:		
Research and development tax credit carryforwards	$ 8,754	$ 9,032
Stock-based compensation	3,048	2,218
Inventory reserves	2,687	2,651
Net operating loss carryforwards	2,497	1,088
Vacation accrual	1,645	1,569
Investment tax credit carryforwards	1,367	1,335
Capital loss carryforward	680	680
Unrealized loss on investments	399	380
Alternative minimum tax credit carryforward	340	556
Deferred revenue	279	555
Warranty reserves	88	90
Bad debt reserves	65	99
Other	428	694
Total deferred tax assets	22,277	20,947
Less: Valuation allowance for deferred tax assets	(20,214)	(11,480)
Net deferred tax assets	2,063	9,467
Deferred tax liabilities:		
Depreciation	(918)	(2,261)
Prepaid expenses	(598)	(733)
Patent amortization	(416)	(477)
Unremitted Vicor Custom Power earnings	(335)	(342)
Other		(355)
Total deferred tax liabilities	(2,267)	(4,168)
Net deferred tax assets (liabilities)	$ (204)	$ 5,299

As of December 31, 2013, the Company has a valuation allowance of approximately $20,214,000 primarily against all domestic net deferred tax assets, for which realization cannot be considered more likely than not at this time. Management assesses the need for the valuation allowance on a quarterly basis. In assessing the need for a valuation allowance, the Company considers all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and past financial performance. In 2013, the Company recorded an increase to the valuation allowance of approximately $10,241,000 for all remaining domestic net deferred tax assets not previously covered by a valuation allowance due to the following factors: (1) the Company s forecast of future taxable income, of the appropriate nature, based on its quarterly assessment was not sufficient to support the recoverability of the remaining domestic deferred tax assets; (2) recent cumulative losses and the Company s projection of continued losses into 2014; (3) while the Company has the ability to carryback federal net operating losses or credits to utilize against federal taxable income, it will generate only $1,600,000 in cash refunds; and (4) our lack of prudent and feasible tax planning strategies. During 2012, the Company recorded an increase to the valuation allowance of approximately $1,489,000 for all remaining state deferred tax assets not previously covered by a valuation allowance at that time due to the following factors: (1) the Company s forecast of future taxable income, of the appropriate nature, based on its quarterly assessment was not sufficient to support the recoverability of those state deferred tax assets; (2) the Company did not have the ability to carryback state net operating losses or credits to utilize against state taxable income; and (3) state tax net operating losses and credits have a shorter carryforward period to be

70

Explanation of Responses:

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

utilized than do the federal tax attributes. The valuation allowance against these deferred tax assets may require adjustment in the future based on changes in the mix of temporary differences, changes in tax laws, and operating performance. If and when management determines the valuation allowance should be released, the adjustment would result in a tax benefit in the Consolidated Statements of Operations and may include a portion to be accounted for through Additional paid-in capital , a component of Stockholders Equity. The amount of the tax benefit to be recorded in a particular quarter could be material.

As a result of certain realization requirements under the stock-based compensation guidance, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets as of December 31, 2013 that arose directly from tax deductions related to stock-based compensation greater than stock-based compensation recognized for financial reporting. Equity will be increased by $2,804,000 if and when such deferred tax assets are ultimately realized. The Company uses ASC 740 ordering when determining when excess tax benefits have been realized.

The research and development tax credit carryforwards expire beginning in 2014 for state purposes and in 2025 for federal purposes. The Company has federal net operating loss carryforwards which expire in 2033, as well as net operating loss carryforwards in certain states, which expire beginning in 2014 and through 2033.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2013	**2012**	**2011**
Balance on January 1	$ 1,506	$ 1,405	$ 1,102
Additions based on tax provisions related to the current year	566	134	269
Additions (reductions) for tax positions of prior years		(33)	34
Balance on December 31	$ 2,072	$ 1,506	$ 1,405

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. 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, as of December 31, 2013, 2012 and 2011 of $2,072,000, $1,506,000 and $1,405,000, respectively, if recognized, may decrease the Company s income tax provision and effective tax rate. None of the unrecognized tax benefits as of December 31, 2013 are expected to significantly change during the next twelve months.

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. During the years ended December 31, 2013, 2012 and 2011, the Company recognized approximately ($28,000), $32,000 and $68,000, respectively, in net interest (benefit) expense. As of December 31, 2013 and 2012, the Company had accrued approximately $149,000 and $177,000, respectively, for the potential payment of interest.

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 2010 through 2012 and 2006 through 2012, respectively. In addition, the 2003, 2004 and 2007 tax years resulted in losses. These years may also be subject to examination since the losses were carried forward and utilized in future years. In August 2013, the Company received notice from the Internal Revenue Service that its federal corporate tax returns for the tax years 2010 and 2011 had been selected for audit. The audit is in the early stages. There are no other income tax audits currently in process.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. COMMITMENTS AND CONTINGENCIES

The Company leases certain of its office, warehousing and manufacturing space. The future minimum rental commitments under non-cancelable operating leases with remaining terms in excess of one year are as follows (in thousands):

Year	
2014	$ 1,425
2015	644
2016	131
2017	108
2018 and thereafter	99

Rent expense was approximately $1,820,000, $1,677,000 and $1,592,000 in 2013, 2012 and 2011, respectively. The Company also pays executory costs such as taxes, maintenance and insurance.

On January 28, 2011, SynQor, Inc. (SynQor) filed a complaint for patent infringement against Ericsson, Inc. (Ericsson), Cisco Systems, Inc. (Cisco) and the Company in U.S. District Court for the Eastern District of Texas (the Texas Action). This immediately followed a complaint filed by the Company on January 26, 2011, in U.S. District Court for the District of Massachusetts, in which the Company sought a declaratory judgment that its bus converter products do not infringe any valid claim of certain of SynQor s U.S. patents, and that the claims of those patents are invalid. With respect to the Company, SynQor s complaint alleges the Company s products, including, but not limited to, unregulated bus converters used in intermediate bus architecture power supply systems, infringe certain SynQor patents. SynQor seeks, among other items, an injunction against further infringement and an award of unspecified compensatory and enhanced damages, interest, costs and attorney fees. On February 8, 2011, SynQor filed a motion for preliminary injunction seeking an order enjoining the Company from manufacturing, using, selling, and offering for sale in the United States and/or importing into the United States certain identified unregulated bus converters, as well as any other bus converters not significantly different from those products. On February 17, 2011, the Company withdrew its Massachusetts action without prejudice to allow the litigation to proceed in Texas. On May 16, 2011, SynQor announced it was withdrawing its motion for preliminary injunction against the Company. On September 16, 2011, the U.S. District Court for the Eastern District of Texas issued an order setting a trial date of July 7, 2014. On September 20, 2011, SynQor filed an amended complaint in the Texas Action. The amended complaint repeated the allegations of patent infringement against the Company contained in SynQor s original complaint, and included additional patent infringement allegations with respect to U.S. Patent No. 8,023,290 (290 patent), which was issued on that day. As with SynQor s original complaint, the amended complaint alleged that the Company s products, including but not limited to the Company s unregulated bus converters used in intermediate bus architecture power supply systems, infringed the asserted patents. On October 4, 2011, the Company filed an answer and counterclaims to SynQor s amended complaint, in which the Company alleges the 290 patent is unenforceable because it was procured through inequitable conduct before the U.S. Patent and Trademark Office and seeks damages against SynQor for SynQor s unfair and deceptive trade practices and tortious interference with prospective economic advantage in connection with SynQor s allegations of patent infringement against the Company. On January 2, 2014, the court issued its claim construction order following a claim construction hearing held on December 17, 2013. On January 16, 2014, the Company filed a motion seeking reconsideration of certain aspects of the court s claim construction ruling. The Company continues to believe that none of its products, including its unregulated bus converters, infringe any valid claim of the asserted SynQor patents, either alone or when used in an intermediate bus architecture implementation. The Company believes SynQor s claims lack merit and, therefore, continues to vigorously defend itself against SynQor s patent infringement allegations. The Company does not believe a loss is probable for this matter. If a loss were to be incurred, though, the Company cannot estimate the amount of possible loss or range of possible loss at this time.

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Continued)

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 subsequently sought 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 the Company, although the verdict was 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 (the Court) 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 filed their appeal to this total judgment in the amount of approximately $16,479,000 and an oral argument was held in early February 2010 on the insurer s appeal. On March 16, 2012, the U.S. Court of Appeals for the First Circuit vacated the judgment in favor of the Company and remanded the case for proceedings consistent with the Court s opinions. On October 3, 2012, a stipulation of dismissal with prejudice was filed with the Court, reflecting the contemporaneous settlement agreement between the Company and the insurance carriers in which the company received a cash payment of $1,975,000 in exchange for its release of the insurance carriers from future claims. The settlement amount of $1,975,000 was recorded as a gain from litigation related settlement in the fourth quarter of 2012.

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.

16. 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 the BBU operations of VJCL. The VI Chip segment includes VI Chip Corporation, which designs, develops, manufactures and markets the Company s factorized power architecture (FPA) products. The VI Chip segment also includes the VI Chip business conducted through VJCL. The Picor segment includes Picor Corporation, which designs, develops, manufactures and markets integrated circuits and related products for use in a variety of power management and power system applications. Picor develops these products to be sold as part of Vicor s products or to third parties for separate applications.

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. The Corporate segment consists of those operations and assets shared by all segments. The costs of certain centralized executive and administrative functions are recorded in this segment, as are certain shared assets, most notably cash and cash equivalents, deferred tax assets,

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Continued)

long-term investments, the Company s facilities in Massachusetts, real estate and other assets. The Company s accounting policies and method of presentation for segments are consistent with that used throughout the Consolidated Financial Statements.

The following table provides significant segment financial data as of and for the years ended December 31 (in thousands):

	BBU	VI Chip	Picor	Corporate	Eliminations (1)	Total
2013:						
Net revenues	$ 163,013	$ 35,333	$ 10,416	$	$ (9,602)	$ 199,160
Income (loss) from operations	12,062	(28,204)	(3,326)	(999)		(20,467)
Total assets	126,585	21,370	4,308	81,364	(67,987)	165,640
Depreciation and amortization	6,185	3,232	407	184		10,008
2012:						
Net revenues	$ 179,919	$ 38,083	$ 9,724	$	$ (9,219)	$ 218,507
Income (loss) from operations	28,114	(27,409)	(2,786)	(704)		(2,785)
Total assets	97,507	21,105	5,365	119,007	(40,403)	202,581
Depreciation and amortization	4,958	3,568	414	1,483		10,423
2011:						
Net revenues	$ 194,830	$ 55,154	$ 13,183	$	$ (10,199)	$ 252,968
Income (loss) from operations	31,938	(16,294)	(1,239)	(719)		13,686
Total assets	82,096	30,701	7,098	119,231	(30,985)	208,141
Depreciation and amortization	5,503	3,570	458	1,474		11,005

(1) The elimination for net revenues is principally related to inter-segment revenues of Picor to BBU and VI Chip and for inter-segment revenues of VI Chip to BBU. The elimination for total assets is principally related to inter-segment accounts receivable due to BBU for the funding of VI Chip and Picor operations.

17. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following table sets forth certain unaudited quarterly financial data for the years ended December 31 (in thousands, except per share amounts):

	First	Second	Third	Fourth	Total
2013:					
Net revenues	$ 41,946	$ 46,865	$ 55,091	$ 55,258	$ 199,160
Gross margin	16,607	18,461	22,980	23,431	81,479
Consolidated net loss	(4,986)	(4,600)	(898)	(13,020)	(23,504)
Net income attributable to noncontrolling interest	4	16	34	82	136
Net loss attributable to Vicor Corporation	(4,990)	(4,616)	(932)	(13,102)	(23,640)
Net loss per share attributable to Vicor Corporation:					
Basic and diluted	(0.12)	(0.12)	(0.02)	(0.34)	(0.60)

74

VICOR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	First	Second	Third	Fourth	Total
2012:					
Net revenues	$ 59,668	$ 55,467	$ 52,948	$ 50,424	$ 218,507
Gross margin	24,467	24,106	22,953	20,125	91,651
Consolidated net income	341	244	280	(4,663)	(3,798)
Net income attributable to noncontrolling interest	15	24	89	151	279
Net income attributable to Vicor Corporation	326	220	191	(4,814)	(4,077)
Net income per share attributable to Vicor Corporation:					
Basic and diluted	0.01	0.01		(0.12)	(0.10)

In the fourth quarter of 2013, the Company recorded the following adjustments:

An increase of $10,132,000 to the income tax valuation allowance against deferred tax assets (See Note 14).

In the fourth quarter of 2012, the Company recorded the following adjustments:

An impairment of goodwill of $2,012,000 based on the Company s annual assessment of the carrying value related to VJCL.

A gain from litigation-related settlement of $1,975,000 resulting from the contemporaneous settlement agreement between the Company and its insurance carriers.

An increase of $1,489,000 to the income tax valuation allowance against certain deferred tax assets.

An increase of approximately $1,400,000 to inventory reserves for potential excess and obsolete inventory charged against cost of revenues.

75

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***
None.

ITEM 9A. ***CONTROLS AND PROCEDURES***
Attached as exhibits to this Form 10-K are certifications of our CEO and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Exchange Act of 1934, as amended (the Exchange Act). This Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications.

(a) Evaluation of disclosure controls and procedures

As required by Rule 13a-15 under the Exchange Act, management, with the participation of our CEO and CFO, conducted an evaluation regarding the effectiveness of our disclosure controls and procedures, as of the end of the last fiscal year. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. We recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and we necessarily apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company s disclosure controls and procedures as of December 31, 2013, the Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company s disclosure controls and procedures were effective at the reasonable assurance level.

(b) Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Management assessed our internal control over financial reporting as of December 31, 2013, the end of our fiscal year. Management based its assessment on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management s assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by KPMG LLP, our independent registered public accounting firm, as stated in their report which is included immediately below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Vicor Corporation:

We have audited Vicor Corporation s (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Vicor Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Vicor Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vicor Corporation and subsidiaries as of December 31, 2013, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and equity for the year then ended, and our report dated March 14, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Boston, Massachusetts

March 14, 2014

(c) Inherent Limitations on Effectiveness of Controls

The Company s management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

(d) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. ***OTHER INFORMATION***
None.

PART III

ITEM 10. ***DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT***
Incorporated by reference from the Company s Definitive Proxy Statement for its 2014 annual meeting of stockholders.

ITEM 11. ***EXECUTIVE COMPENSATION***
Incorporated by reference from the Company s Definitive Proxy Statement for its 2014 annual meeting of stockholders.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***
Incorporated by reference from the Company s Definitive Proxy Statement for its 2014 annual meeting of stockholders.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE***
Incorporated by reference from the Company s Definitive Proxy Statement for its 2014 annual meeting of stockholders.

ITEM 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***
Incorporated by reference from the Company s Definitive Proxy Statement for its 2014 annual meeting of stockholders.

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENTS***
(a) (1) *Financial Statements*

See index in Item 8.

(a) (2) *Schedules*

Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(b) *Exhibits*

Exhibits	Description of Document
3.1	Restated Certificate of Incorporation, dated February 28, 1990 (1)
3.2	Certificate of Ownership and Merger Merging Westcor Corporation, a Delaware Corporation, into Vicor Corporation, a Delaware Corporation, dated December 3, 1990 (1)
3.3	Certificate of Amendment of Restated Certificate of Incorporation, dated May 10, 1991 (1)
3.4	Certificate of Amendment of Restated Certificate of Incorporation, dated June 23, 1992 (1)
3.5	Bylaws, as amended (9)
4.1	Specimen Common Stock Certificate (2)
10.1	1984 Stock Option Plan of the Company, as amended (2)
10.2	1993 Stock Option Plan (3)
10.3	1998 Stock Option and Incentive Plan (4)
10.4	Amended and Restated 2000 Stock Option and Incentive Plan (5)
10.5	Form of Non-Qualified Stock Option under the Vicor Corporation Amended and Restated 2000 Stock Option and Incentive Plan (6)
10.6	Sales Incentive Plan (7)
10.7	Picor Corporation 2001 Stock Option and Incentive Plan (8)
10.8	Form of Non-Qualified Stock Option under the Picor Corporation 2001 Stock Option and Incentive Plan (8)
10.9	VI Chip Corporation Amended 2007 Stock Option and Incentive Plan (11)
10.10	Form of Non-Qualified Stock Option Agreement under the VI Chip Corporation Amended 2007 Stock Option and Incentive Plan (10)
10.11	Form of Incentive Stock Option Agreement under the VI Chip Corporation Amended 2007 Stock Option and Incentive Plan (11)
10.12	Form of Stock Restriction Agreement under the VI Chip Corporation Amended 2007 Stock Option and Incentive Plan (11)
21.1	Subsidiaries of the Company (12)
23.1	Consent of KPMG LLP (12)
23.2	Consent of Grant Thornton LLP (12)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (12)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 (12)
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 (12)
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 (12)
101	The following material from the Company s Annual Report on Form 10-K, for the year ended December 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Equity; and (vi) the Notes to Consolidated Financial Statements.

(1) Filed as an exhibit to the Company s Annual Report on Form 10-K filed on March 29, 2001 and incorporated herein by reference.

(2) Filed as an exhibit to the Company s Registration Statement on Form 10, as amended, under the Securities Exchange Act of 1934 (File No. 0-18277), and incorporated herein by reference.

(3) Filed as an exhibit to the Company s Registration Statement on Form S-8, as amended, under the Securities Act of 1933 (No. 33-65154), and incorporated herein by reference.

(4) Filed as an exhibit to the Company s Registration Statement on Form S-8, as amended, under the Securities Act of 1933 (No. 333-61177), and incorporated herein by reference.

80

(5) Filed as an exhibit to the Company s Proxy Statement for use in connection with its 2002 Annual Meeting of Stockholders, which was filed on April 29, 2002, and incorporated herein by reference.
(6) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q filed on November 4, 2004 and incorporated herein by reference.
(7) Filed as an exhibit to the Company s Annual Report on Form 10-K filed on March 16, 2005 and incorporated herein by reference.
(8) Filed as an exhibit to the Company s Annual Report on Form 10-K filed on March 14, 2006 and incorporated herein by reference.
(9) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q filed on November 8, 2006 and incorporated herein by reference.
(10) Filed as an exhibit to the Company s Current Report on Form 8-K, dated June 6, 2007 and incorporated herein by reference.
(11) Filed as an exhibit to the Company s Current Report and Form 8-K, dated March 6, 2008 incorporated herein by reference.
(12) Filed herewith.

VICOR CORPORATION

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Years ended December 31, 2013, 2012 and 2011

Description	Balance at Beginning of Period	(Credit) Charge to Costs and Expenses	Other Charges, Deductions (1)	Balance at End of Period
Allowance for doubtful accounts:				
Year ended:				
December 31, 2013	$ 292,000	$ 255,000	$ (349,000)	$ 198,000
December 31, 2012	266,000	37,000	(11,000)	292,000
December 31, 2011	309,000	18,000	(61,000)	266,000

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

82

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Vicor Corporation

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

Date: March 14, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Patrizio Vinciarelli Patrizio Vinciarelli	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 14, 2014
/s/ James A. Simms James A. Simms	Chief Financial Officer Vice President (Principal Financial Officer and Principal Accounting Officer)	March 14, 2014
/s/ Estia J. Eichten Estia J. Eichten	Director	March 14, 2014
/s/ David T. Riddiford David T. Riddiford	Director	March 14, 2014
/s/ Barry Kelleher Barry Kelleher	Director	March 14, 2014
/s/ Samuel J. Anderson Samuel J. Anderson	Director	March 14, 2014
/s/ Claudio Tuozzolo Claudio Tuozzolo	Director	March 14, 2014
/s/ Jason L. Carlson Jason L. Carlson	Director	March 14, 2014
/s/ Liam K. Griffin Liam K. Griffin	Director	March 14, 2014

83