VICOR CORP
Form 10-K
March 13, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-18277
VICOR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**04-2742817**
(State or other jurisdiction of incorporation or organization)	*(IRS employer identification no.)*
25 Frontage Road, Andover, Massachusetts	**01810**
(Address of principal executive offices)	*(Zip code)*

Registrant s telephone number, including area code:
(978) 470-2900

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.01 par Value	**The NASDAQ Stock Market, LLC**
(Title of Class)	*(Name of Each Exchange on Which Registered)*

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $197,290,000 as of June 30, 2008.

On February 28, 2009, there were 29,897,510 shares of Common Stock outstanding and 11,767,052 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive proxy statement (the Definitive Proxy Statement) to be filed with the Securities and Exchange Commission pursuant to Regulation 14A and relating to the Company s 2009 annual meeting of stockholders are incorporated by reference into Part III.

PART I

In this Annual Report on Form 10-K, unless the context indicates otherwise, references to Vicor, the Company, our company, we, us, and similar references, refer to Vicor Corporation.

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

ITEM 1 *BUSINESS*

Overview

Vicor Corporation designs, develops, manufactures and markets modular power components and complete power systems. Power systems are incorporated into virtually all electronic equipment. In equipment utilizing Alternating Current (AC) voltage from a primary source (for example, a wall outlet), a power system converts AC voltage into the stable Direct Current (DC) voltage necessary to power subsystems and/or individual applications or loads . In many electronic devices, this DC voltage may be further converted to one or more lower voltages required by a range of loads. In equipment utilizing DC voltage from a primary source (for example, a generator or battery pack), the initial

DC voltage frequently requires further conversion to one or more lower voltages. Because numerous applications requiring different DC voltages and varied power ratings may exist within an electronic device, and system power architectures themselves vary, we offer an extensive range of products and accessories in a myriad of application-specific configurations.

Since our founding, our product strategy has been driven by innovations in design, largely enabled by our focus on the development of differentiated technologies, which often are implemented in proprietary semiconductor circuitry. Many of our products incorporate a high frequency electronic power conversion technology called zero current / zero voltage switching (ZCS/ZVS), which enabled the design of DC-DC converter modules that were much smaller and more efficient than conventional alternatives. Emphasizing the superior power density and performance advantages of this technology, our primary product strategy since our founding has been to offer a comprehensive range of component-level building blocks to configure a power system specific to a customer s needs. Since introducing and popularizing the encapsulated brick during the 1980s, our product focus has been on high density DC-DC converters, which provide the isolation, transformation, regulation, filtering, and/or input protection necessary to power and protect sophisticated electronic loads. A secondary and highly complementary product strategy has been to incorporate our component-level building blocks into complete power systems representing turnkey AC-DC and DC-DC solutions for our customer s power needs. Our product strategy is now increasingly focused on the next generation of component-level building block, the V*I Chip[tm], which incorporates our latest advances in ZCS/ZVS technology and other proprietary power conversion innovations. We believe V*I Chips offer unprecedented power conversion density (i.e., the output power in Watts as a function of the size of the component in cubic inches), performance (i.e., benchmarks related to the capabilities of the component, such as conversion efficiency), and flexibility (i.e., the ability of our customers to implement a broad range of possible configurations).

The applications in which these power conversion and power management products are used are in the higher-performance, higher-power segments of the power systems market, including telecommunications and networking infrastructure, enterprise and high performance computing, industrial automation, vehicles and transportation, and defense electronics. Our products are sold worldwide to customers ranging from global original equipment manufacturers (OEMs) and their contract manufacturers to smaller, independent manufacturers of highly specialized electronic devices.

Our business segments are organized by key product lines:

Our Brick Business Unit (BBU) segment designs, develops, manufactures and markets our modular power converters, known as bricks, and, in 2008, introduced a new line of modular power converter, known as a VI Brick[tm], incorporating our V*I Chips into innovative, thermally-enhanced packaging. The BBU also designs, develops, manufactures and markets a line of configurable products, which are complete power supplies assembled using our modular power components. The BBU includes the operations of the Company s Westcor[tm] division, which is focused only on configurable products, the operations of Vicor Custom Power[tm] (previously known as Vicor Integration Architects[tm]), which comprises our turnkey custom power solutions business, and the operations of Vicor Japan Company, Ltd. (VJCL), which is the Company s Japanese subsidiary.

Our V*I Chip segment consists of V*I Chip Corporation, a wholly-owned subsidiary that designs, develops, manufactures and markets our Factorized Power Architecture[tm] (FPA) products. In April 2003, we introduced FPA, a new power system architecture based on an array of proprietary power conversion innovations building upon our long-standing leadership in the design of power conversion technologies. We believe FPA provides power system designers enhanced performance at a lower cost than can be attained with conventional power architectures. Because V*I Chips and FPA represent innovative alternatives to such conventional products and architectures, we established a separate business unit to enable the organizational focus necessary to support early adopters of these disruptive technologies.

Our Picor segment consists of Picor Corporation, a majority-owned subsidiary of Vicor and a fabless designer, developer, and marketer of high performance integrated circuits and related products for use in a variety of power system applications. Picor develops these products to be incorporated into Vicor s products, to be sold as

a complement to our products, or for sale to third parties for separate applications. Much of the differentiation of our BBU and V*I Chip products has been a result of implementation of our power conversion innovations in proprietary semiconductor circuitry. Because of the considerable semiconductor design expertise embodied in this captive organization and the potential

for success as a merchant vendor of an expanding portfolio of proprietary circuit designs, we established Picor as a separate business unit to enable organizational focus and to facilitate a distinct go-to-market strategy.

Vicor B.V., a wholly-owned subsidiary incorporated in the Netherlands, serves as a European distribution center. VLT, Inc. is the Company s wholly-owned licensing subsidiary. VICR Securities Corporation is our wholly-owned subsidiary that holds a significant portion of our investment securities.

We are headquartered in Andover, Massachusetts, where our manufacturing facility is located. V*I Chip Corporation also is headquartered in Andover, Massachusetts. Our Westcor division has a design and assembly facility in Sunnyvale, California. Our VJCL subsidiary, which is engaged in sales and customer support activities exclusively for the Japanese market, is located in Tokyo, Japan. Our six Vicor Custom Power locations are geographically distributed around the United States. We have sales and engineering support offices, which we call Technical Support Centers, in the United States, the United Kingdom, France, Germany, Italy, and China. Picor Corporation is headquartered in North Smithfield, Rhode Island.

All of the above named entities are consolidated in the financial statements presented herein.

We were incorporated in Delaware in 1981, and our common stock was listed on the NASDAQ National Market System in April 1990 under the ticker symbol of VICR.

We maintain a website with the address www.vicorpower.com and make available free of charge through this website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. The information contained on our website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K and shall not be deemed filed under the Exchange Act.

Market Background, Product Trends and Vicor Strategy

The market for power supplies and their enabling components continues to evolve in response to advancing technologies and corresponding changes in customer requirements. Similarly, we evolved our strategy to address evolving market challenges and opportunities. Many of the ongoing changes in the market, particularly in those segments in which we compete, have been characterized by improvement in product performance (e.g., power conversion efficiency), reduction in product form factor (i.e., size), and increased design flexibility (i.e., the ability of customers to address their power requirements with a broad range of alternative solutions). Product trends have been characterized by the disaggregation of the functions of power components such as DC-DC converters, thereby driving further improvement in overall power supply performance, further reduction in form factor, and greater flexibility in the way designers implement power supply solutions.

In 1984, we introduced an enhancement of the standardized, high-density power converter to the market: the fully-encapsulated brick , utilizing our ZCS/ZVS technology, in standardized dimensions of 4.6 x 2.4 x 0.5 . Our innovative, patented technology provided superior efficiency and overall performance in a small form factor, while full encapsulation provided not only full shielding from environmental influences, but enhanced thermal performance characteristics. Such thermal performance enhancement has been critical to the differentiated performance of our power converters, as the by-product of voltage conversion is heat, which must be dissipated in order to assure the performance of the converter itself and the overall system to which it is delivering power.

In response to market and technology trends and changes in our customer requirements, Vicor has implemented a strategy addressing both the realities of the current power conversion marketplace and our vision of the long-term direction of that marketplace. Our strategy involves maintaining a viable, profitable legacy business, while investing in the next generation of power management components.

Our early technical and performance leadership contributed to the development of an image in the market as a power component innovator. The BBU experienced strong revenue growth and robust profitability during the 1980s and 1990s, as important markets for our products expanded. However, a significant amount of our revenue was derived from the telecommunications market and, when that market collapsed in the early 2000s, we had to reassess our product portfolio and overall competitive positioning. Many of our domestic competitors faced the same circumstances and reoriented their strategies to serve high volume applications of large OEMs. In doing so, they moved much of their manufacturing from the United States to lower cost countries where the contract manufacturers used by their OEM customers were based. We chose not to follow these competitors, remained a domestic manufacturer, and shifted our competitive positioning to one based on mass customization .

As a part of our repositioning, we invested significantly in new product designs that emphasized low cost and flexible manufacturing, as well as the plant equipment and information technology necessary to support such low cost and flexible manufacturing. We also modified our go-to-market strategy to emphasize serving lower volume customers requiring higher value solutions. As such, today our product portfolio is extremely broad, while our customer base and the market segments we serve are far more diverse than prior to the change in our go-to-market strategy. Our mass customization model allows us to profitably meet the specific design and volume requirements of numerous, relatively low volume customers. Our decision to not pursue higher volume OEM opportunities constrained our growth during the economic recovery from 2004 into 2008, but our profitability during this period benefited from our value-added approach. We believe this approach will contribute to less volatility of our financial performance during the current period of economic decline, as our customers rely on us for power conversion solutions they generally cannot obtain from our volume-oriented competitors.

At the same time we undertook a repositioning of the BBU, our legacy business, we announced our vision for the future of component-based power conversion: FPA and V*I Chips. Since our founding, our products have been based on advanced, highly-differentiated designs. Much of our intellectual property is patented or otherwise proprietary to us. However, as is typical across the information technology and electronics markets, the segments in which we have competed matured relatively quickly and became characterized by product commoditization and price competition. Given our extensive experience with power conversion technologies and our understanding of trends in both technology and our markets, we concluded the appropriate complement to maintaining our legacy business would be to seek to redefine the competitive landscape in the long-term with our innovative, flexible new power distribution architecture and our next generation of advanced, highly-differentiated designs.

We believe traditional power architectures, in the long run, may not provide the performance necessary to address power system trends, given the trends toward lower voltages, higher currents, more on-board voltages, and the higher speeds and performance demands of numerous complex loads. FPA and V*I Chips address these trends, while providing significantly improved electrical performance and greater reliability, at a lower overall cost.

Our V*I Chips and much of their enabling technologies are protected by domestic and foreign patents and patent applications. We believe our market leadership is further protected by proprietary trade secrets associated with our use of certain components and materials of our own design, as well as our significant experience with manufacturing, packaging and testing these complex devices.

Picor, a majority-owned subsidiary of Vicor and a fabless designer, developer, and marketer of high performance integrated circuits and related products for use in a variety of power system applications, is a highly complementary element of our strategy to redefine the competitive landscape in the long-term. Many of the differentiated capabilities of our brick and V*I Chip products have been a result of implementation of our power conversion innovations in proprietary semiconductor circuitry. Most notably, proprietary, highly advanced microcontroller circuits are found in many of our most successful switching power components. While the majority of Picor s activities to date have involved supplying integrated circuits for internal use, Picor s strategy is to become a merchant vendor of innovative

power management circuitry, whether in

individual packages, multi-chip modules, or subassemblies. As such, Picor s current and planned products represent a complement to FPA and V*I Chips.

Our Products

Our website, www.vicorpower.com, sets forth detailed information describing all of products and the applications for which they may be used. The information contained on our website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K and shall not be deemed filed under the Exchange Act. Our principal product lines are:

Bricks: Modular Power Converters

Brick DC-DC power converters are well-established as an important enabling component of conventional power systems architectures. The BBU currently offers seven families of high power density, component-level DC-DC power converters: the VI-200tm, VI-J00tm, MI-200tm, MI-J00tm, Maxi, Mini and Micro families. Designed to be mounted directly on a printed circuit board chassis using contemporary manufacturing processes, each brick family is a comprehensive set of products offered in a wide range of input voltage (10 to 425 Volts DC) and output power (10 to 600 Watts). This allows end users to select power component products appropriate to their individual applications. The product families differ in maximum power ratings, performance characteristics, package size and, in certain cases, characteristics specific to the targeted market.

All of our brick products are encapsulated with a dielectric, elastomeric, thermally conductive material, thereby providing electrical insulation, thermal conductivity, and environmental protection of the electronic circuitry.

The Custom Module Design Systemtm (CMDS), a core component of the Vicor PowerBenchtm tool suite on our website, is a proprietary system enabling our customers to specify on-line, and verify in real time, the performance and attributes of its DC-DC converters. Not merely a product configuration tool like those offered by our competitors, the CMDS enables the comprehensive design of DC-DC converters in all of the Vicor established brick form factors (i.e., full, half and quarter size), using patented web-based technology. CMDS is an important element of our mass customization strategy.

In 2008, we introduced the VI Brick, a new power module form factor combining the superior technical attributes of our V*I Chip technology with robust packaging offering superior thermal characteristics and facilitating a range of board mounting alternatives. VI Brick models include high current density / low voltage DC-DC converters, a wide range of highly efficient bus converters, and individual models for both regulation and transformation.

Accessory Power System Components

Accessory power system components, used with our component-level power converters, integrate other important functions of the power system, facilitating the design of complete power systems by interconnecting several modules. These other functions include input filtering, power factor correction, transient protection and AC line rectification. In general, products from our broad line of accessory components are used to condition and/or filter the input and output voltages of the modular power components.

Examples of such accessory products include our VI-HAMtm (Harmonic Attenuator Module), a universal-AC-input, power-factor-correcting front end for use with compatible DC-DC power converters, and our VI-AIMtm (AC Input Module), which provides input filtering, transient protection and rectification of the AC line.

Configurable Products

Utilizing our modular power components as core elements, we have developed several configurable product families that provide complete power solutions configured to a customer s specific needs. These products exploit the benefits and flexibility of the modular approach to offer higher performance, higher power densities, lower costs, and faster delivery than many competitive offerings. Configurable products are designed,

developed and manufactured by the BBU, which offers a range of AC-DC and DC-DC products, by its Westcor division, which focuses on high-power AC-DC power supplies, and by VJCL.

Most information technology, process control, and industrial electronic products operate directly off of AC lines and, as such, require circuitry to convert AC line voltage into the required DC voltage. Our configurable AC-DC power systems, the FlatPAC[tm], VIPAC[tm] Power System, and LoPAC[tm] families, incorporate front-end AC-DC circuitry subassemblies, thereby providing a complete power solution from AC line input to one or more DC outputs. These configurable products are characterized by their low-profile design and are configurable in a range of sizes and outputs up to 1,500 Watts.

Many telecommunications switching, transportation and defense electronic products are powered from central DC sources (e.g., generators or banks of batteries). Our configurable DC-DC power systems, the VIPAC Array, ComPAC[tm], and MegaMod[tm] families, also are characterized by a low-profile design, including rugged, compact assemblies for chassis-mounted, bulk power applications.

Our highest power configurable product line, the MegaPAC[tm] family, is also among our most flexible solutions. A MegaPAC consists of a fan-cooled chassis with up to 10 slots into which are placed ConverterPAC[tm] modules, which incorporate our brick power conversion modules, allowing for a broad range of customer-specific configurations. The MegaPAC itself can be configured to accept either AC or DC inputs, and output power can be as high as 4,000 Watts with up to 20 outputs.

The VIPAC family of power systems, a class of user defined, modular power solutions, is among our most successful configurable product lines. VIPAC is an integrated power system leveraging the latest advances in Maxi, Mini, and Micro DC-DC converter technology and modular front ends. VIPAC combines application specific front end units, a choice of advantageous chassis styles and, in AC input versions, remotely located hold-up capacitors to provide fast, flexible and highly reliable power solutions for a wide range of demanding applications.

The web-based Vicor Computer Assisted Design (VCAD) tool, a component of Vicor PowerBench, can be utilized by the customer to specify and verify, in real time, that customer s desired configuration of our VIPAC family of configurable products from a broad range of inputs, outputs, packaging and optional features. Similarly, our web-based Vicor System Product Online Configurator (VSPOC), also a component of Vicor PowerBench, allows customers to configure and order Westcor AC-DC power supplies.

Customer Specific Products

Certain customers rely on us to design, develop and manufacture custom power systems to meet performance and/or form factor (i.e., shape and size) requirements that cannot be met with off-the-shelf system solutions. By utilizing our power components as building-blocks in developing these custom power systems, we have been able to meet such customers needs with reliable, high power density, turnkey solutions. These low-volume, high value-add products, besides meeting customers specific requirements, frequently are designed to function reliably in the harsh environments associated with aerospace and defense applications.

We pursue custom opportunities through our Vicor Custom Power network, which consists of six regional design, assembly and customer support locations. In 2008, we undertook a rebranding of what had been called Vicor Integration Architects, or VIAs, in order to unify our marketing efforts in the custom segment, as well as better coordinate the activities of the network. Of the six locations, one is a division of the Company, three are either wholly-owned or majority-owned subsidiaries, and two are companies in which Vicor holds a minority ownership interest.

V*I Chip Products

We have pioneered an innovative new board level power architecture, FPA, which separates (or factorizes) the basic functions of power conversion (voltage transformation, regulation, and isolation) into separate power components called V*I Chips. Our V*I Chips represent the next generation of modular power components, providing power systems designers the ability to address increasingly challenging requirements. With each new generation of microprocessor, application specific integrated circuit, and memory, the trend has

been toward lower voltages, higher currents, higher speeds and more on-board voltages. System designers must contend with a range of lower voltages, improve overall power system efficiency, and deliver the solution in an ever-smaller form factor.

We believe FPA provides power system designers superior power density, conversion efficiency, transient responsiveness, noise performance, reliability, and design flexibility at a lower overall cost than attained with conventional board level power architectures. We currently offer three V*I Chip modules: the BCM™ (Bus Converter Module), an intermediate bus converter; the PRM™ (Pre-Regulator Module), a non-isolated regulator; and the VTM™ (Voltage Transformation Module), a current multiplier.

The BCM provides an isolated, unregulated intermediate bus voltage, at efficiencies up to 96%, to power non-isolated converters at the point-of-load from a narrow range DC input. The PRM is a non-isolated regulator, operating at up to 97% efficiency, capable of both boosting (i.e., increasing) and bucking (i.e., reducing) an input voltage and providing a regulated, adjustable output voltage or factorized bus. VTMs are designed to meet the demands of advanced microprocessor and memory applications at the point of load with fixed ratio voltage transformation with extremely fast transient response, while providing isolation from input to output.

Picor Products

Picor designs, develops, and markets high performance integrated circuits and related products for use in a variety of power system applications. Picor is pursuing a merchant strategy and offers a growing range of products for sale to third parties. In 2008, Picor introduced its Cool-ORing™ line of full-function Active ORing solutions and discrete Active ORing controllers. These solutions address the requirements of redundant power architectures implemented in today s high-availability systems such as enterprise servers, high performance computing, and telecom and communications infrastructure systems. The new products were named by *Electronic Design News* in December 2008 as one of the Hot 100 products of the year.

Picor s product portfolio includes a range of QuietPower™ output (QPO) and input (QPI) EMI filters differentiated by their small, surface mount System-in-Package and low cost. Products are targeted at a range of industry and customer applications.

MIL-COTS Products

We offer versions of our commercial-off-the-shelf brick converters and accessories, configurable power supplies, and V*I Chips that meet certain specification standards established by the U.S. Department of Defense. Such MIL-COTS products meet the performance and reliability requirements associated with use in harsh and demanding environments.

Sales and Marketing

We sell our products in North America and South America through a network of independent sales representative organizations and internationally through independent distributors. Sales activities are managed by a staff of Area Sales Directors, Regional and National Account Sales Managers, and sales personnel located in: our world headquarters in Andover, Massachusetts; a Technical Support Center in Lombard, Illinois; our Westcor division in Sunnyvale, California; Vicor Custom Power locations in Cedar Park (Austin), Texas, Milwaukie (Portland), Oregon, and Oceanside (San Diego), California; our subsidiary in Tokyo, Japan; and our Technical Support Centers in Munich, Germany; Camberley, Surrey, England; Milan, Italy; Paris, France; and Hong Kong, China.

Export sales, as a percentage of total net revenues, were approximately 42% in 2008, and 37% in 2007 and 2006, respectively.

Because of the technically complex nature of our products, we maintain a staff of Field Applications Engineers to support our sales activities. Field Application Engineers provide direct technical sales support worldwide by reviewing new applications and technical matters with existing and potential customers. Product

Specialists (Product Line Engineers), located in our Andover headquarters, support field application engineers assigned to all company locations.

We generally warrant our products for a period of two years.

We also sell directly to customers through Vicor Express[tm], an in-house distribution group. Through advertising and periodic mailing of its catalogs, Vicor Express generally offers customers rapid delivery on small quantities of many standard products. Through Vicor B.V., Vicor Express operates in Germany, France, Italy and England.

Applications and Customers

The applications in which our power conversion and power management products are used are in the higher-performance, higher-power segments of the power systems market. Our products are sold worldwide to customers ranging from global OEMs and their contract manufacturers to smaller, independent manufacturers of highly specialized electronic devices. For the years ended December 31, 2008, 2007 and 2006, no single customer accounted for more than 10% of our net revenues.

Backlog

As of December 31, 2008, we had a backlog of approximately $52,700,000 compared to $46,500,000 on December 31, 2007. Backlog is comprised of orders for products for which shipment is scheduled within the next 12 months. A portion of our sales in any quarter is, and will continue to be, derived from orders booked in the same quarter.

Research and Development

As a basic element of our long-term strategy, we are committed to the continued advancement of power conversion technology and power component product development. We invested approximately $31,400,000, $30,400,000, and $31,400,000 in research and development in 2008, 2007, and 2006, respectively. Investment in research and development represented 15.3%, 15.5%, and 16.3% of net revenues in 2008, 2007, and 2006, respectively. We intend to continue to invest a significant percentage of revenues in research and development activities.

Manufacturing and Quality Assurance

Our principal manufacturing processes consist of assembly of electronic components onto printed circuit boards, automatic testing of components, wave, reflow and infrared soldering of assembled components, encapsulation of converter subassemblies, final environmental stress screening of certain products and product test using automatic test equipment.

We continue to pursue a manufacturing strategy based upon the phased acquisition and/or fabrication, qualification and integration of automated manufacturing equipment to reduce manufacturing costs, increase product quality and reliability and enable rapid and effective expansion of capacity, as needed. We intend to make continuing investments in manufacturing equipment, particularly for our FPA products and replacement of manufacturing equipment utilized by the BBU.

Components and materials used in our products are purchased from a variety of vendors. Most of the components are available from multiple sources. In instances of single source items, we maintain levels of inventories we consider to be appropriate to enable meeting the delivery requirements of customers. Incoming components, assemblies and other parts are subjected to several levels of inspection procedures.

Our compliance with applicable environmental laws has not had a material effect on our financial condition or operating results.

Product quality and reliability are a critical to our success and, as such, we emphasize quality and reliability in our design and manufacturing activities. We follow industry best practices in manufacturing and are compliant with ISO 9001 certification standards (as set forth by the International Organization for

Standardization). Our quality assurance practices include rigorous testing and, as necessary, burn-in of our products using automated equipment.

Competition

The power conversion industry is highly competitive. It remains highly fragmented, despite recent significant consolidation. Numerous power supply manufacturers target market segments and applications similar to those we target. Several of these competitors have significantly greater financial and marketing resources and longer operating histories than we do.

With the BBU, our strategy is largely based on mass customization. We believe we have a strong competitive position, particularly with customers who need small, high density power system solutions requiring a variety of input-output configurations. We compete on the basis of differentiation, offering a broad product line and mass customization abilities. We also compete by emphasizing technical innovation, product performance, and service and technical support. We believe the principal competitive variables in the market segments in which the BBU competes are price, performance, and the level of service and technical support offered.

With V*I Chip, our strategy is largely based on differentiated products offered to, at least during the early adoption of such products, a limited number of larger potential customers well-positioned to make the necessary investment to adopt FPA. V*I Chip currently competes with vendors of power component solutions, many of which are the manufacturers with which the BBU competes. In the longer-term, we anticipate a significantly broadened market for FPA and V*I Chip, as awareness of the advantages of FPA and V*I Chip spreads and a broader audience of potential customers is reached.

Picor and, to a lesser extent, V*I Chip compete with suppliers of integrated circuits for power conversion applications, many of which have significantly greater financial and marketing resources and longer operating histories. We believe Picor is developing a strong competitive position based on innovative product design and packaging.

Patents and Intellectual Property

We believe our patents afford advantages by building fundamental and multilayered barriers to competitive encroachment upon key features and performance benefits of our principal product families. Our patents cover the fundamental conversion topologies used to achieve the performance attributes of our converter product lines; converter array architectures; product packaging design; product construction; high frequency magnetic structures; as well as automated equipment and methods for circuit and product assembly.

We have been issued 135 patents in the United States (which expire between 2009 and 2027). We also have a number of patent applications pending in the United States, Europe and the Far East. We intend to vigorously protect our rights under these patents. Although we believe patents are an effective way of protecting our technology, there can be no assurances that the Company s patents will prove to be enforceable (see, e.g., Part I, Item 3 Legal Proceedings).

Licensing

In addition to generating revenue from product sales, licensing is an element of our strategy for building worldwide product and technology acceptance and market share. In granting licenses, we generally retain the right to use our patented technologies and manufacture and sell our products in all licensed geographic areas and fields of use. Licenses are granted and administered through the Company s wholly-owned subsidiary, VLT, Inc., which owns our patents. Revenues from licensing arrangements have not exceeded 10% of our consolidated revenues in any of the last three fiscal years.

Employees

As of December 31, 2008, we employed approximately 1,045 full time and 47 part time people. In January 2009, we announced a reduction in force that resulted in the termination of approximately 90 employees.

We believe that our continued success depends, in part, on its ability to attract and retain qualified personnel. Although there is strong demand for qualified technical personnel, we have not to date experienced difficulty in attracting and retaining sufficient engineering and technical personnel to meet our needs (see Part I, Item 1A Risk Factors).

None of our employees are subject to a collective bargaining agreement.

ITEM 1A *RISK FACTORS*

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, the risk factors set forth below.

Our future operating results are difficult to predict and are subject to fluctuations.

Our future operating results, including revenues, gross margins, operating expenses and net income (loss), are difficult to predict and may be materially affected by a number of factors, including:

the effects of adverse economic conditions in the United States and international markets, especially in light of the current crisis in global credit and financial markets;

the level of orders and demand from customers;

changes in customer demand for our products and for end products that incorporate our products;

the effectiveness of our efforts to reduce product costs and manage operating expenses;

the timing of new product announcements or introductions by us or our competitors;

the timing, delay or cancellation of significant customer orders and our ability to manage inventory;

the ability to hire, retain and motivate qualified employees to meet the demands of our customers;

our ability to utilize our manufacturing facilities at efficient levels;

potential significant litigation-related costs;

the costs related to compliance with increasing worldwide environmental and other regulations; and

the effects of public health emergencies, natural disasters, security risk, terrorist activities, international conflicts and other events beyond our control.

As a result of these and other factors, we cannot assure you that we will not experience significant fluctuations in future operating results on a quarterly or annual basis. In addition, if our operating results do not meet the expectations of security analysts or investors, the market price of our common stock may decline.

The current crisis in global credit and financial markets could materially and adversely affect our business and results of operations.

Global credit and financial markets have been experiencing extreme disruptions in recent months, including severely reduced liquidity and credit availability, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. There can be no assurance that there will not be further deterioration in credit and financial markets and confidence in economic conditions. These economic uncertainties affect our business in a number of ways, making it more challenging to accurately forecast and plan our future business activities. The current tightening of credit in financial markets may lead

consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders with us. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and increased risk from carrying potential excess or obsolete inventory. The volatility in the credit markets has severely diminished liquidity and capital availability. We are unable to predict the likely duration and severity of the current disruptions in the credit and financial markets and adverse global economic conditions, and if the current uncertain economic conditions continue or further deteriorate, our business and results of operations could be materially and adversely affected.

Our future success depends upon our ability to develop and market leading-edge, cost effective products.

The power supply industry and the industries in which many of our customers operate are characterized by intense competition, rapid technological change, product obsolescence and price erosion for mature products, each of which could have an adverse effect on our results of operations. If we fail to continue to develop and commercialize leading-edge technologies and products that are cost effective and maintain high standards of quality, and introduce them to the market on a timely basis, our competitive position and results of operations could be materially adversely affected.

Our future operating results are dependent on the growth in our customers businesses and on our ability to identify and enter new markets.

We manufacture modular power components and power systems that are incorporated into our customers electronic products. Our growth is therefore dependent on the growth in the sales of our customers products as well as the development by our customers of new products. If we fail to anticipate changes in our customers businesses and their changing product needs or successfully identify and enter new markets, our results of operations and financial position could be negatively impacted. We cannot assure you that the markets we serve will grow in the future, that our existing and new products will meet the requirements of these markets or that we can maintain adequate gross margins or profits in these markets. A decline in demand in one or several of our end-user markets could have a material adverse impact on the demand for our products and our results of operations.

If we were unable to use our manufacturing facility in Andover, Massachusetts, we would not be able to manufacture for an extended period of time.

All modular power components, whether for direct sale to customers or for sale to our subsidiaries for incorporation into their respective products, are manufactured at our Andover, Massachusetts production facility. Damage to this facility due to fire, natural disaster, power loss or other events could cause us to cease manufacturing. Any prolonged inability to utilize all or a significant portion of this facility could have a material adverse effect on our results of operations.

We may not be able to procure necessary key components for our products, or we may purchase too much inventory or the wrong inventory.

The power supply industry, and the electronics industry as a whole, can be subject to business cycles. During periods of growth, key components required to build our products may become unavailable in the timeframe required for us to meet our customers demands. Our inability to secure sufficient components to build products for our customers could negatively impact our sales and operating results. We may choose to mitigate this risk by increasing the levels of inventory for certain key components. Increased inventory levels can increase the potential risk for excess and obsolescence should our forecasts fail to materialize or if there are negative factors impacting our customers end markets. If we purchase too much inventory or the wrong inventory, we may have to record additional inventory reserves or write-off the inventory, which could have a material adverse effect on our gross margins and on our results

of operations.

Our revenues may not increase enough to offset the expense of additional capacity.

We have made significant additions to our manufacturing equipment and capacity over the past several years, including equipment for our new V*I Chip products. If overall revenue levels do not increase enough to offset the increased fixed costs, or significant revenues do not materialize for the FPA products or if there is deterioration in our business, our future operating results could be adversely affected. In addition, asset values could be impaired if the additional capacity is underutilized for an extended period of time resulting in impairment charges which could have a material adverse effect on our financial position and results of operations.

We rely on third-party suppliers and subcontractors for components and assemblies and, therefore, cannot control their availability or quality.

We depend on third party suppliers and subcontractors to provide components and assemblies used in our products, some of which are sole-sourced. If suppliers or subcontractors cannot provide their products or services on time or to our specifications, we may not be able to meet the demand for our products and our delivery times may be negatively affected. In addition, we cannot directly control the quality of the products and services provided by third parties. In order to grow, we may need to find new or change existing suppliers and subcontractors. This could cause disruptions in production, delays in the shipping of product or increases in prices paid to third-parties.

We are exposed to economic, political and other risks through our foreign sales and distributors.

International sales have been and are expected to be a significant component of total sales. Dependence on foreign third parties for sales and distribution is subject to special risks, such as foreign economic and political instability, foreign currency controls and market fluctuations, trade barriers and tariffs, foreign regulations and exchange rates. Our international customers business may be negatively effected by the current crisis in the global credit and financial markets. Sudden or unexpected changes in the foregoing could have a material adverse effect on our results of operations.

Our ability to successfully implement our business strategy may be limited if we do not retain our key personnel and attract and retain skilled and experienced personnel.

Our success depends on our ability to retain the services of our executive officers. The loss of one or more members of senior management could materially adversely affect our business and financial results. In particular, we are dependent on the services of Dr. Vinciarelli, our founder and Chief Executive Officer. The loss of the services of Dr. Vinciarelli could have a material adverse effect on our development of new products and on our results of operations. In addition, we depend on highly skilled engineers and other personnel with technical skills that are in high demand and are difficult to replace. Our continued operations and growth depend on our ability to attract and retain skilled and experienced personnel in a very competitive employment market. If we are unable to attract and retain these employees, our ability to successfully implement our business strategy may be harmed.

Funds associated with our investments in auction rate securities may not be accessible in the short term.

As of December 31, 2008, we held $38,325,000 of auction rate securities (the Failed Auction Securities), consisting of debt obligations of municipal and corporate issuers. The interest rates for these securities are reset at auction at regular intervals ranging from seven to 90 days. Our Failed Auction Securities have historically traded at par and are callable at par at the option of the issuer. On December 31, 2008, the majority of the Failed Auction Securities held by the Company were AAA/Aaa rated by the major credit rating agencies, with most collateralized by student loans guaranteed by the U.S. Department of Education under the Federal Family Education Loan Program. Starting the week of February 11, 2008, a substantial number of auctions failed, meaning there was not enough demand to sell all

of the securities that holders offered for sale. 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 the security s indenture. While we do not currently anticipate the lack of liquidity of our Failed Auction Securities to adversely affect our ability to conduct business, the funds associated with Failed Auction Securities may not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the security is called, the underlying securities have matured, or, with respect to certain Failed Auction Securities, our exercise of our contractual right to sell certain Failed Auction Securities, at par value, during a period beginning June 1, 2010, to the broker-dealer through which we purchased such securities.

We may be required to make additional adjustments to the carrying value of our Failed Auction Securities.

In order to record the value of our Failed Auction Securities appropriately each quarter, we have estimated their market value and recorded an impairment charge. Through the third quarter of 2008, we classified all of our Failed Auction Securities as available-for-sale and their impairment was considered temporary. As such, quarterly temporary impairment charges were made to Accumulated other comprehensive (loss) income (i.e., the recorded value of the Failed Auction Securities declined by the impairment charge, as did our Stockholders Equity). During the fourth quarter of 2008, we entered into a settlement agreement with UBS AG (UBS) giving us the contractual right to sell certain securities (with a par value of $18,300,000 at year-end) purchased through a broker-dealer affiliate of UBS to UBS at par during a period of time beginning June 30, 2010, through July 2, 2012. Because we intend to exercise this right and no longer intend to hold these securities to maturity, we reclassified these securities as trading. In order to record the fair value of these securities appropriately, we reversed the accumulated temporary impairment recorded as a reduction of Stockholders Equity and recorded a charge to our Consolidated Statements of Operations of $2,238,000, reflecting our estimate at year-end of the other-than-temporary decrease in their carrying value from par value. However, we also recorded the receipt as of the contractual right as a gain on our Consolidated Statements of Operations, thereby largely offsetting the other than temporary impairment charge. The balance of our holdings of Failed Auction Securities is made up of securities (with a par value of $20,000,000 at year-end) purchased through a broker-dealer affiliate of Bank of America, N.A. (BofA). These Failed Auction Securities remain classified as available-for-sale , as it is our intention to hold these securities to maturity or other such time as we may obtain par value through an arms length sale. In order to record the fair value of these securities appropriately, we recorded a temporary impairment charge to Accumulated other comprehensive (loss) income of $2,100,000, reflecting our estimate of the additional decrease in their carrying value at year-end.

We may be required to make additional adjustments to the carrying value of the balance of our holdings of Failed Auction Securities through other-than-temporary impairment charges recorded in the Consolidated Statements of Operations. The following circumstances, among others, may cause us to reclassify the balance of our holdings of Failed Auction Securities as trading, thereby possibly resulting in charge to our Consolidated Statements of Operations:

- the default of an issuer or a specific security of that issuer;
- the significant deterioration of the credit rating of a security or its issuer;
- a tender offer for a specific security from the issuer valuing the security at less than par that is accepted by the number of holders necessary to require all holders to tender their securities; and
- the development of a robust secondary market for auction rate securities, establishing an active market value for our securities or similar securities that represents a substantial discount to par.

Should we reclassify a security currently classified as available-for-sale as trading , we would reverse the accrued temporary charges associated with the security from Accumulated other comprehensive (loss) income and record the

appropriate charge to our Consolidated Statement of Operations reflecting our estimate of the other-than-temporary decrease in their carrying value. Such impairment charges or, in the event of a sale, realized losses could be material in amount and be detrimental to our financial position, potentially impacting our ability to fund operations.

We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively.

We operate in an industry in which the ability to compete depends on the development or acquisition of proprietary technologies which must be protected to preserve the exclusive use of such technologies. We devote substantial resources to establish and protect our patents and proprietary rights, and we rely on patent and intellectual property law to protect such rights. This protection, however, may not prevent competitors from independently developing products similar or superior to our products. We may be unable to protect or enforce current patents, may rely on unpatented technology that competitors could restrict, or may be unable to acquire patents in the future, and this may have a material adverse affect on our competitive position. In addition, the intellectual property laws of foreign countries may not protect our rights to the same extent as those of the United States. We have been and may need to continue to defend or challenge patents. We have incurred and expect to incur significant costs in and devote significant resources to these efforts which, if unsuccessful, may have a material adverse effect on our results of operations and financial position.

We may face intellectual property infringement claims that could be costly to resolve.

We may in the future receive communications from third parties asserting that our products or manufacturing processes infringe on a third party s patent or other intellectual property rights. In the event a third party makes a valid intellectual property claim against us and a license is not available to us on commercially reasonable terms, or at all, we could be forced to either redesign or stop production of products incorporating that technology, and our operating results could be materially and adversely affected. In addition, litigation may be necessary to defend us against claims of infringement, and this litigation could be costly and divert the attention of key personnel. An adverse outcome in these types of matters could have a material adverse impact on the results of our operations and financial condition.

We may face legal claims and litigation that could be costly to resolve.

We may in the future encounter legal action from customers, vendors or others concerning product warranty or other claims. Such litigation is costly and diverts the attention of key personnel. An adverse outcome in these current or future matters could have a material adverse impact on the results of our operations and financial condition.

If we are unable to obtain required financial information for certain investments on a timely basis, we may not be able to accurately report our financial results in the reports we file or submit under the Exchange Act, within the time periods specified.

We are required to account for our investment in Great Wall Semiconductor Corporation (GWS), under the equity method of accounting. We have developed processes and controls to ensure proper accounting and reporting for the investment. However, we cannot be certain those procedures, processes and controls will be adequate to ensure that we obtain the required information to properly account for this investment under the equity method of accounting and allow us to file our reports under the Exchange Act on a timely basis. The lack of timely filing could prevent continued listing of our Common Stock on the Nasdaq Stock Market, LLC, and could have a significant impact on the trading price of our Common Stock.

ITEM 1B ***UNRESOLVED STAFF COMMENTS***

The Company has not received written comments from the Securities and Exchange Commission regarding its periodic or current reports under the Securities Exchange Act of 1934, as amended, that were received 180 days or more before December 31, 2008 and remain unresolved. There are no unresolved comments from the Securities and Exchange Commission as of December 31, 2008.

ITEM 2 ***PROPERTIES***

The Company s corporate headquarters building, which the Company owns and which is located in Andover, Massachusetts, provides approximately 90,000 square feet of office space for its sales, marketing, engineering and administration personnel.

The Company also owns a building of approximately 230,000 square feet in Andover, Massachusetts, which houses all Massachusetts manufacturing activities.

The Company s Westcor division owns and occupies a building of approximately 31,000 square feet in Sunnyvale, California.

ITEM 3 ***LEGAL PROCEEDINGS***

As previously disclosed in prior filings, we received total payments of $1,770,000 in the second quarter of 2007 in full settlement of patent infringement litigation against Artesyn Technologies, Inc., Lucent Technologies Inc., and the Tyco Power Systems unit of Tyco International Ltd. (which had acquired the Power Systems business of Lucent Technologies). The full amount of the payments, net of a $177,000 contingency fee we had accrued for our litigation counsel, was included in the second quarter of 2007 in (Gain) loss from litigation related settlements, net in the accompanying condensed consolidated statement of operations. We subsequently were informed by our litigation counsel that the full amount of the contingency fee was waived and, therefore, the related accrual of $177,000 was reversed in the second quarter of 2008.

On February 22, 2007, we announced we had reached an agreement in principle with Ericsson, Inc., the U.S. affiliate of LM Ericsson, to settle a lawsuit brought by Ericsson against us in California state court. Under the terms of the settlement agreement entered into on March 29, 2007, after a court ordered mediation, we paid $50,000,000 to Ericsson, of which $12,800,000 was reimbursed by our insurance carriers. Accordingly, we recorded a net loss of $37,200,000 from the litigation-related settlements in the fourth quarter of 2006. We have been seeking further reimbursement from our insurance carriers. On November 14, 2008, a jury in the United States District Court for the District of Massachusetts found in our favor in our lawsuit against certain of its insurance carriers with respect to the Ericsson settlement. The jury awarded us $17,300,000 in damages, although the verdict is subject to challenge in the trial court and on appeal. Both parties filed certain motions subsequent to the ruling and, on March 2, 2009, the judge in the case rendered his decision on the subsequent motions, reducing the jury award by $4,000,000. The revised award remains subject to appeal.

Our decision to enter into the settlement followed an adverse ruling by the court in January 2007 in connection with a settlement between Ericsson and co-defendants Exar Corporation (Exar) and Rohm Device USA, LLC (Rohm), two of our component suppliers prior to 2002. Our writ of mandate appeal of this ruling was denied in April, 2007. In September 2007, we filed a notice of appeal of the court s decision upholding the Ericsson-Exar-Rohm settlement. In December 2007, the court awarded Exar and Rohm amounts for certain statutory and discovery costs associated with this ruling. As such, we accrued $240,000 in the second quarter of 2007, included in (Gain) loss from litigation-related settlements, net in the Consolidated Statements of Operations, of which $78,000 of the award was paid in the second quarter of 2008. On February 9, 2009, the Court of Appeals issued its opinion affirming the judgment for Exar and Rohm in full. We expect the remaining amount accrued in the second quarter of 2007 will be sufficient to cover the required payments under this final ruling.

On August 18, 2005, we filed an action in The Superior Court of the Commonwealth of Massachusetts, County of Essex against Concurrent Computer Corporation (Concurrent) in response to a demand made by Concurrent in

connection with breach of contract and breach of product warranty claims against us. On August 1, 2007, we reached an agreement in principle to settle the lawsuit with Concurrent for $2,350,000, all of which would be paid by our insurance carriers. The settlement agreement was finalized effective August 28, 2007, upon which we made the settlement payment of $2,350,000 to Concurrent and in turn received payment for that same amount from our insurance carriers. There was no impact on the Consolidated Statement of Operations for the year ended December 31, 2007 as a result of the settlement.

In addition, we are involved in certain other litigation and claims incidental to the conduct of our business. While the outcome of lawsuits and claims against us 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.

ITEM 4 ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

PART II

ITEM 5 ***MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS***

Our Common Stock is listed on The Nasdaq Stock Market, LLC, under the trading symbol VICR. Shares of our Class B Common Stock are not registered with the Securities and Exchange Commission, are not listed on any exchange nor traded on any market, and are subject to transfer restrictions under our Restated Certificate of Incorporation, as amended.

The following table sets forth the quarterly high and low sales prices for the Common Stock as reported by The Nasdaq Stock Market for the periods indicated:

2008	**High**	**Low**
First Quarter	$ 15.84	$ 10.34
Second Quarter	13.18	9.81
Third Quarter	11.49	8.24
Fourth Quarter	9.05	3.80

2007	**High**	**Low**
First Quarter	$ 11.62	$ 8.78
Second Quarter	13.54	9.06
Third Quarter	14.99	10.81
Fourth Quarter	15.60	12.05

As of February 28, 2009, there were 253 holders of record of our Common Stock and 16 holders of record of our Class B Common Stock. These numbers do not reflect persons or entities that hold their stock in nominee or street name through various brokerage firms.

Dividend Policy

Dividends are declared at the discretion of our Board of Directors and depend on actual cash from operations, our financial condition and capital requirements, and any other factors the Board of Directors may consider relevant. On January 14, 2009, the Company announced an indefinite suspension of its semi-annual dividend.

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

close of business on March 9, 2007.

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

On March 14, 2008, the Board of Directors approved a cash dividend of $0.15 per share of Common Stock. The total dividend of approximately $6,245,000 was paid on April 18, 2008 to shareholders of record at the close of business on April 2, 2008.

On August 7, 2008, the Board of Directors approved a cash dividend of $0.15 per share of the Company s Common Stock. The total dividend of approximately $6,249,000 was paid on September 10, 2008 to shareholders of record at the close of business on August 25, 2008.

On January 14, 2009, the Board of Directors voted in support of management s recommendation that dividends be suspended indefinitely.

During the year ending December 31, 2007, two subsidiaries paid a total of $180,000 in dividends, of which $92,000 was paid to outside shareholders. During the year ending December 31, 2008, a subsidiary paid a total of $2,290,000 in dividends, of which $1,168,000 was paid to an outside shareholder and accounted for as a reduction in minority interests.

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
October 1 31, 2008		$		$ 8,541,000
November 1 30, 2008				8,541,000
December 1 31, 2008				8,541,000
Total		$		$ 8,541,000

In November 2000, our Board of Directors authorized the repurchase of up to $30,000,000 of our Common Stock (the November 2000 Plan). The November 2000 Plan authorizes us to make such repurchases from time to time in the open market or through privately negotiated transactions. The timing and amounts of stock repurchases are at the discretion of management based on its view of economic and financial market conditions. We did not repurchase shares of Common Stock during the year ended December 31, 2008.

Stockholder Return Performance Graph

The graph set forth below presents the cumulative, five-year stockholder return for each of the Corporation s Common Stock, the Standard & Poor s 500 Index (S&P 500 Index), a value-weighted index made up of 500 of the largest, by market capitalization, listed companies, and the Standard & Poor s SmallCap 600 Index (S&P SmallCap 600 Index), a value-weighted index of 600 listed companies with market capitalizations between $200,000,000 and $1,000,000,000.

The graph assumes an investment of $100 on December 31, 2003 in each of our Common Stock, the S&P 500 Index, and the S&P SmallCap 600 Index, and assumes reinvestment of all dividends. The historical information set forth below is not necessarily indicative of future performance.

Comparison of Five Year Cumulative Return
Among Vicor Corporation, S&P 500 Index
and S&P SmallCap 600 Index

	2003	2004	2005	2006	2007	2008
Vicor Corporation	$ 100.00	$ 114.91	$ 138.57	$ 98.65	$ 142.30	$ 62.00
S&P 500 Index	$ 100.00	$ 110.87	$ 116.30	$ 134.66	$ 142.07	$ 89.51
S&P SmallCap 600 index	$ 100.00	$ 121.59	$ 129.68	$ 149.93	$ 146.12	$ 99.38

ITEM 6 ***SELECTED FINANCIAL DATA***

The following selected consolidated financial data with respect to our statements of operations for the year ended December 31, 2008, and with respect to our balance sheet as of December 31, 2008, are derived from our Consolidated Financial Statements, which appear elsewhere in this report and which have been audited by Grant Thornton LLP, our independent registered public accounting firm. The following selected consolidated financial data with respect to our statements of operations for the years ended December 31, 2007 and 2006, and with respect to our balance sheet as of December 31, 2007, are derived from our Consolidated Financial Statements, which appear elsewhere in this report and which have been audited by Ernst & Young LLP, our previous independent registered public accounting firm. The following selected consolidated financial data with respect to our statements of operations for the years ended December 31, 2005 and 2004, and with respect to our balance sheets as of December 31, 2006, 2005 and 2004, are derived from our Consolidated Financial Statements, which are not included herein. The data should be read in conjunction with the Consolidated Financial Statements, related notes and other financial information included herein.

	Year Ended December 31,				
Statement of Operations Data	**2008**	**2007**	**2006**	**2005**	**2004**
	(In thousands except per share data)				
Net revenues	$ 205,368	$ 195,827	$ 192,047	$ 179,351	$ 171,580
Income (loss) from operations	(1,142)	1,071	(33,182)	3,380	(4,035)
Net income (loss)	(3,595)	5,335	(29,059)	3,493	(4,692)
Net income (loss) per share basic	(.09)	.13	(.69)	.08	(.11)
Net income (loss) per share diluted	(.09)	.13	(.69)	.08	(.11)
Weighted average shares basic	41,651	41,597	41,839	41,923	42,022
Weighted average shares diluted	41,651	41,687	41,839	42,089	42,022
Cash dividends per share	$ .30	$ .30	$ .27	$ .12	$ .08

	On December 31,				
Balance Sheet Data	**2008**	**2007**	**2006**	**2005**	**2004**
	(In thousands)				
Working capital	$ 65,297	$ 114,924	$ 123,467	$ 150,385	$ 148,419
Total assets	171,922	192,458	247,461	243,902	243,452
Long-term debt					
Total liabilities	24,751	28,018	77,289	28,965	24,259
Stockholders equity	147,171	164,440	170,172	214,937	219,193

ITEM 7 ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

Overview

We design, develop, manufacture and market modular power components and complete power systems based upon a portfolio of patented technologies. We sell our products primarily to customers in the higher-performance, higher-power segments of the power systems market, including telecommunications and networking infrastructure,

enterprise and high performance computing, industrial automation, vehicles and transportation, and defense electronics, through a network of 22 independent sales representative organizations in North and South America and, internationally, through 40 independent distributors. Export sales as a percentage of total revenues were approximately 42% in 2008, and 37% in 2007 and 2006, respectively. We have organized our business segments according to our key product lines. The Brick Business Unit segment (BBU) designs, develops, manufactures and markets modular power converters and configurable products, and includes the operations of our Westcor division, Vicor Custom Power and Vicor Japan Company, Ltd. (VJCL). The V*I Chip segment consists of V*I Chip Corporation, a wholly owned subsidiary which designs, develops, manufactures and markets our FPA products. The Picor segment consists of Picor Corporation, a majority-

owned subsidiary of Vicor, 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.

For the year ended December 31, 2008 revenues increased to $205,368,000 from $195,827,000 in 2007. We had a loss before taxes of ($931,000) in 2008 as compared to income before taxes of $5,459,000 in 2007. We reported a net loss in 2008 of ($3,595,000) as compared to net income of $5,335,000 in 2007, and a diluted loss per share of ($.09) in 2008 as compared with a diluted income per share of $.13 in 2007.

The book to bill ratio for the third and fourth quarters of 2008 was 1.20:1 and 0.93:1, respectively. The book to bill ratio for the year ended December 31, 2008 was 1.03:1 compared with 1.05:1 in 2007. In light of the fact that bookings and sales can vary significantly from quarter to quarter, we do not believe this quarterly and annual change in the book to bill ratio is indicative of a trend at this time. We ended 2008 with approximately $52,700,000 in backlog, compared to $46,500,000 at the end of 2007.

The gross margin for 2008 increased to 42.0%, compared with 40.3% in 2007. The primary components of the increase in gross margin dollars and percentage were an increase in revenues, improved product mix and pricing, and lower product returns and warranty expenses.

Operating expenses for 2008 increased $9,489,000, or 12.2%, from $77,938,000 in 2007 to $87,427,000 in 2008. Selling, general and administrative expenses increased $7,287,000, research and development expenses increased $1,026,000, and (Gain) loss from litigation settlements, net decreased $1,176,000. The key operating expense increases were in compensation expense, advertising expenses, legal, audit and tax fees, and expenses at our Vicor Custom Power locations, particularly commissions expense due to increased Vicor Custom Power revenues, and compensation and related personnel expenses at VJCL.

Other income (expense), net decreased $4,177,000 from $4,388,000 in 2007 to $211,000 in 2008. The primary reasons for the decrease were a decrease in interest income of $2,346,000 and an increase in minority interest in net income of subsidiaries of $1,278,000.

Loss from equity method investment (net of tax) increased $549,000 to $1,688,000 from $1,139,000 for 2007. This was principally due to an adjustment to the carrying value of our investment in Great Wall Semiconductor Corporation (GWS) reflecting a decline in value judged to be other- than-temporary of $706,000 in the second quarter and $555,000 in the fourth quarter of 2008, respectively, bringing the investment balance to zero as of December 31, 2008. The decision to reduce the remaining investment balance to zero was based on GWS continued operating losses, the impact of the current global economic crisis on the current and short-term outlook for its operations, a negative working capital position as of December 31, 2008, and a valuation based on discounted cash flows.

In 2008, depreciation and amortization was $10,500,000, a decrease of approximately $1,100,000 from 2007, and capital additions were $8,300,000, a decrease of approximately $1,600,000 from 2007. Because of the amount of assets that either are now or will be fully depreciated in 2009, we expect depreciation and amortization to be less in 2009 than 2008.

Inventories increased by approximately $3,600,000, or 15.6%, to $26,700,000 in 2008, as compared with $23,100,000 at the end of 2007. The increase was primarily due to a $1,400,000 increase in V*I Chip inventories and a $1,300,000 decrease in overall inventory reserves.

The following table sets forth certain items of selected consolidated financial information as a percentage of net revenues for the periods indicated. This table and the subsequent discussion should be read in conjunction with the selected financial data and the Consolidated Financial Statements and related footnotes contained elsewhere in this report.

	Year Ended December 31,		
	2008	2007	2006
Net revenues	100.0%	100.0%	100.0%
Gross margin	42.0%	40.3%	42.6%
Selling, general and administrative expenses	27.4%	25.0%	24.2%
Research and development expenses	15.3%	15.5%	16.3%
Income (loss) before income taxes	(0.5)%	2.8%	(14.6)%

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, allowance for doubtful accounts, inventories, investments, intangible assets, income taxes, impairment of long-lived assets, contingencies and litigation. Management bases its estimates and judgments on historical experience, knowledge of current conditions and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following accounting policies involve its more significant judgments and estimates used in the preparation of its Consolidated Financial Statements in this Form 10-K.

Allowance for Doubtful Accounts

We maintain 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 our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

We employ a variety of methodologies to estimate allowances for its inventory for estimated obsolescence or unmarketable inventory, based upon its known backlog and historical usage, and assumptions about future demand and market conditions. For BBU products produced at our Andover facility, our principal manufacturing location, the model used is based upon a comparison of on-hand quantities to projected demand, such that amounts of inventory on hand in excess of a three-year projected usage are fully reserved. Since V*I Chip products are at a relatively early stage, a one-year projected usage assumption is used. While we have used our best efforts and believe we have used the best available information to estimate future demand, due to uncertainty in the economy and our business and the inherent difficulty in predicting future demand, it is possible that actual demand for our products will differ from our estimates. If actual future demand or market conditions are less favorable than those projected by management,

additional inventory reserves for existing inventories may need to be recorded in future periods.

Fair Value Measurements

In September 2006, FASB issued Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*, which provides guidance on how to measure assets and liabilities that are recorded at fair value. SFAS 157 does not expand the use of fair value to any new circumstances, but does require additional

disclosures in both annual and quarterly reports. We adopted SFAS 157 and its related amendments for financial assets and liabilities effective as of January 1, 2008. SFAS 157 will be effective for non-financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2008. The primary impact of adopting SFAS 157 was on the fair value measurement and disclosures related to our investments in auction rate securities, discussed below.

As discussed below, we elected fair value accounting for the ARS rights in accordance with SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The election was made to mitigate volatility in earnings caused by accounting for the acquisition of these rights and the underlying auction rate securities under different methods.

Short Term and Long-Term Investments

Our short-term and long-term investments are classified as available-for-sale or trading securities. Available-for-sale securities are recorded at fair value, with the unrealized gains and losses, net of tax, reported in Accumulated other comprehensive (loss) income, a separate component of Stockholders Equity. Trading securities are carried at fair value with unrealized gains or losses reported in Other income (expense), net in the Consolidated Statement of Operations.

As of December 31, 2008, we held $38,325,000 of Failed Auction Securities, consisting of debt obligations of municipal and corporate issuers. The interest rates for these securities are reset at auction at regular intervals ranging from seven to 90 days. Our Failed Auction Securities have historically traded at par and are callable at par at the option of the issuer. On December 31, 2008, the majority of our Failed Auction Securities were AAA/Aaa rated by the major credit rating agencies, with most collateralized by student loans guaranteed by the U.S. Department of Education under the Federal Family Education Loan Program. Starting the week of February 11, 2008, a substantial number of auctions failed, meaning there was not enough demand to sell all of the securities that holders offered for sale.

In order to record the value of our Failed Auction Securities appropriately each quarter, we have estimated their market value and recorded an impairment charge. Through the third quarter of 2008, we classified all of our Failed Auction Securities as available-for-sale and their impairment was considered temporary. As such, quarterly temporary impairment charges were made to Accumulated other comprehensive (loss) income (i.e., the recorded value of the Failed Auction Securities declined by the impairment charge, as did our Stockholders Equity). During the fourth quarter of 2008, we entered into a settlement agreement with UBS giving us the contractual right to sell certain securities (with a par value of $18,300,000 at year-end) purchased through a broker-dealer affiliate of UBS to UBS at par during a period of time beginning June 30, 2010, through July 2, 2012. Because we intend to exercise this right and no longer intend to hold these securities to maturity, we reclassified these securities as trading. In order to record the fair value of these securities appropriately, we reversed the accumulated temporary impairment recorded as a reduction of Stockholders Equity and recorded a charge to our Consolidated Statements of Operations of $2,238,000, reflecting our estimate at year-end of the other-than-temporary decrease in their carrying value from par value. However, we also recorded the receipt as of the contractual right as a gain on our Consolidated Statements of Operations, thereby largely offsetting the other than temporary impairment charge. The balance of our holdings of Failed Auction Securities is made up of securities (with a par value of $20,000,000 at year-end) purchased through a broker-dealer affiliate of Bank of America, N.A. (BofA). These Failed Auction Securities, with a total par value of $20,000,000, remain classified as available-for-sale , as it is our intention to hold these securities to maturity or other such time as we may obtain par value through an arms length sale. In order to record the fair value of these securities appropriately, we recorded a temporary impairment charge to Accumulated other comprehensive (loss) income of $2,100,000, reflecting our estimate of the additional decrease in their carrying value at year-end.

Pursuant to our settlement agreement with UBS, we are entitled to receive interest payments on our Failed Auction Securities in accordance with their terms. We also may be eligible to borrow at no net cost from UBS an amount up to 75% of the market value of the Failed Auction Securities held with UBS. The terms and conditions of the settlement offer include a release of claims against UBS and its affiliates. The right is a

separate freestanding instrument accounted for separately from the Failed Auction Securities and is being accounted for as a purchased put option. In accordance with SFAS 159, we elected fair value accounting for the right. The election was made to mitigate volatility in earnings caused by accounting for the acquisition of the right and the underlying securities under different methods.

As of December 31, 2008, there was insufficient observable auction rate security market information available to determine the fair value of the Failed Auction Securities as well as the right obtained in our settlement with UBS. As such, our investments in Failed Auction Securities were deemed to require valuation using Level 3 inputs. Consistent with SFAS 157, management, after consulting with outside experts, 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 model to determine the estimated fair value of these securities as of December 31, 2008. The right was initially recorded at a fair value of approximately $1,926,000, with the offset recorded as an unrealized gain in Other income (expense), net. As a result of entering into this agreement with UBS, we intend to exercise the put option on June 30, 2010, and do not intend to hold the associated Failed Auction Securities until recovery or maturity. Therefore, the total amount of the Failed Auction Securities previously reported as available-for-sale has been transferred to trading securities. Based on the fair value measurements described above and in more detail in Note 5 to our Consolidated Financial Statements, we estimated the fair value of the Failed Auction Securities held with UBS on December 31, 2008 to be approximately $16,062,000, compared with a par value of $18,300,000. The difference of $2,238,000 has been recorded as an unrealized loss in Other income (expense), net in the Consolidated Statements of Operations. Based on the fair value measurements described in Note 5 to our Consolidated Financial Statements, we estimated the fair value of the Failed Auction Securities held with BofA on December 31, 2008, to be approximately $16,666,000, compared with a par value of $20,000,000, net of a $25,000 redemption received at par value on January 5, 2009. We consider this $3,334,000 difference to be temporary and have recorded this amount as an unrealized loss, net of taxes, in Accumulated other comprehensive (loss) income on the Consolidated Balance Sheet.

In making this determination, we considered the financial condition and near-term prospects of the issuers, the magnitude of the losses compared to the investments cost, the length of time the investments have been in an unrealized loss position, the assumed low probability that we will be unable to collect all amounts due according to the contractual terms of the security, whether the security has been downgraded by a rating agency, and our ability and intent to hold these investments until the anticipated recovery in market value occurs. If current market conditions deteriorate further, we may be required to record additional unrealized losses. If the credit rating of the security issuers deteriorates, or the anticipated recovery in the market values does not occur, we may be required to adjust the carrying value of these investments through impairment charges recorded in the Consolidated Statements of Operations, and any such impairment adjustments may be material in amount. The fair values of the Failed Auction Securities held with UBS and BofA decreased approximately $2,175,000 and $1,189,000, respectively, compared to the fair values as of September 30, 2008, primarily due to our decision to increasing the expected time to recovery assumptions in our valuation analyses.

Other Investments

The accounting for investment transactions is reviewed for compliance with Accounting Principles Board Opinion No. 18, *The Equity Method for Accounting for Investments in Common Stock* (APB 18) and/or FASB Interpretation No. 46 Revised (FIN 46R), *Consolidation of Variable Interest Entities*. We periodically evaluate our investment in GWS to determine if there are any events or circumstances that are likely to have a significant adverse effect on the fair value of the investment, including the net book value of acquired intangible assets and goodwill. Examples of such impairment indicators include, but are not limited to: GWS actual results of operations, actual results of operations compared to forecast, working capital requirements, additional third-party equity investment, if any, and

other considerations. If we identify an impairment indicator, we will estimate the fair value of the investment and compare it to its carrying value. If the fair value of the investment is less than its carrying value, the investment is impaired and we make a determination

as to whether the impairment is other-than-temporary . For other-than-temporary impairments, we recognize an impairment loss equal to the difference between an investment s carrying value and its fair value. During 2008, the equity method investment in GWS was adjusted for a decline in value judged to be other-than temporary of $706,000 in the second quarter and $555,000 in the fourth quarter of 2008, respectively, bringing the investment balance to zero as of December 31, 2008. Our decision to reduce the value of the investment to zero was based on GWS continued operating losses, the impact of the current global economic crisis on the current and short-term outlook for its operations, a negative working capital position as of December 31, 2008, and a valuation based on discounted cash flows.

Long-Lived Assets

We evaluate the recoverability of our identifiable intangible assets, goodwill and other long-lived assets in accordance with SFAS 142, *Goodwill and Other Intangible Assets* and SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which generally requires that the recoverability of these assets be assessed when events or circumstances indicate a potential impairment. We periodically assess the remaining use of fixed assets based upon operating results and cash flows from operations. Equipment has been written-down as a result of these assessments as necessary. Goodwill is tested for potential impairment at least annually at the reporting unit level.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS 123R, *Share Based Payment*, which requires that stock-based compensation expense associated with stock options and related awards be recognized in the Consolidated Statement of Operations. Determining the amount of stock-based compensation requires us to develop estimates to be used in calculating the grant-date fair value of stock options. We calculate the grant-date fair values using the Black-Scholes valuation model. The use of this widely-accepted model requires us to make estimates for the following assumptions: expected volatility, expected term, risk-free interest rate, expected dividend yield and forfeiture rate. Changes in any of these assumptions may have an impact on the amount of stock-based compensation recorded.

Product Warranties

We generally warrant our products for a period of two years. Vicor maintains allowances for estimated product returns under warranty based upon a review of known or potential product failures in the field and upon historical patterns of product returns. If unforeseen product issues arise or product returns increase above expected rates, additional allowances may be required.

Income Taxes

We account for income taxes in accordance with SFAS 109, *Accounting for Income Taxes* and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). SFAS 109 requires that deferred tax assets and liabilities be recognized using enacted rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be 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. We have assessed the need for a valuation allowance against these deferred tax assets and concluded that a valuation allowance for a significant portion of the deferred tax assets is warranted on December 31, 2008. In reaching this conclusion, we evaluated all relevant criteria including the existence of significant temporary differences reversing in the carryforward period, primarily depreciation. 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. In addition, the assessment of the valuation allowance requires us to make estimates of future taxable

income and to estimate reversals of temporary differences. Changes in the assumptions or other circumstances may require additional valuation allowances if actual reversals of temporary differences differ from those estimates.

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109. FIN 48 prescribes a two-step process to determine the amount of tax benefit to recognize. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon examination by a tax authority. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. If the tax position does not meet the more-likely-than-not threshold then it is not recognized in the financial statements. In accordance with FIN 48, the Company accrues interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. If the judgments and estimates made by us are not correct, the unrecognized tax benefits may have to be adjusted, and the adjustments could be material.

Contingencies

From time to time, we receive notices for product failure claims or that our products or manufacturing processes may be infringing the patent or intellectual property rights of others or for other matters. We periodically assess each matter to determine if a contingent liability should be recorded in accordance with SFAS 5, *Accounting for Contingencies*. In making this assessment, we may consult, depending on the nature of the matter, with external legal counsel and technical experts. Based on the information we obtain, combined with our judgment regarding all the facts and circumstances of each matter, we determine whether it is probable that a contingent loss may be incurred and whether the amount of such loss can be reasonably estimated. Should a loss be probable and reasonably estimable, we record a loss in accordance with SFAS 5. In determining the amount of the loss, we consider advice received from experts in the specific matter, current status of legal proceedings, if any, prior case history and other factors. Should the judgments and estimates made by us be incorrect, we may need to record additional contingent losses that could materially adversely impact our results of operations and financial position.

Year Ended December 31, 2008 compared to Year Ended December 31, 2007