FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000950135-99-001517

(HTML Version on secdatabase.com)

FILER

COGNEX CORP

CIK:**851205**| IRS No.: **042713778** | State of Incorp.:**MA** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-17869** | Film No.: **99573489**
SIC: **3823** Industrial instruments for measurement, display, and control

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

FORM 10-K

(Mark One)
[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998 or

[ ] 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 0-17869

COGNEX CORPORATION
(Exact name of registrant as specified in its charter)

MASSACHUSETTS	04-2713778
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

ONE VISION DRIVE
NATICK, MASSACHUSETTS 01760-2059
(508) 650-3000
(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock

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 X No

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 the 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. [ ]

Aggregate market value of voting stock held by non-affiliates as of February 28, 1999: $1,008,663,000

$.002 par value common stock outstanding as of February 28, 1999: 40,346,520 shares

Documents incorporated by reference:
Specifically identified information in the Annual Report to Stockholders for the year ended December 31, 1998, is incorporated by reference into Parts I and II hereof.

Specifically identified information in the definitive Proxy Statement for the Special Meeting in Lieu of the 1999 Annual Meeting of Stockholders to be held on April 27, 1999, is incorporated by reference into Part III hereof.

A list of Exhibits to this Annual Report on Form 10-K is located on page 18.

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COGNEX CORPORATION ANNUAL REPORT ON
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998

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PART I

The Company's results are subject to certain risks and uncertainties. This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Federal Securities Laws. The Company's future results may differ materially from current results and actual results may differ materially from those projected in the forward-looking statements as a result of certain risk factors. Readers should pay particular attention to considerations described in the section captioned "Forward-Looking Statements" in Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on page 18 of the Annual Report to Stockholders for the year ended December 31, 1998, which is Exhibit 13 hereto, and is incorporated herein by reference, as well as considerations included in other documents filed with the Securities and Exchange Commission.

ITEM 1. BUSINESS

CORPORATE PROFILE

Cognex(R) Corporation ("Cognex" or the "Company," each of which term includes, unless the context indicates otherwise, Cognex Corporation and its subsidiaries) was incorporated in Massachusetts in 1981. Its principal executive offices are located at One Vision Drive, Natick, Massachusetts 01760 and its telephone number is (508) 650-3000.

The Company designs, develops, and markets machine vision systems that are used to automate a wide range of manufacturing processes where vision is required. Cognex machine vision systems consist of two primary elements: a computer, which serves as a "machine vision engine," and software that processes and analyzes images. When connected to a video camera, the machine vision system captures images and extracts information, which determines appropriate action for other equipment in the manufacturing process.

Machine vision systems are used in a variety of industries including the semiconductor, electronics, automotive, consumer products, metals, plastics, and paper industries. Machine vision is important for applications in which human vision is inadequate due to fatigue, visual acuity, or speed, or in instances where substantial cost savings are obtained through the reduction of direct labor and improved product quality. Today, many types of manufacturing equipment require machine vision because of the increasing demands for speed and accuracy in manufacturing processes, as well as the decreasing size of items being manufactured.

WHAT IS MACHINE VISION?

In a typical machine vision application, a video camera positioned on the production line captures an image of the part to be inspected. The machine vision computer then uses sophisticated image analysis software to extract information from the image and provide an answer to a question. Cognex machine vision systems can answer four types of questions:

<TABLE>
<CAPTION>

QUESTION	DESCRIPTION	EXAMPLE
GUIDANCE		
Where is it?	Determining the exact physical location of an object.	Determining the position of a printed circuit board so that a robot can automatically be guided to insert electronic components.

</TABLE>

<TABLE>
<CAPTION>

IDENTIFICATION		
What is it?	Identifying an object by analyzing its shape or by reading a serial number.	Identifying the serial number on an automotive airbag so that it can be tracked and processed correctly through manufacturing.
INSPECTION		
How good is it?	Inspecting an object for flaws or defects.	Inspecting the quality of printing on pharmaceutical labels and packaging.
GAUGING		
What size is it?	Determining the dimensions of an object.	Determining the diameter of a bearing prior to final assembly.

</TABLE>

Once the machine vision system has processed the image and performed any necessary analysis, the result is then communicated to other equipment on the factory floor, such as an industrial controller, a robotic arm, a deflector which removes the part from the line, a positioning table which moves the part, or alternatively, to a computer file for analysis or subsequent process control. This process is repeated during the manufacturing process as product moves into position in front of the camera. Machine vision systems can perform inspections quickly enough to keep pace with machines that process thousands of items or material feet per minute, thus increasing both quality and productivity.

THE MACHINE VISION MARKET

The machine vision market consists of two customer types: original equipment manufacturers (OEMs) and end users. OEMs are companies that build standard products sold as capital equipment for end users on the factory floor. These customers, most of which are in the semiconductor and electronics industries, have the technical expertise to build Cognex's programmable, board-level machine vision systems directly into their products which are then sold to end users.

End users are companies that manufacture products, such as radios, telephones, ball-point pens, metals, and paper. While they may purchase capital equipment containing machine vision or hire a system integrator to build an inspection system, many end users choose to purchase machine vision directly for specific applications on their production lines. Unlike OEMs and system integrators, these customers typically have little or no computer programming or machine vision experience.

System integrators are companies that create complete, automated inspection solutions for end users on the factory floor. For example, they combine lighting, conveyors, robotics, machine vision, and other components to produce custom inspection systems for various applications. Because system integrators encounter a broad range of automation problems, they purchase a variety of Cognex products, from general-purpose systems to application-specific systems tailored to solve particular manufacturing tasks. The Company includes system integrators in its definition of end users.

BUSINESS STRATEGY

The Company's goal is to expand its position as a leading worldwide supplier of machine vision systems for factory automation. Currently, the Company's products are designed for factory automation because the Company believes that this market offers the greatest opportunity for selling high value-added, standard products in high volume. Within the factory automation market, the Company has historically focused primarily on those customers who must have machine vision because of the increasing complexity of their products or manufacturing methods.

Emphasizing high value-added products and applications is important to the Company's strategy because not every segment of the machine vision market offers opportunity for sustained profitability. High value-added is realized in the Company's products in several ways. The primary value-added is derived from offering unique vision software algorithms which solve challenging problems better than competing products. The other major mode of realizing high value-added is by offering products which are complete solutions to known problems, incorporating all of the necessary vision software, applications software, hardware, and electro-optics. Both modes of realizing high value-added require the Company to maintain an industry-leading level of investment in research, development, and engineering.

Within the factory automation market, the Company has tailored its product offerings to match the characteristics of its two customer types: OEMs and end users. Historically, OEMs have been the source of the majority of the Company's sales. However, the Company believes that end users have the potential in the long term to generate more sales than OEMs. Consequently, the Company has invested in developing and acquiring products which meet the needs of end users and in developing a strong worldwide direct sales and support infrastructure. The Company will continue to invest in both customer types, defending its strong position in the OEM market while expanding in the end user market.

The Company has historically pursued a global business strategy, investing in building a strong direct presence in North America, Japan, Europe, and Southeast Asia. In 1998, approximately 63% of the Company's revenue came from customers based outside of the United States. In all of these regions, the Company is acknowledged to be a leading machine vision supplier. The Company intends to continue to invest in the expansion of direct sales and support in these regions.

The factory automation market for machine vision is comprised of many market niches defined by differing application requirements, industries, and cost/performance criteria. The Company's business strategy includes selective expansion into other industrial machine vision applications through the internal development of new products and the acquisition of companies and technologies. The Company's acquisitions to date include Acumen, Inc., a developer of machine vision systems for semiconductor wafer identification; Isys Controls, Inc., a developer of high-performance machine vision systems for high-speed surface inspection; Mayan Automation, Inc., a developer of intelligent camera-based machine vision systems for surface inspection; and certain technology of Rockwell Automation's Allen-Bradley machine vision business, which supplied machine vision systems to end users.

PRODUCTS

The Company designs, develops, and markets a wide range of machine vision products. These products include modular vision systems that are used to control the manufacturing of discrete items, such as semiconductor chips, cellular phones, and automobile wheels, by locating, identifying, inspecting, and measuring them during the manufacturing process. The Company's product offerings also include surface inspection vision systems that are used to inspect surfaces of materials that are manufactured in a continuous fashion, such as plastics, metals, and paper, to ensure that there are no flaws or defects on the surfaces.

Machine vision systems sold by the Company are defined as either general-purpose or application-specific products. General-purpose systems enable customers to solve a wide range of problems by selecting the tools necessary to solve their vision problem from the Company's vision software library, and then configuring their solution by utilizing a programmable language or point-and-click interface. Application-specific systems are "packaged" combinations of software and hardware that are designed to solve targeted problems without any customization by the Company or its customers.

GENERAL-PURPOSE SYSTEMS

Vision Software Library

The Company offers an extensive library of machine vision software which includes both low-level image processing software and high-level image analysis tools. The image processing software prepares the image for accurate analysis and the image analysis tools extract information about the image to locate, measure, and identify objects, characters, and codes. In 1997, the Company introduced PatMaxTM, a pattern location tool that can locate with very high accuracy objects that vary in size and orientation or whose appearance is degraded. In 1998, the Company introduced PatInspectTM, a vision software tool that combines high-accuracy part location and defect detection capabilities in a single vision operation and detects flaws along the edges or boundary regions of objects.

MVS-8000 product family

In 1998, the Company introduced its next generation of vision systems (programmable in C++ language), the MVS-8000 product family, which combines Cognex's unique algorithms with Intel's new MMX instruction set. Prior to this introduction, all of the Company's software ran only on its own proprietary hardware which was based on the Motorola 68k line of microprocessors. For host-based processing, the MVS-8100 Series features a PCI bus-mastering frame grabber for high-speed image transfer from the video camera to the host PC for processing and display. For embedded processing, the MVS-8200 Series of embedded CPU vision systems enable all vision processing to occur on-board, freeing the PC to perform other tasks. The MVS-8000 product family features Cognex's new Object Manager Interface (OMI), which provides a graphical interface to each tool in the Cognex vision software library.

The MVS-8000 product family is sold primarily to OEMs located in North America and Japan who integrate the vision systems into manufacturing equipment for the semiconductor and electronics industries. These vision systems are also sold to system integrators located principally in North America, Japan, Europe, and Southeast Asia who integrate the vision systems into manufacturing equipment for the factory floor in industries ranging from automotive to consumer products.

Checkpoint product family

The Checkpoint(R) product family is designed for customers with little or no computer programming or machine vision experience. Checkpoint combines the Company's existing vision software and standard vision hardware platforms with a unique Microsoft Windows-based graphical user interface (GUI). Customers utilize pull-down menus and dialog boxes in the GUI to create customized vision applications. This easy-to-use, point-and-click programming environment enables the developer to focus on tasks associated with solving the overall vision application, freeing the developer from the detail and complexity of a programming language.

Checkpoint is sold primarily to end users located in North America, Japan, Europe, and Southeast Asia in a wide range of general manufacturing industries, such as manufacturers of medical devices, automotive parts, disposable consumer goods, and electronic components. Although the application environment is designed for customers with little or no computer programming or machine vision experience, deployment of Checkpoint on the factory floor requires the services of trained system integrators to mechanically and electrically integrate Checkpoint into manufacturing lines.

Other General-Purpose Systems

The Company continues to offer vision systems (programmable in C language) that run on its own proprietary hardware including the Cognex 4000 Series which plugs directly into a VME backplane, as well as the Cognex 5000 Series which run on the PC.

APPLICATION-SPECIFIC SYSTEMS

The Company also offers a variety of application-specific systems that combine Cognex hardware and software to create a solution that is tailored to the particular requirements of certain vision applications. These products are sold to OEMs and end users worldwide. A partial list of application-specific systems is as follows:

Surface Mount Device Placement Guidance Package (SMD/PGP), when coupled with a Cognex 4000, 5000, or 8000 Series vision system, quickly and accurately locates fiducial marks on printed circuit boards for alignment, inspects the quality of surface mount devices, and then guides the placement of those devices onto printed circuit boards.

acuReader/Optical Character Recognition (OCR) reads degraded serial numbers from semiconductor wafers with near 100% accuracy.

acuReader/2D locates and decodes two-dimensional matrix codes. The two-dimensional codes are used as alternative marks for identifying wafers, integrated circuit packages, liquid crystal display (LCD) panels, pharmaceutical packages, and for small parts tracking applications.

Ball Grid Array (BGA) Inspection Package inspects BGA devices for missing, misplaced, or improperly formed solder balls.

Fiducial Finder II locates fiducial or alignment marks on printed circuit boards for automatic printed circuit board alignment.

DisplayInspect software inspects the small, high resolution displays commonly found on cellular phones, pagers, medical test instruments, and other electronic devices.

iS High Performance Inspection Systems detect and classify defects in the most challenging surface inspection applications. iS systems are built from a family of hardware and software components which include proprietary line-scan cameras with motorized camera mounts, specialized lighting systems, ultra-high performance image processing boards, Unix workstations, and intelligent defect detection and classification software algorithms. iS systems can contain from one to sixty cameras and can be used to inspect webs up to 25 feet wide at speeds of up to 5,000 feet per minute. iS systems are primarily sold to producers of metals, specialized coated paper, and high-value non-woven materials.

Fine-Line(TM) Intelligent Camera Systems are complete surface inspection devices packaged in a compact and rugged enclosure. Each camera contains a line-scan charge-coupled device (CCD) sensor, image digitizer, digital signal processor (DSP), custom hardware for pixel processing, surface inspection algorithms in firmware, and a CPU for control and communications. In addition to the camera, the Company provides a PC-based operator interface, specialized lighting components, supporting mechanical components, and power supply/control boxes to provide customers with a complete solution to their surface inspection applications. Fine-Line systems can be used in a single-camera, "stand-alone" fashion for simple, narrow web applications, or they can be installed in multi-camera configurations to view wider webs. Fine-Line systems are targeted primarily at the plastics, non-wovens, and converting markets.

SmartView(TM) Modular Camera Network (MCN), introduced in 1998, detects, measures, and classifies defects on products made in continuous processes.

SmartView systems have a drag-and-drop Windows NT-based interface with some of the features previously only associated with high-end systems. In addition to providing flexibility, the systems offers more power than its predecessor, the Fine-Line Intelligent Camera System, and has enabled the Company to expand into more complex applications, including the inspection of high-end plastics and non-wovens.

RESEARCH, DEVELOPMENT, AND ENGINEERING

The Company engages in research, development, and engineering (R, D & E) to enhance its existing products and to develop new products and functionality to meet market opportunities. In addition to internal research and development efforts, the Company intends to continue its strategy of gaining access to new technology through strategic relationships and acquisitions where appropriate. The Company considers its on-going efforts in R, D & E to be a key component of its strategy.

At December 31, 1998, the Company employed 152 professionals in R, D & E, most of whom are software developers. The Company's R, D & E expenses totaled $24,662,000, $22,481,000, and $19,434,000, or 20%, 14%, and 16% of revenue, in 1998, 1997, and 1996, respectively.

MANUFACTURING

The majority of the Company's vision systems are manufactured at its Natick, Massachusetts headquarters. The Company's Natick manufacturing organization utilizes a turnkey manufacturing operation whereby the majority of component procurement, subassembly, final assembly, and initial testing are performed under agreement by third-party contractors. After the completion of initial testing, the third-party contractors deliver the products to the Company to perform final testing and assembly. The products provided by the third-party contractors are manufactured using specified components and assembly and test documentation created and controlled by the Company. Certain components purchased by the third-party contractors are presently available from a single source.

The Company's iS High Performance Inspection systems are manufactured at its Alameda, California facility and its Fine-Line Intelligent Camera systems and SmartView Modular Camera Network systems are manufactured at its Montreal, Canada facility. The manufacturing processes at the Alameda and Montreal facilities consist of systems design, configuration management and control, component procurement, subassembly, integration and final test, quality control, shipment, and installation. Certain products are manufactured by third-party contractors using assembly and test documentation created and controlled by the Company. Certain components purchased by the third-party contractors are presently available from a single source.

SALES AND SUPPORT

The Company markets its products through a direct sales force in North America, and through a direct sales force and distributors in Japan, Europe, and Southeast Asia. The Company's distributors do not have any rights of return and payment for products is due upon delivery. Distributors generally have non-exclusive distribution rights and there may be more than one distributor per territory.

At December 31, 1998, the Company's direct sales and service force consisted of 130 professionals, including sales and application engineers. The majority of the Company's sales and service personnel have engineering or science degrees. Sales engineers call directly on targeted accounts and coordinate the activity of the application engineers. They focus on potential customers that represent possible volume purchases and long-term relationships. Opportunities that represent single-unit sales or turnkey system requirements are identified by the sales engineer and turned over to an independent system integrator or OEM that uses the Company's products. The Company sells to OEMs, many of whom have entered or are expected to enter into volume discount contracts with the Company. These contracts are typically for one year and have associated delivery schedules.

Sales to international customers represented approximately 63%, 62%, and 55% of revenue in 1998, 1997, and 1996, respectively. One customer based in Japan, Fuji America Corporation, accounted for approximately 14%, 18%, and 11% of revenue in 1998, 1997, and 1996, respectively. Information about operating segments and geographic areas, as well as foreign currency and related risk may be found in the Notes to the Consolidated Financial Statements, appearing on page 37 and pages 24 through 26 of the Annual Report to Stockholders for the year ended December 31, 1998, which is Exhibit 13 hereto, and is incorporated herein by reference. Although international sales may from time to time be subject to federal technology export regulations, the Company to date has not suffered delays or prohibitions in sales to any of its foreign customers.

The Company's support offerings include vision solutions consulting services, technical support, educational services, and product services. The Company's vision solutions consulting services provides, for a fee, services which range from a specific piece of programmed functionality to a completely integrated machine vision application. The technical support group consists of a team of vision experts ready to respond to questions that may arise while customers are developing or deploying a Cognex machine vision application. The educational services group offers more than 50 different product courses which are held at its Customer Education Center in Natick, Massachusetts, and at certain of its worldwide offices, as well as at customer facilities when required. The product services group offers a variety of software and hardware maintenance programs that provide updates on the latest software releases and new software vision tools.

PATENTS AND LICENSES

Since the Company relies on the technical expertise, creativity, and knowledge of its personnel, it utilizes patent, copyright, and trade secret protection to safeguard its competitive position. The Company has obtained 39 patents on various innovations in the field of machine vision technology and has over 100 pending patent applications. In addition, the Company makes use of non-disclosure agreements with customers, suppliers, employees, and consultants. The Company attempts to protect its intellectual property by restricting access to its proprietary information by a combination of technical and internal security measures. However, there can be no assurance that any of the above measures will be adequate to protect the proprietary technology of the Company. Effective patent, copyright, and trade secret protection may be unavailable in certain foreign countries.

The Company's trademark portfolio includes various common-law and registered marks, including but not limited to Cognex(R) , Checkpoint(R) , PatMax(TM), PatInspect(TM), Fine-Line(TM), and SmartView(TM). In addition, the Company has sought and obtained a number of trademark registrations outside of the United States. All third-party brand names, service marks, and trademarks referenced in this document are the property of their respective owners.

The Company's software products are primarily licensed to customers pursuant to a license agreement that restricts the use of the products to the customer's purposes on a designated Cognex machine vision engine. The Company has made portions of the source code available to certain customers under very limited circumstances and for restricted uses. If source code is released to a customer, the customer is required by contract to maintain its confidentiality and, in general, to use the source code solely for internal purposes or for maintenance.

Numerous users of the Company's products have received notice of patent infringement from the Lemelson Medical, Educational, & Research foundation, Limited Partnership ("Partnership") alleging that their use of the Company's products infringes certain patents transferred to the Partnership by the late Jerome H. Lemelson. Certain of these users have notified the Company that, in the event it is subsequently determined that their use of the Company's products infringes any of the Partnership's patents, they may seek indemnification from the Company for damages or expenses resulting from this matter.

In July 1998, the Partnership filed a lawsuit against 26 semiconductor device manufacturers asserting infringement upon numerous Lemelson patents including certain machine vision patents. Several of the defendants are users of the Company's products that were purchased primarily from the Company's OEM customers whose equipment incorporate such products. As a result of this action and the continuing assertions against other current and potential Cognex customers, the Company decided to initiate action against the Partnership in order to preserve its right to sell machine vision products without the threat of legal action against the Company or its customers. Accordingly, on September 23, 1998, the Company filed a complaint against the Partnership seeking a declaration that Lemelson's machine vision patents are invalid, unenforceable, and not infringed by either Cognex or by any users of Cognex products. The complaint was served on the Partnership on October 14, 1998. It will likely be several years before a decision is rendered by the Court. The Company cannot predict the outcome of this litigation or any similar litigation that may arise in the future, or the effect of such litigation on the financial results of the Company. The Company does not believe its products infringe any valid and enforceable claims of Lemelson's patents. Furthermore, the Partnership has stated that it is not the Company's products that infringe Lemelson's patents, but rather the use of those products by the Company's customers.

COMPETITION

The Company competes with other vendors of machine vision systems, the internal engineering efforts of the Company's current or prospective customers, and the manufacturers of image processing systems. Any of these competitors may have greater financial and other resources than the Company. Although the Company considers itself to be one of the leading machine vision companies in the world, reliable estimates of the machine vision market and the number of competitors are almost non-existent, primarily because of definitional confusion and a tendency toward double-counting of sales. The primary competitive factors affecting the choice of a machine vision system include product functionality and performance (e.g. speed, accuracy, and reliability) under real-world operating conditions, flexibility, programmability, and the availability of application support from the vendor. More recently, ease-of-use has become a competitive factor and product price has become a more significant factor with respect to simpler guidance and gauging applications. The Company competes with the lower-cost, software-only solutions being introduced by various competitors on the basis of superior performance and price, rather than on price alone, through its MVS-8000 product family.

BACKLOG

At December 31, 1998, the Company's backlog totaled $17,216,000, compared to $32,618,000 at December 31, 1997. Backlog reflects purchase orders for products scheduled for shipment within three months. The level of backlog at any particular date is not necessarily indicative of future revenue of the Company. Delivery schedules may be extended and orders may be canceled at any time subject to certain cancellation penalties.

EMPLOYEES

At December 31, 1998, the Company employed 575 persons, including 237 in sales, marketing, and support activities; 152 in research, development, and engineering; 73 in manufacturing and quality assurance; and 113 in information technology, finance, and administration. Of the Company's 575 employees, 168 are located outside of the United States. None of the Company's employees are represented by a labor union and the Company has experienced no work stoppages. The Company believes that its employee relations are good.

ITEM 2: PROPERTIES

In 1994, the Company purchased and renovated a 100,000 square-foot building located in Natick, Massachusetts which serves as its corporate headquarters. In 1997, the Company completed construction of a 50,000 square-foot addition to this building.

In 1995, the Company purchased an 83,000 square-foot office building adjacent to its corporate headquarters. The building is currently occupied with tenants who have lease agreements that expire at various dates through the year 2000, at which point, the Company may take occupancy of the building.

In 1997, the Company purchased a three and one-half acre parcel of land situated on Vision Drive, adjacent to the Company's corporate headquarters. This land is anticipated to be used for future expansion.

ITEM 3: LEGAL PROCEEDINGS

To the Company's knowledge, there are no pending legal proceedings, other than as described in "Business - Patents and Licenses," which are material to the Company to which it is a party or to which any of its property is subject. From time to time, however, the Company may be subject to various claims and lawsuits by customers and competitors arising in the normal course of business, including suits charging patent infringement.

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

There were no matters submitted during the fourth quarter of the year ended December 31, 1998 to a vote of security holders through solicitation of proxies or otherwise.

ITEM 4A: EXECUTIVE OFFICERS AND OTHER MEMBERS OF THE MANAGEMENT TEAM OF THE REGISTRANT

The following table sets forth the names, ages, and titles of the Company's executive officers at December 31, 1998:

NAME	AGE	TITLE
Robert J. Shillman	52	President, Chief Executive Officer, and Chairman of the Board of Directors
Patrick Alias	53	Executive Vice President, Worldwide Sales and Marketing
Glenn Wienkoop	51	Executive Vice President, Chief Operating Officer

Messrs. Shillman and Alias have been employed by the Company in their present or other capacities for no less than the past five years.

Mr. Wienkoop joined the Company in 1997 as Executive Vice President of Subsidiary Operations and was promoted to Executive Vice President and Chief Operating Officer in January 1999. From 1975 to 1997, he served in a number of capacities, most recently as Executive Vice President and Division President at Measurex Corporation, a supplier of computer-integrated measurement, control, and information systems for continuous manufacturing processes.

Executive officers are elected annually by the Board of Directors. There are no family relationships among the directors and the executive officers of the Company.

OTHER MEMBERS OF THE MANAGEMENT TEAM

NAME	AGE	TITLE
E. John McGarry	42	Vice President and General Manager - Portland Operations
William Silver	45	Vice President and Chief Technology Officer

Mr. Silver has been employed by the Company in his present or other capacities for no less than the past five years.

Mr. McGarry joined the Company in 1995 when the company he founded in 1991, Acumen, Inc., was acquired by Cognex. From 1991 to 1995, he served as President of Acumen, Inc., a developer of machine vision systems for semiconductor wafer identification.

PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Certain information with respect to this item may be found in the section captioned "Selected Quarterly Financial Data," appearing on page 42, and the section captioned "Company Information," appearing on page 43 of the Annual Report to Stockholders for the year ended December 31, 1998, which is Exhibit 13 hereto, and is incorporated herein by reference.

The Company has never declared or paid cash dividends on shares of its common stock. The Company currently intends to retain all of its earnings to finance the development and expansion of its business and therefore does not intend to declare or pay cash dividends on its common stock in the foreseeable future. Any future declaration and payment of dividends will be subject to the discretion of the Company's Board of Directors, will be subject to applicable law, and will depend upon the Company's results of operations, earnings, financial condition, contractual limitations, cash requirements, future prospects, and other factors deemed relevant by the Company's Board of Directors.

ITEM 6: SELECTED FINANCIAL DATA

Information with respect to this item may be found in the section captioned "Five-Year Summary of Selected Financial Data," appearing on page 19 of the Annual Report to Stockholders for the year ended December 31, 1998, which is Exhibit 13 hereto, and is incorporated herein by reference.

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

Information with respect to this item may be found in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing on pages 12 through 18 of the Annual Report to Stockholders for the year ended December 31, 1998, which is Exhibit 13 hereto, and is incorporated herein by reference.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company faces exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results. The Company's primary exposure has been related to local currency revenue and operating expenses in Japan, Europe, and Southeast Asia. Historically, the Company has hedged currency exposures associated with certain intercompany payables denominated in local currencies and certain foreign currency revenue transactions. The goal of the Company's hedging activity is to offset the impact of currency fluctuations on certain local currency intercompany payables and foreign currency revenue transactions. The success of this activity depends upon forecasts of transaction activity denominated in various currencies. To the extent that these forecasts are overstated or understated during periods of currency volatility, the Company could experience unanticipated currency gains or losses.

Outstanding forward foreign exchange contracts in Japanese yen at December 31, 1998 mature within six months. Indicators as of February 1, 1999, show that the dollar is expected to strengthen

against the yen by June 30, 1999, to approximately 128 yen/USD. The hypothetical gain in cash flows of these yen forward contracts is estimated to be $976,000 using these assumptions.

The carrying amounts reflected in the consolidated balance sheets of cash and cash equivalents, trade receivables, and trade payables approximate fair value at December 31, 1998 due to the short maturities of these instruments.

The Company maintains investment portfolio holdings of various issuers, types, and maturities. The Company's cash and investments include cash equivalents, which the Company considers to be investments purchased with original maturities of three months or less. Investments having original maturities in excess of three months are stated at amortized cost, which approximates fair value, and are classified as available-for-sale. Given the short maturities and investment grade quality of the portfolio holdings at December 31, 1998, a sharp rise in interest rates should not have a material adverse impact on the fair value of the Company's investment portfolio. As a result, the Company does not currently hedge these interest rate exposures.

The following table (dollars in thousands) presents hypothetical changes in fair value in the Company's financial instruments at December 31, 1998 that are sensitive to changes in interest rates. The modeling technique measures the change in fair value arising from selected potential changes in interest rates. Movements in interest rates of plus or minus 50 basis points ("BP") and 100 BP reflect immediate hypothetical shifts in the fair value of these investments. Fair value represents the market principal plus accrued interest and dividends of certain interest-rate-sensitive securities at December 31, 1998.

<TABLE>
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Type of security	Valuation of securities given an interest rate decrease		No change in interest rates	Valuation of securities given an interest rate increase	
	(100 BP)	(50 BP)		50 BP	100 BP
<S>	<C>	<C>	<C>	<C>	<C>
Municipal obligations with contractual maturities no greater than 3 years	$ 154,998	$ 156,016	$ 157,035	$ 158,054	$ 159,072

</TABLE>

A 50 BP move in the Federal Funds Rate has occurred in nine of the last 40 quarters. There has not been a 100 BP movement in the Federal Funds Rate in any of the last 40 quarters.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this item, which includes the consolidated financial statements and notes thereto, report of independent accountants, and supplementary data, may be found on pages 19 through 42 of the Annual Report to Stockholders for the year ended December 31, 1998, which is Exhibit 13 hereto, and is incorporated herein by reference.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with accountants on accounting or financial disclosure during 1998 or 1997.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to Directors of the Company may be found in the section captioned "Election of Directors," appearing in the definitive Proxy Statement for the Special Meeting in Lieu of the 1999 Annual Meeting of

Stockholders to be held on April 27, 1999. Such information is incorporated herein by reference. Information with respect to Executive Officers of the Company may be found in the section captioned "Executive Officers and Other Members of the Management Team of the Registrant," appearing in Part I of this Annual Report on Form 10-K.

ITEM 11: EXECUTIVE COMPENSATION

Information with respect to this item may be found in the sections captioned "Information Concerning the Board of Directors," "Compensation/Stock Option Committee Report on Executive Compensation," "Comparison of Five Year Cumulative Total Returns Performance Graph for Cognex Corporation," and "Executive Compensation," appearing in the definitive Proxy Statement for the Special Meeting in Lieu of the 1999 Annual Meeting of Stockholders to be held on April 27, 1999. Such information is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP AND CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to this item may be found in the sections captioned "Principal Holders of Voting Securities" and "Security Ownership of Directors and Officers," appearing in the definitive Proxy Statement for the Special Meeting in Lieu of the 1999 Annual Meeting of Stockholders to be held on April 27, 1999. Such information is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) Financial Statements
The following consolidated financial statements of Cognex Corporation and the report of independent accountants relating thereto are included in the Company's Annual Report to Stockholders for the year ended December 31, 1998, which is Exhibit 13 hereto, and is incorporated herein by reference:

Report of Independent Accountants

Consolidated Statements of Income for the years ended December 31, 1998, 1997, and 1996

Consolidated Balance Sheets at December 31, 1998 and 1997

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997, and 1996

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule
Included at the end of this report are the following:
Report of Independent Accountants on the Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts
Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto.

(3) Exhibits
The Exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index appearing on page 18, immediately preceding such Exhibits.

(b) Reports on Form 8-K
There were no Reports on Form 8-K filed during the fourth quarter of the year ended December 31, 1998.

SIGNATURES

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

COGNEX CORPORATION

/s/ Robert J. Shillman

Robert J. Shillman
(President, Chief Executive Officer, and Chairman of the Board of Directors)
March 26, 1999

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

<TABLE>
<CAPTION>

Signature	Title	Date
/s/ Robert J. Shillman Robert J. Shillman	President, Chief Executive Officer, and Chairman of the Board of Directors (principal executive and financial and accounting officer)	March 26, 1999
/s/ Jerald Fishman Jerald Fishman	Director	March 26, 1999
/s/ William Krivsky William Krivsky	Director	March 26, 1999
/s/ Anthony Sun Anthony Sun	Director	March 26, 1999
/s/ Rueben Wasserman Rueben Wasserman	Director	March 26, 1999

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS
ON THE FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Cognex Corporation:

Our audits of the consolidated financial statements referred to in our report dated January 26, 1999 in the 1998 Annual Report to Stockholders of Cognex Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14 (a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
January 26, 1999

SCHEDULE II

COGNEX CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
(Dollars in thousands)

<TABLE>
<CAPTION>

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS: CHARGED TO COSTS AND EXPENSES	ADDITIONS: CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for Doubtful Accounts					
<S>	<C>	<C>		<C>	<C>
1998	$1,940	$ 1,245	-	$ (602)(a)	$ 2,583
1997	968	1,268	-	(296)(a)	1,940
1996	709	542	-	(283)(a)	968

Reserve for Inventory Obsolescence

1998	$1,873	$ 992	-	$ (5)(b)	$ 2,860
1997	2,273	278		(678)(b)	1,873
1996	541	4,361	-	(2,629)(b)	2,273

(a) Specific write-offs
(b) Specific dispositions
</TABLE>

EXHIBIT INDEX

EXHIBIT NUMBER	
2	Agreement and Plan of Merger dated as of February 29, 1996 among Cognex Corporation, Cognex Software Development, Inc., Isys Controls, Inc., and Richard Rombach (incorporated by reference to Exhibit 2 to the Report on Form 8-K filed on March 15, 1996)
3A	Articles of Organization of the Company effective January 8, 1981, as amended June 8, 1982, August 19, 1983, May 15, 1984, April 17, 1985, November 4, 1986, and January 21, 1987 (incorporated by reference to Exhibit 3A to the Registration Statement Form S-1 [Registration No. 33-29020])
3B	Restated Articles of Organization of the Company effective June 27, 1989, as amended April 30, 1991, April 21, 1992, April 25, 1995, and April 23, 1996 (filed as Exhibit 3B to the Company's Annual Report of Form 10-K for the year ended December 31, 1996)
3C	By-laws of the Company as amended February 9, 1990 (filed as Exhibit 3C to the Company's Annual Report on Form 10-K for the year ended December 31, 1990)
4	Specimen Certificate for Shares of Common Stock (incorporated by reference to Exhibit 4 to the Registration Statement Form S-1 [Registration No. 33-29020])
10A	Cognex Corporation Employee Stock Purchase Plan (incorporated by reference to Exhibit 4A to Amendment No. 1 to the Registration Statement Form S-8 [Registration No. 33-32815])
10B	Cognex Corporation 1992 Director Stock Option Plan (filed as Exhibit 10I to the Company's Annual Report on Form 10-K for the year ended December 31, 1992) Cognex Corporation 1993 Director Stock Option Plan (filed as Exhibit 10J to the Company's Annual
10C	Cognex Corporation 1993 Director Stock Option Plan (filed as Exhibit 10J to the Company's Annual Report on Form 10-K for the year ended December 31, 1993)
10D	Cognex Corporation 1993 Employee Stock Option Plan, as amended May 28, 1996 (incorporated by reference to Exhibit 4A to the Registration Form S-8 [Registration No. 333-4621])
10E	Cognex Corporation 1996 Long-Term Incentive Plan (incorporated by reference to Exhibit 4A to the Registration Statement Form S-8 [Registration No. 333-2151])
10F	Amendment to the Cognex Corporation 1993 Director Stock Option Plan (filed as Exhibit 10G to the Company's Annual Report on Form 10-K for the year ended December 31, 1997)

10G Amendment to the Cognex Corporation 1993 Employee Stock Option Plan (filed as Exhibit 10H to the Company's Annual Report on Form 10-K for the year ended December 31, 1997)

10H Cognex Corporation 1998 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Registration Form S-8 [Registration No. 333-60807])

10I Cognex Corporation 1998 Stock Incentive Plan (incorporated by reference to Exhibit 4.2 to the Registration Form S-8 [Registration No. 333-60807])

13 Annual Report to Stockholders for the year ended December 31, 1998 (which is not deemed to be "filed" except to the extent that portions thereof are expressly incorporated by reference in this Annual Report on Form 10-K) *

21 Subsidiaries of the registrant *

23 Consent of PricewaterhouseCoopers LLP *

27 Financial Data Schedule for the year ended December 31, 1998 (electronic filing only) *

* Filed herewith

Exhibit 13

CHAPTER 7

FINANCIAL CONDITION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary

The Company's results in 1998 were impacted by a reduction in capital spending by manufacturers in the semiconductor and electronics industries, resulting in a 22% decrease in revenue from 1997. The decrease in revenue is due primarily to decreased volume of modular vision systems sold to Original Equipment Manufacturer (OEM) customers serving these two industries. Sales to OEM customers decreased 34% from 1997. Sales to end-user customers, however, increased 6% over the prior year due primarily to increased volume from customers in general manufacturing industries.

During 1998, the Company implemented certain cost-containment measures to align expense levels to the lower revenue trend, while also maintaining its commitment to new product development and end-user market penetration. This continued investment during a period of lower revenue resulted in a 50% decrease in net income from 1997. Despite this challenging business environment, the Company achieved a 17% net income margin in 1998.

The Company's financial position remained strong at December 31, 1998, with $248 million in total assets and $223 million in stockholders' equity. Working capital was $184 million at December 31, 1998, representing an 8% decrease from the prior year, as the Company used $40 million in cash to repurchase its common stock during 1998.

The following table sets forth certain consolidated financial data as a percentage of revenue:

Year Ended December 31,	1998	1997	1996
REVENUE	100%	100%	100%
COST OF REVENUE	31	27	32
GROSS MARGIN	69	73	68
RESEARCH, DEVELOPMENT, AND ENGINEERING EXPENSES	20	14	16
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	31	23	21
CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY(1)	2	2	
INCOME FROM OPERATIONS	16	34	31
INVESTMENT AND OTHER INCOME	6	4	5
INCOME BEFORE PROVISION FOR INCOME TAXES	22	38	36
PROVISION FOR INCOME TAXES	5	12	11
NET INCOME	17%	26%	25%

(1) CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY IS IN CONNECTION WITH THE ACQUISITIONS OF CERTAIN TECHNOLOGIES FROM ALLEN-BRADLEY IN 1998 AND MAYAN AUTOMATION, INC. IN 1997.

Results of Operations

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Revenue for the year ended December 31, 1998 decreased 22% to $121,844,000 from $155,340,000 for the year ended December 31, 1997. During 1998, the Company's results were, and continue to be, impacted by a worldwide slowdown in capital spending by manufacturers in the semiconductor and electronics industries, which is an important source of revenue for the Company.

The decrease in revenue of $33,496,000, or 22%, from the prior year is due primarily to decreased volume from the Company's OEM customers. Sales to OEM customers, most of whom make capital equipment used by manufacturers in the semiconductor and electronics industries, decreased $36,608,000, or 34%, from the prior year.

Sales to end-user customers, however, increased $3,112,000, or 6%, from the prior year due primarily to increased volume from customers in general manufacturing industries, including sales of Fine-Line(a) products which the Company acquired from Mayan Automation, Inc. in a purchase transaction on July 31, 1997. The increased end-user volume achieved from customers in general manufacturing industries was partially offset by decreased volume to end-user customers in the semiconductor and electronics industries. In recent years, the Company has devoted additional sales and marketing resources to grow its end-user customer base. As a result of these efforts, as well as the decline in OEM revenue, end-user revenue grew to 43% of total revenue in 1998 from 32% of total revenue in 1997.

Geographically, revenue decreased $13,982,000, or 23%, in North America and $20,467,000, or 30%, in Japan from the prior year, as most of the Company's large OEM customers are based in these regions. Revenue increased $3,095,000, or 14%, in Europe from the prior year due primarily to a large general manufacturing customer base in this region, as well as increased volume to one customer for a cellular telephone application in 1998.

The Company anticipates that its results for the next few quarters will continue to be impacted by the worldwide slowdown in capital equipment spending. The Company's customers continue to have limited visibility and a high level of uncertainty as to the timing of a sustained business recovery. However, due to a slight sequential improvement in revenue from the third quarter to the fourth quarter of 1998 as well as a small increase in demand from a few large OEM customers, the Company believes that it may have reached the bottom of this industry cycle. Although the Company now expects sequential revenue growth throughout 1999, it believes that this growth will be small to moderate during at least the first half of the year.

Gross margin as a percentage of revenue for the year ended December 31, 1998 was 69% compared to 73% for the year ended December 31, 1997. The decrease in gross margin as a percentage of revenue is due primarily to the lower product revenue in 1998. As a result, service revenue, which has a lower gross margin than product revenue, increased as a percentage of total revenue in 1998 and lowered the overall gross margin. Gross margin as a percentage of revenue is expected to increase slightly from the fourth quarter level of 66% during the next few quarters due to the anticipated moderate revenue growth.

Research, development, and engineering expenses for the year ended December 31, 1998 increased 10% to $24,662,000 from $22,481,000 for the year ended December 31, 1997. The increase in aggregate expenses is due primarily to higher personnel-related costs, as well as higher outside service costs, to support the Company's continued investment in the research and development of new and existing products. Expenses as a percentage of revenue were 20% in 1998 compared to 14% in 1997. The increase in expenses as a percentage of revenue is due primarily to the lower revenue base in 1998. Although the Company intends to continue its product development efforts in 1999, the level of research, development, and engineering expenses as a percentage of revenue over the next few quarters is not expected to exceed the 24% experienced in the fourth quarter of 1998.

Selling, general, and administrative expenses for the year ended December 31, 1998 increased 6% to $37,973,000 from $35,810,000 for the year ended December 31, 1997. The increase in aggregate expenses is due primarily to higher personnel-related costs to support the Company's expanding worldwide

operations, as well as depreciation expense for an addition to the Company's corporate headquarters and new computer information systems, both placed in service in January 1998. These increases were partially offset by cost-containment measures the Company implemented during the second half of 1998 which included the elimination of employee bonuses and a two-week mandatory shutdown in December. Expenses as a percentage of revenue were 31% in 1998 compared to 23% in 1997. The increase in expenses as a percentage of revenue is due primarily to the lower revenue base in 1998. Although the Company intends to continue its efforts to further penetrate the end-user market in 1999, the level of selling, general, and administrative expenses as a percentage of revenue over the next few quarters is not expected to exceed the 39% experienced in the fourth quarter of 1998.

In July 1998, the Company acquired certain technology of Rockwell Automation's Allen-Bradley machine vision business. The acquired technology related to certain products under development. The technology was valued using a risk-adjusted cash flow model, under which future cash flows were discounted taking into account risks related to existing markets, the technology's life expectancy, future target markets and potential changes thereto, and the competitive outlook for the technology. This analysis resulted in an allocation of $2,100,000 to in-process technology which had not reached technological feasibility and had no alternative future use, and accordingly, was expensed immediately.

The Company expects to incur additional costs to complete and integrate the technology to the Company's product standards. These expenditures will be completed in 1999 with anticipated funding from cash generated from operations and are not expected to significantly impact the planned level of research and development expenditures.

Investment income for the year ended December 31, 1998 increased 14% to $6,756,000 from $5,947,000 for the year ended December 31, 1997. The increase in investment income is due primarily to a higher average invested cash balance in 1998.

Other income for the year ended December 31, 1998 increased 2% to $733,000 from $718,000 for the year ended December 31, 1997. Other income consists primarily of rental income, net of related expenses, from leasing the building adjacent to the Company's corporate headquarters.

The Company's effective tax rate for the year ended December 31, 1998 was 26% compared to 30.5% for the year ended December 31, 1997. The decrease in the effective tax rate is due primarily to the impact of the Company's use of tax-free investments and the Company's lower profitability in 1998.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

The acquisition on July 31, 1997 of Mayan Automation, Inc. (Mayan), a developer of low-cost machine vision systems used for surface inspection, was accounted for under the purchase method of accounting. The results of operations of Mayan since the acquisition date are included in the Company's results.

Revenue for the year ended December 31, 1997 increased 26% to $155,340,000 from $122,843,000 for the year ended December 31, 1996. This increase in revenue over the prior year represents a recovery from the slowdown in the semiconductor and electronics industries which had previously impacted the Company's business. The increase is due primarily to increased volume from OEM customers serving these two industries. Sales to OEM customers increased $26,221,000, or 33%, over 1996, and grew to 68% of revenue in 1997 from 65% of revenue in 1996. Additionally, sales to end-user customers increased $6,276,000, or 15%, over 1996 due primarily to increased volume resulting from additional sales and marketing resources serving customers in this market, as well as the addition of Fine-Line products from the acquisition of Mayan in the third quarter of 1997.

Gross margin as a percentage of revenue for the year ended December 31, 1997 was 73% compared to 68% for 1996. Gross margin for 1996 included a $4,231,000 inventory charge to "Cost of Revenue," which reduced the margin by approximately four percentage points. The charge reflected costs associated with excess inventories resulting from product transition plans, as well as reduced production plans caused by the slowdown in the semiconductor and electronics industries. Excluding the 1996 inventory charge, the slight improvement in gross margin as a percentage of revenue is due primarily to the Company's ability to significantly increase the number of machine vision systems manufactured with only small increases in manufacturing overhead expenses, thereby improving the absorption rate of overhead expenses.

Research, development, and engineering expenses for the year ended December 31, 1997 increased 16% to $22,481,000 from $19,434,000 for the year ended December 31, 1996. The increase in aggregate expenses is due primarily to higher personnel-related costs to support the Company's continued investment in the research and development of new and existing products. Expenses as a percentage of revenue were 14% in 1997 compared to 16% in 1996. The decrease in expenses as a percentage of revenue results from demand from OEM customers increasing revenue at a rate that outpaced the increase in expenses associated with the addition of new engineers.

Selling, general, and administrative expenses for the year ended December 31, 1997 increased 36% to $35,810,000 from $26,261,000 for the year ended December

31, 1996. The increase in aggregate expenses is due primarily to higher personnel-related costs, both domestically and internationally, to support the Company's worldwide operations, as well as the reinstatement of company bonuses, which were eliminated as part of an effort to control costs during 1996 in light of the temporary downturn in the semiconductor and electronics industries. Expenses as a percentage of revenue were 23% in 1997 compared to 21% in 1996.

Investment income for the year ended December 31, 1997 increased 26% to $5,947,000 from $4,726,000 for the year ended December 31, 1996. The increase in investment income is due primarily to an increase in the Company's invested cash balance during 1997.

Other income for the year ended December 31, 1997 totaled $718,000 and remained fairly consistent with other income of $678,000 in 1996. Other income consists primarily of rental income, net of related expenses, from leasing the building adjacent to the Company's corporate headquarters.

The Company's effective tax rate was 30.5% for each of the years ended December 31, 1997 and 1996.

Liquidity and Capital Resources

The Company's cash requirements during the year ended December 31, 1998 were met through cash generated from operations along with existing cash and investments balances. Cash and investments decreased $19,556,000 from December 31, 1997 primarily as a result of $39,867,000 of cash used to repurchase the Company's common stock and $7,239,000 of capital expenditures, partially offset by $29,670,000 of cash generated from operations.

Capital expenditures for the year ended December 31, 1998 totaled $7,239,000 and consisted primarily of expenditures for computer hardware and software, as well as expenditures for furniture and fixtures primarily related to the occupancy of an addition to the Company's corporate headquarters, and expenditures for leasehold improvements related to a new office in Japan.

As discussed in the Notes to Consolidated Financial Statements, at December 31, 1998, the Company had unconditional obligations to purchase $3,670,000 of inventory from third-party contractors within 60 days.

On April 21, 1998, the Company's Board of Directors authorized the repurchase of up to $20,000,000 of the Company's common stock. A total of 882,000 shares were repurchased through May 27, 1998 amounting to $19,937,000 which completed the Company's stock repurchases under this program. On June 3, 1998, the Board authorized the repurchase of up to an additional 1,500,000 shares of the Company's common stock. As of December 31, 1998, 1,320,000 shares have been repurchased under this second program amounting to

$19,930,000. Funds for the stock repurchases came from the Company's existing cash and investments balance along with cash generated from operations.

The Company believes that its existing cash and investments balance, together with cash generated from operations, will be sufficient to meet the Company's planned working capital and capital expenditure requirements through 1999, including potential business acquisitions.

On June 15, 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company anticipates that, due to its limited use of derivative instruments, the adoption of SFAS No. 133 will not have a material impact on the Company's results of operations or financial position.

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies and the euro, making the euro their common legal currency on that date. Based on a recent assessment, the euro conversion is not anticipated to have a material impact on the Company's business.

Year 2000 Update

The Company is aware of the potential for industry-wide business disruption which could occur due to problems related to the "Year 2000" issue. Management believes that it has a prudent plan in place to address this issue within the Company and its supply chain. The components of this plan include: an assessment of internal systems for modification and/or replacement; communication with external vendors to determine their state of readiness to maintain an uninterrupted supply of goods and services to the Company; and an evaluation of products sold by the Company to customers as to the ability of the products to work properly after the turn of the century.

Internal Systems

The Company's process for achieving Year 2000 compliance for internal systems is as follows:

1. Develop an inventory of all internal systems
2. Determine the Year 2000 compliance status of each internal system
3. Prioritize the importance of Year 2000 compliance for each internal system
4. Determine the method to be used to achieve compliance (modify, replace, cease use)
5. Complete the planned action
6. Test the system

The initial inventory, compliance status, and prioritization of all internal systems in use throughout the Company have been completed. The Company has identified five internal systems that are used for business transaction processing as being critical to the uninterrupted operation of the business. Of these five systems, the Company's initial assessment indicates that three are Year 2000 compliant. The Company is on schedule to have the remaining two systems Year 2000 compliant by June 30, 1999 through vendor-provided upgrades. In addition, the Company has completed an initial assessment of its technology infrastructure (servers, networks, phone systems) and expects to have all non-compliant items remediated, replaced, or decommissioned by June 30, 1999.

Vendors

The Company has initiated a program to survey the Year 2000 readiness of its major vendors. The Company has sent letters to over 250 vendors outlining its approach towards the Year 2000 issue and asking for either their certification that their product is Year 2000 compliant or their commitment to resolve any issues they may have. The Company has identified vendors it views as critical to its business. Management has defined a critical vendor as one whose inability to continue to provide goods and services would have a serious adverse impact on the Company's ability to produce, deliver, and collect payment for its product. To date, the Company has received responses from all critical vendors with the exception of two. These two vendors have been contacted by the senior management member responsible for the business relationship and have been requested to respond to the Company's Year 2000 letter.

Products

Product testing is now complete and has confirmed that Cognex's core vision functionality is not date sensitive or dependent on dates in any way, and is therefore Year 2000 compliant. The Company's Year 2000 product compliance verification methodology consisted of a review of the source code and functional testing of the recent releases of Cognex products, which are believed to be representative of earlier releases as well. Year 2000 compliance verification included examination of the 1999/2000 date rollover, date sensitive functionality with the year 2000, and leap year compliance.

Costs

Costs incurred in the Company's Year 2000 compliance effort are expensed as incurred and funded with cash generated from operations. These costs are included in the normal, recurring costs incurred for product development and systems maintenance and are not material to the Company's results of operations, nor are they expected to be in the future.

Risks and Contingency Plan

Although the Company believes it is taking prudent action related to the identification and resolution of issues related to the Year 2000, its assessment is still in progress. It may never be able to know with certainty whether certain critical vendors are compliant. Failure of critical vendors to make their computer systems Year 2000 compliant could result in delaying deliveries of products and services to the Company. If such delays are extensive, they could have a material adverse effect on the Company's business.

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities. Such failures could materially and adversely affect the Company's results of operations, liquidity, and financial condition. Due to the general uncertainty inherent in the Year 2000 issue, resulting in part from the uncertainty of the Year 2000 readiness of third-party vendors, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity, or financial position. The Year 2000 compliance project is expected to reduce, but not eliminate, the Company's level of uncertainty about the Year 2000 issue and, in particular, about the Year 2000 compliance and readiness of its critical vendors. The Company believes that, with the completion of the Year 2000 compliance project as scheduled, the possibility of significant interruptions to normal operations should be reduced.

The Company continues to evaluate the risks associated with potential Year 2000 related failures. As management better understands the risks within the Company's unique set of internal systems, business partners, and products, a formal contingency plan to alleviate the impact of high potential or serious failures will be developed. The Company anticipates having this contingency plan outlined by June 30, 1999. The components of this plan will likely include raw material and finished goods inventory levels, alternative vendors, and backup systems. Until the contingency plan is completed, the Company

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does not possess the information necessary to estimate the potential negative impact of Year 2000 compliance issues related to internal systems, its vendors, its customers, or other parties.

Forward-Looking Statements

Certain statements made in this report (including statements regarding the Year 2000 issue), as well as oral statements made by the Company from time to time, which are prefaced with words such as "expects," "anticipates," "believes," "projects," "intends," "plans," and similar words and other statements of similar sense, are forward-looking statements. These statements are based on the Company's current expectations and estimates as to prospective events and circumstances, which may or may not be in the Company's control and as to which there can be no firm assurances given. These forward-looking statements, like any other forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include: (1) the loss of, or a significant curtailment of purchases by, any one or more principal customers; (2) the cyclicality of the semiconductor and electronics industries; (3) the Company's continued ability to achieve significant international revenue; (4) capital spending trends by manufacturing companies; (5) inability to protect the Company's proprietary technology and intellectual property; (6) inability to attract or retain skilled employees; (7) technological obsolescence of current products and the inability to develop new products; (8) inability to respond to competitive technology and pricing pressures; and (9) reliance upon certain sole source suppliers to manufacture or deliver critical components of the Company's products. The foregoing list should not be construed as exhaustive and the Company disclaims any obligation subsequently to revise forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Further discussions of risk factors are also available in the Company's registration statements filed with the Securities and Exchange Commission. The Company wishes to caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made.

COGNEX CORPORATION -
FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

Year Ended December 31,	1998	1997	1996(1)(2)	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
STATEMENT OF INCOME DATA:					
REVENUE	$121,844	$155,340	$122,843	$104,543	$62,484
COST OF REVENUE	37,296	42,273	38,855	22,543	13,884
GROSS MARGIN	84,548	113,067	83,988	82,000	48,600
RESEARCH, DEVELOPMENT, AND ENGINEERING EXPENSES	24,662	22,481	19,434	13,190	9,933
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	37,973	35,810	26,261	23,973	16,847
CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY	2,100	3,115		10,189	
INCOME FROM OPERATIONS	19,813	51,661	38,293	34,648	21,820
INVESTMENT AND OTHER INCOME	7,489	6,665	5,404	2,965	1,462
INCOME BEFORE PROVISION FOR INCOME TAXES	27,302	58,326	43,697	37,613	23,282
PROVISION FOR INCOME TAXES	7,099	17,790	13,328	14,579	7,210
NET INCOME	$ 20,203	$ 40,536	$ 30,369	$ 23,034	$16,072
BASIC NET INCOME PER SHARE (3)	$ .49	$ .98	$ .75	$ .60	$ .47
DILUTED NET INCOME PER SHARE (3)	$ .47	$ .91	$ .69	$ .55	$ .43
BASIC WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING (3)	40,978	41,322	40,594	38,175	34,560
DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING (3)	43,203	44,702	43,814	41,952	37,150

</TABLE>

<TABLE>
<CAPTION>

December 31,	1998	1997	1996	1995	1994
(IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
WORKING CAPITAL	$184,363	$199,570	$152,817	$119,402	$ 88,619
TOTAL ASSETS	247,928	261,840	201,253	162,172	112,946
LONG-TERM DEBT	-	-	-	-	-
STOCKHOLDERS' EQUITY	222,875	236,142	182,689	143,916	103,608

</TABLE>

(1) 1996 RESULTS INCLUDE THE FULL YEAR RESULTS OF ISYS CONTROLS, INC. (ISYS), A DEVELOPER OF MACHINE VISION SYSTEMS FOR HIGH-SPEED SURFACE INSPECTION ACQUIRED IN FEBRUARY 1996. THE ISYS ACQUISITION WAS ACCOUNTED FOR AS A POOLING OF INTERESTS; HOWEVER, BECAUSE THE RESULTS OF ISYS FOR PRIOR YEARS WERE NOT MATERIAL TO THE COMPANY'S PREVIOUSLY REPORTED RESULTS, PRIOR YEARS HAVE NOT BEEN RESTATED.

(2) COST OF REVENUE INCLUDES A $4,231,000 INVENTORY CHARGE FOR COSTS ASSOCIATED WITH EXCESS INVENTORIES RESULTING FROM PRODUCT TRANSITION PLANS, AS WELL AS REDUCED PRODUCTION PLANS.

(3) ADJUSTED FOR THE 2-FOR-1 STOCK SPLIT EFFECTIVE DECEMBER 18, 1995.

COGNEX CORPORATION -
CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31,	1998	1997	1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>
REVENUE	$121,844	$155,340	$122,843
COST OF REVENUE	37,296	42,273	38,855
GROSS MARGIN	84,548	113,067	83,988
RESEARCH, DEVELOPMENT, AND ENGINEERING EXPENSES	24,662	22,481	19,434
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	37,973	35,810	26,261
CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY	2,100	3,115	
INCOME FROM OPERATIONS	19,813	51,661	38,293
INVESTMENT INCOME	6,756	5,947	4,726
OTHER INCOME	733	718	678
INCOME BEFORE PROVISION FOR INCOME TAXES	27,302	58,326	43,697
PROVISION FOR INCOME TAXES	7,099	17,790	13,328
NET INCOME	$20,203	$40,536	$30,369
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE:			
BASIC	$ .49	$ .98	$ .75
DILUTED	$ .47	$ .91	$ .69
WEIGHTED-AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:			
BASIC	40,978	41,322	40,594
DILUTED	43,203	44,702	43,814

</TABLE>
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

COGNEX CORPORATION -
CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	1998	1997
(IN THOUSANDS)		
ASSETS		
CURRENT ASSETS:		
CASH AND INVESTMENTS	$158,458	$178,014
ACCOUNTS RECEIVABLE, LESS RESERVES OF $2,583 AND $1,940 IN 1998 AND 1997, RESPECTIVELY	20,987	25,095
REVENUE IN EXCESS OF BILLINGS	4,945	3,723
INVENTORIES	10,812	7,784
DEFERRED INCOME TAXES	3,936	3,453
PREPAID EXPENSES AND OTHER	8,141	5,937
TOTAL CURRENT ASSETS	207,279	224,006
PROPERTY, PLANT, AND EQUIPMENT, NET	34,255	32,995
DEFERRED INCOME TAXES	2,237	1,377
OTHER ASSETS	4,157	3,462
	$247,928	$261,840
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	$ 2,488	$ 3,332

ACCRUED EXPENSES	11,653	13,712
ACCRUED INCOME TAXES	916	2,684
CUSTOMER DEPOSITS	4,894	3,112
DEFERRED REVENUE	2,965	1,596
TOTAL CURRENT LIABILITIES	22,916	24,436
OTHER LIABILITIES	2,137	1,262
COMMITMENTS (SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS)		
STOCKHOLDERS' EQUITY:		
COMMON STOCK, $.002 PAR VALUE- AUTHORIZED: 120,000,000 SHARES, ISSUED: 42,453,980 AND 41,859,395 SHARES IN 1998 AND 1997, RESPECTIVELY	85	84
ADDITIONAL PAID-IN CAPITAL	97,531	91,082
TREASURY STOCK, AT COST, 2,307,140 AND 103,139 SHARES IN 1998 AND 1997, RESPECTIVELY	(41,353)	(1,436)
RETAINED EARNINGS	166,571	146,368
ACCUMULATED OTHER COMPREHENSIVE INCOME	41	44
TOTAL STOCKHOLDERS' EQUITY	222,875	236,142
	$247,928	$261,840

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

COGNEX CORPORATION - CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS)	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK SHARES	TREASURY STOCK COST
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1995	39,039,675	$78	$71,171	80,918	$ (889)
COMMON STOCK ISSUED TO ACQUIRE ISYS CONTROLS, INC	1,331,927	3	2,469		
ISSUANCE OF STOCK UNDER STOCK OPTION, STOCK PURCHASE, AND BONUS PLANS	542,564	1	2,495		
TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS			1,434		
COMPREHENSIVE INCOME:					
NET INCOME					
TRANSLATION ADJUSTMENT					
COMPREHENSIVE INCOME					
BALANCE AT DECEMBER 31, 1996	40,914,166	82	77,569	80,918	(889)
ISSUANCE OF STOCK UNDER STOCK OPTION, STOCK PURCHASE, AND BONUS PLANS	945,229	2	5,504		
TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS			8,009		
COMMON STOCK RECEIVED FOR PAYMENT OF STOCK OPTION EXERCISES				22,221	(547)
COMPREHENSIVE INCOME:					
NET INCOME					
TRANSLATION ADJUSTMENT					
COMPREHENSIVE INCOME					
BALANCE AT DECEMBER 31, 1997	41,859,395	84	91,082	103,139	(1,436)
ISSUANCE OF STOCK UNDER STOCK OPTION, STOCK PURCHASE, AND BONUS PLANS	594,585	1	4,385		
TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS			2,064		
COMMON STOCK RECEIVED FOR PAYMENT OF STOCK OPTION EXERCISES				2,001	(50)
REPURCHASE OF COMMON STOCK				2,202,000	(39,867)
COMPREHENSIVE INCOME:					
NET INCOME					
TRANSLATION ADJUSTMENT					
COMPREHENSIVE INCOME					
BALANCE AT DECEMBER 31, 1998	42,453,980	$85	$97,531	2,307,140	$(41,353)

</TABLE>
<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS)	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>	<C>		<C>
BALANCE AT DECEMBER 31, 1995	73,516	$ 40		$143,916
COMMON STOCK ISSUED TO ACQUIRE ISYS CONTROLS, INC	1,947			4,419
ISSUANCE OF STOCK UNDER STOCK OPTION, STOCK PURCHASE, AND BONUS PLANS				2,496
TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS				1,434
COMPREHENSIVE INCOME:				
NET INCOME	30,369		$30,369	30,369
TRANSLATION ADJUSTMENT		55	55	55
COMPREHENSIVE INCOME			30,424	
BALANCE AT DECEMBER 31, 1996	105,832	95		182,689
ISSUANCE OF STOCK UNDER STOCK OPTION, STOCK PURCHASE, AND BONUS PLANS				5,506
TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS				8,009
COMMON STOCK RECEIVED FOR PAYMENT OF STOCK OPTION EXERCISES				(547)
COMPREHENSIVE INCOME:				
NET INCOME	40,536		40,536	40,536
TRANSLATION ADJUSTMENT		(51)	(51)	(51)
COMPREHENSIVE INCOME			40,485	
BALANCE AT DECEMBER 31, 1997	146,368	44		236,142
ISSUANCE OF STOCK UNDER STOCK OPTION, STOCK PURCHASE, AND BONUS PLANS				4,386
TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS				2,064
COMMON STOCK RECEIVED FOR PAYMENT OF STOCK OPTION EXERCISES				(50)
REPURCHASE OF COMMON STOCK				(39,867)
COMPREHENSIVE INCOME:				
NET INCOME	20,203		20,203	20,203
TRANSLATION ADJUSTMENT		(3)	(3)	(3)
COMPREHENSIVE INCOME			$20,200	
BALANCE AT DECEMBER 31, 1998	$166,571	$41		$222,875

</TABLE>
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

COGNEX CORPORATION --
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

Year Ended December 31,	1998	1997	1996
(IN THOUSANDS)			
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME	$ 20,203	$ 40,536	$ 30,369
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
DEPRECIATION OF PROPERTY, PLANT, AND EQUIPMENT	6,393	4,870	4,352
AMORTIZATION OF INTANGIBLE ASSETS	796	938	735
AMORTIZATION OF INVESTMENTS	1,525	1,399	1,426

TAX BENEFIT FROM EXERCISE OF STOCK OPTIONS	2,064	8,009	1,434
CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY	2,100	3,115	
INVENTORY PROVISION			4,231
DEFERRED INCOME TAX PROVISION	(1,343)	(2,581)	(385)
CHANGES IN OTHER CURRENT ASSETS AND CURRENT LIABILITIES:			
ACCOUNTS RECEIVABLE	5,052	(6,603)	6,276
INVENTORIES	(3,627)	(920)	2,523
ACCOUNTS PAYABLE	(902)	(421)	519
OTHER CURRENT ASSETS AND CURRENT LIABILITIES	(3,498)	5,080	956
OTHER OPERATING ACTIVITIES	907	314	28
NET CASH PROVIDED BY OPERATING ACTIVITIES	29,670	53,736	52,464
CASH FLOWS FROM INVESTING ACTIVITIES:			
PURCHASE OF INVESTMENTS	(81,616)	(94,581)	(63,067)
MATURITY OF INVESTMENTS	89,256	38,943	42,793
PURCHASE OF PROPERTY, PLANT, AND EQUIPMENT	(7,239)	(10,852)	(10,154)
CASH PAID FOR TECHNOLOGY ACQUISITIONS, NET OF CASH ASSUMED, AND EQUITY INVESTMENTS	(3,954)	(2,999)	(359)
NET CASH USED IN INVESTING ACTIVITIES	(3,553)	(69,489)	(30,787)
CASH FLOWS FROM FINANCING ACTIVITIES:			
ISSUANCE OF STOCK UNDER STOCK OPTION, STOCK PURCHASE, AND BONUS PLANS	4,336	4,959	2,496
REPURCHASE OF COMMON STOCK	(39,867)		
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(35,531)	4,959	2,496
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(977)	569	339
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,391)	(10,225)	24,512
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	38,198	48,423	23,911
CASH AND CASH EQUIVALENTS AT END OF YEAR	27,807	38,198	48,423
INVESTMENTS	130,651	139,816	85,577
CASH AND INVESTMENTS	$158,458	$178,014	$134,000

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the application of certain accounting policies described below.

Nature of Operations

Cognex Corporation (the Company) designs, develops, and markets machine vision systems, or computers that can "see." The Company's products are used to automate a wide range of manufacturing processes where vision is required.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Basis of Consolidation

The consolidated financial statements include the accounts of Cognex Corporation and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated. Certain amounts reported in prior years have been reclassified to be consistent with the current year presentation.

Foreign Currency

The financial statements of the Company's foreign subsidiaries, where the local currency is the functional currency, are translated using exchange rates in effect at the end of the year for assets and liabilities and average exchange rates during the year for results of operations. The resulting foreign currency translation adjustments are reported as a separate component of stockholders' equity.

Cash and Investments

Cash and investments include cash equivalents, which the Company considers to be all investments purchased with original maturities of three months or less. Investments having original maturities in excess of three months are stated at amortized cost, which approximates fair value, and are classified as available-for-sale. The Company considers all of its investments to be available for current operations and maintains its investments in securities which are highly liquid and would not result in significant losses if sold prior to maturity.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out basis.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and depreciated using the straight-line method over the assets' estimated useful lives. Buildings' useful lives are 39 years, building improvements' useful lives are 10 years, and the useful lives of computer hardware, computer software, and furniture and fixtures range from two to seven years. Leasehold improvements are depreciated over the shorter of the estimated useful lives or the remaining terms of the leases. Maintenance and repairs are expensed when incurred; additions and improvements are capitalized. Upon retirement or disposition, the cost and related accumulated depreciation of the assets disposed of are removed from the accounts, with any resulting gain or loss included in current operations.

Intangible Assets

Intangible assets are stated at cost and amortized using the straight-line method over the assets' estimated useful lives, which range from five to eight years. The Company evaluates the possible impairment of long-lived assets, including intangible assets, whenever events or circumstances indicate that the carrying value of the assets may not be recoverable.

Warranty Obligations

The Company provides warranties for its products for periods ranging from six months to two years from the date of shipment based upon the product being purchased and the terms of the customer's contract. Estimated warranty obligations are evaluated and recorded at the time of sale.

Revenue Recognition

Revenue from product sales and software licenses is recognized upon shipment. Revenue from construction-type projects is recognized using the percentage-of-completion method. Losses on projects, if any, are recognized when identified. Service and maintenance revenue is recognized as earned.

Research and Development

Research and development costs for internally-developed products are expensed when incurred until technological feasibility has been established for the product. Thereafter, all software costs are capitalized until the product is available for general release to customers. The cost of acquired software is capitalized for products determined to have reached technological feasibility; otherwise, the cost is expensed. Capitalized software costs are amortized using the straight-line method over the economic life of the product, typically three to five years, or based upon the anticipated revenues of the product.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, a deferred tax asset or liability is determined based on the differences between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Tax credits are recorded as a reduction in income taxes. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Net Income Per Share

Basic net income per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were issued, exercised, or converted into common stock. Dilutive common equivalent shares consist of stock options, calculated using the treasury stock method.

Comprehensive Income

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," for the year ended December 31, 1998, which requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements. The Company has presented accumulated other comprehensive income and comprehensive income on the Consolidated Statements of Stockholders' Equity in accordance with this standard.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment Information

The Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," for the year ended December 31, 1998, which requires companies to report selected information about operating segments, as well as enterprise-wide disclosures about products and services, geographic areas, and major customers. Operating segments are determined based on the way that management organizes its business for making operating decisions and assessing performance.

Financial Instruments

Fair Value

The Company's financial instruments consist primarily of cash and cash equivalents, investments, trade receivables, trade payables, and forward exchange contracts. The carrying amounts of cash and cash equivalents, investments, trade receivables, and trade payables approximate fair value due to the short maturity of these instruments. Based on year-end exchange rates and the various maturity dates of the forward exchange contracts, the Company estimates the aggregate contract value to be representative of the fair values of these instruments.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and trade receivables.

The Company invests in debt instruments of U.S. and state government entities. The Company has established guidelines relative to credit ratings, diversification, and maturities that maintain safety and liquidity. The Company has not experienced any significant losses on its cash equivalents and investments.

A significant portion of the Company's sales and receivables are from customers who are either in or who serve the semiconductor and electronics industries. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. The Company has not experienced any significant losses related to the collection of its accounts receivable.

Off-Balance Sheet Risk

In certain instances, the Company enters into forward exchange contracts to hedge commitments against foreign currency fluctuations. The forward exchange contracts are for periods consistent with its committed exposure and require the Company to exchange foreign currencies for U.S. dollars at maturity, at rates agreed upon at the inception of the contracts. For contracts that are designated and effective as hedges, the gain or loss on the forward exchange contract is deferred and included in the measurement of the related foreign currency transaction. The Company had $8,700,000 and $7,900,000 of foreign exchange contracts outstanding, all of which were in Japanese yen, at December 31, 1998 and 1997, respectively.

Foreign Currency Risk

The Company enters into transactions denominated in foreign currencies and includes the exchange rate gain or loss arising from such transactions in current operations. The Company recorded an exchange rate gain of $127,000 in 1998, and exchange rate losses of $155,000 in 1997 and $1,027,000 in 1996.

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CASH AND INVESTMENTS

Cash and investments consist of the following:

<TABLE>
<CAPTION>

DECEMBER 31,	1998	1997
(IN THOUSANDS)		
CASH	$ 22,002	$ 19,868
MUNICIPAL OBLIGATIONS WITH CONTRACTUAL MATURITIES:		
LESS THAN THREE MONTHS	5,805	18,330
TOTAL CASH AND CASH EQUIVALENTS	27,807	38,198
GREATER THAN THREE MONTHS AND LESS THAN ONE YEAR	49,345	49,216
GREATER THAN ONE YEAR	81,306	90,600
	$158,458	$178,014

</TABLE>

INVENTORIES

Inventories consist of the following:

DECEMBER 31,	1998	1997
(IN THOUSANDS)		
RAW MATERIALS	$ 6,195	$4,425
WORK-IN-PROCESS	1,262	1,355
FINISHED GOODS	3,355	2,004
	$10,812	$7,784

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following:

DECEMBER 31,	1998	1997
(IN THOUSANDS)		
LAND	$ 3,051	$ 3,051
BUILDINGS	17,571	17,571

BUILDING IMPROVEMENTS	3,127	2,717
COMPUTER HARDWARE AND SOFTWARE	24,793	19,553
FURNITURE AND FIXTURES	3,351	2,429
LEASEHOLD IMPROVEMENTS	1,542	661
	53,435	45,982
LESS: ACCUMULATED DEPRECIATION	(19,180)	(12,987)
	$ 34,255	$ 32,995

ACCRUED EXPENSES

Accrued expenses consist of the following:

DECEMBER 31,	1998	1997
(IN THOUSANDS)		
COMPENSATION AND RELATED COSTS	$ 3,749	$ 6,075
WARRANTY	2,761	2,407
PROFESSIONAL FEES	1,407	1,027
ACQUISITION COSTS	912	1,237
OTHER	2,824	2,966
	$ 11,653	$ 13,712

COMMITMENTS

The Company has agreements with third-party contractors to perform the majority of component procurement, subassembly, final assembly, and initial testing for the hardware portion of its vision systems. After the completion of initial testing, the third-party contractors deliver the products to the Company to perform final testing and assembly. At December 31, 1998, the Company had unconditional obligations to purchase $3,670,000 of inventory from third-party contractors within 60 days. These purchase commitments relate to expected sales in 1999.

The Company conducts certain of its operations in leased facilities. These lease agreements expire at various dates through the year 2003 and are accounted for as operating leases. Annual rent expense totaled $2,366,000 in 1998, $1,637,000 in 1997, and $1,324,000 in 1996. Future minimum rental payments under these agreements are as follows at December 31, 1998 (in thousands):

Year	Amount
1999	$2,459
2000	2,201
2001	1,646
2002	542
2003	23
	$6,871

In June 1995, the Company purchased an 83,000 square-foot office building adjacent to its corporate headquarters. The building is currently occupied with tenants who have lease agreements that expire at various dates through the year 2000. Annual rental income totaled $1,499,000 in 1998, $1,428,000 in 1997, and $1,326,000 in 1996. Rental income and related expenses are presented on the Consolidated Statements of Income as "Other Income." Future minimum rental receipts under non-cancelable lease agreements are as follows at December 31, 1998 (in thousands):

Year	Amount
1999	$1,317
2000	994
	$2,311

STOCKHOLDERS' EQUITY

Preferred Stock

The Company has 400,000 shares of authorized but unissued $.01 par value preferred stock.

Stock Repurchase Program

On April 21, 1998, the Company's Board of Directors authorized the repurchase of up to $20,000,000 of the Company's common stock. A total of 882,000 shares were repurchased through May 27, 1998 amounting to $19,937,000 which completed the Company's stock repurchases under this program. On June 3, 1998, the Board authorized the repurchase of up to an additional 1,500,000 shares of the Company's common stock. As of December 31, 1998, 1,320,000 shares have been repurchased under this second program amounting to $19,930,000. Such repurchases are part of the Company's ongoing program to replenish shares used for the granting of stock options and are made from time to time in the open market or in private transactions depending upon acceptable price levels and the availability of shares.

Stock-Based Compensation Plans

The Company has adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company continues to recognize compensation costs using the intrinsic value based method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." No compensation costs were recognized in 1998, 1997, and 1996.

Net income and net income per share as reported in these consolidated financial statements and on a pro forma basis, as if the fair value based method described in SFAS No. 123 had been adopted, are as follows:

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31,		1998	1997	1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
<S>		<C>	<C>	<C>
NET INCOME	AS REPORTED	$20,203	$40,536	$30,369
	PRO FORMA	13,861	34,380	25,204
BASIC NET INCOME PER SHARE	AS REPORTED	.49	.98	.75
	PRO FORMA	.34	.83	.62
DILUTED NET INCOME PER SHARE	AS REPORTED	.47	.91	.69
	PRO FORMA	.29	.74	.59

</TABLE>

The effects of applying SFAS No. 123 for the purpose of providing pro forma disclosures may not be indicative of the effects on reported net income and net income per share for future years, as the pro forma disclosures include the effects of only those awards granted after January 1, 1995, and the Company expects to grant options in future years.

STOCKHOLDERS' EQUITY (CONTINUED)

Stock Option Plans

At December 31, 1998, the Company had 10,622,000 shares approved by the Board of Directors and stockholders for grant under the following stock option plans: the 1992 Director Plan, 352,000; the 1993 Director Plan, 320,000; the 1993 Employee Plan, 8,000,000; the 1998 Director Plan, 250,000; and the 1998 Stock Incentive Plan, 1,700,000. In April 1996, an amendment was adopted to increase the number of shares of common stock reserved for issuance under the 1993 Employee Plan from 5,000,000 shares to 8,000,000 shares.

On April 21, 1998, the stockholders approved the 1998 Stock Incentive Plan, under which the Company may initially grant stock options and stock awards to purchase up to 1,700,000 shares of common stock. Effective January 1, 1999 and each January 1 thereafter during the term of the 1998 Stock Incentive Plan, the number of shares of common stock available for grants of stock options and stock awards shall be increased automatically to an amount equal to 4.5% of the total number of issued shares of common stock (including shares held in treasury) as of the close of business on December 31 of the preceding year.

In connection with the acquisition of Isys Controls, Inc. in February 1996, the Company adopted the 1996 Long-Term Incentive Plan. This plan provided for the grant of 321,589 shares of either restricted common stock or options to purchase restricted stock. Other than restrictions that limit the sale and transfer of the restricted stock within 20 years from the date of grant, participants are entitled to all of the rights of a stockholder.

On July 30, 1996, the Company granted 1,177,830 options at the current fair market value with similar terms and conditions to previously issued but unexercised grants. In exchange for the new grants, employees agreed to forfeit their prior options. On December 15, 1998, the Company granted 1,320,100 options at the current fair market value with similar terms and conditions to previously issued but unexercised grants. In exchange for the new grants, employees agreed to forfeit their prior options.

Options vest over various periods, not exceeding 10 years, and expire no later than 20 years from the date of grant.

Stock Option Plans (Continued)

The following table summarizes the status of the Company's stock option plans at December 31, 1998, 1997, and 1996, and changes during the years then ended:

<TABLE>
<CAPTION>

	1998		1997		1996	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
OUTSTANDING AT BEGINNING OF YEAR	7,764,907	$ 11.85	8,014,386	$ 8.34	7,699,826	$ 9.10
GRANTED AT FAIR MARKET VALUE	3,587,535	16.63	1,450,521	24.55	933,915	16.80
GRANTED ABOVE FAIR MARKET VALUE			91,500	26.41	1,807,583	16.18
EXERCISED	(604,714)	6.50	(996,965)	4.87	(518,925)	3.18
FORFEITED	(2,425,393)	20.96	(794,535)	10.05	(1,908,013)	24.39
OUTSTANDING AT END OF YEAR	8,322,335	11.65	7,764,907	11.85	8,014,386	8.34
OPTIONS EXERCISABLE AT YEAR-END	2,502,865	7.45	2,140,956	6.14	2,128,058	4.40
WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE OF OPTIONS GRANTED DURING THE YEAR AT FAIR MARKET VALUE	$ 5.65		$ 12.48		$ 11.78	
WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE OF OPTIONS GRANTED DURING THE YEAR ABOVE FAIR MARKET VALUE			$ 11.50		$ 4.46	

</TABLE>

STOCKHOLDERS' EQUITY (CONTINUED)

Stock Option Plans (Continued)

The following table summarizes information about stock options outstanding at December 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$.50 - 6.00	1,126,115	4.4	$ 3.48	1,077,666	$3.55
6.06 - 7.50	2,348,965	9.5	7.46	742,465	7.39
7.94 - 14.50	1,365,930	6.9	13.40	569,133	12.69
14.56 - 15.88	1,149,740	9.4	15.58	22,319	14.82
16.00	1,671,435	9.2	16.00	1,476	16.00
16.50 - 32.81	658,150	8.5	18.97	89,606	19.60
36.31	2,000	8.6	36.31	200	36.31
.50 - 36.31	8,322,335	8.2	11.65	2,502,865	7.45

For the purpose of providing pro forma disclosures, the fair values of options granted were estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1997, and 1996, respectively: a risk-free interest rate of 5.1%, 6.3%, and 6.3%; an expected life of 4.1, 5.1, and 4.4 years; expected volatility of 50%; and no expected dividends.

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan (ESPP), employees who have completed six months of continuous employment with the Company may purchase common stock semi-annually at the lower of 85% of the fair market value of the stock at the beginning or end of the six-month payment period, through accumulation of payroll deductions. Employees are required to hold stock purchased under the ESPP for a period of one year from the date of purchase. Common stock reserved for future sales totaled 432,864 shares at December 31, 1998. Shares purchased under the ESPP totaled 30,670 in 1998, 22,436 in 1997, and 27,215 in 1996. The weighted-average fair value of shares purchased under the ESPP was $7.52 in 1998, $5.08 in 1997, and $6.82 in 1996.

For the purpose of providing pro forma disclosures, the fair values of shares purchased were estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for purchases in 1998, 1997, and 1996: a risk-free interest rate of 5.3%; an expected life of six months; expected volatility of 50%; and no expected dividends.

EMPLOYEE SAVINGS PLAN

Under the Company's Employee Savings Plan, a defined contribution plan, employees who have attained age 21 may contribute 1% to 15% of their salary on a pre-tax basis. Employer contributions are made at the discretion of management and vest after five years of continuous employment with the Company. Employer contributions approximated $230,000 in 1998, $400,000 in 1997, and $300,000 in 1996.

Income Taxes

The provision for income taxes consists of the following:

Year Ended December 31,	1998	1997	1996
(IN THOUSANDS)			

CURRENT:			
FEDERAL	$ 5,468	$17,048	$13,169
STATE	1,617	2,850	128
FOREIGN	1,357	473	392
	8,442	20,371	13,689
DEFERRED:			
FEDERAL	(1,582)	(1,552)	(902)
STATE	239	(1,029)	541
	$ 7,099	$17,790	$13,328

A reconciliation of the provision for income taxes to the federal statutory rate is as follows:

<TABLE>
<CAPTION>

Year Ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
PROVISION FOR INCOME TAXES AT FEDERAL STATUTORY RATE	35%	35%	35%
STATE INCOME TAXES, NET OF FEDERAL BENEFIT	1	2	2.5
FOREIGN SALES CORPORATION BENEFIT	(3)	(3)	(3)
TAX-EXEMPT INVESTMENT INCOME	(8)	(3)	(3)
TAX CREDIT UTILIZATION		(1)	(1)
OTHER	1	0.5	
PROVISION FOR INCOME TAXES	26%	30.5%	30.5%

</TABLE>

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INCOME TAXES (CONTINUED)

Deferred income taxes reflect the tax impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The tax effects of the principal items making up deferred income taxes are as follows:

DECEMBER 31,	1998	1997
(IN THOUSANDS)		
CURRENT DEFERRED TAX ASSETS:		
VACATION, BAD DEBT, AND OTHER	$1,370	$1,296
INVENTORY, WARRANTY, AND OTHER	2,298	1,833
OTHER	268	324
TOTAL NET CURRENT DEFERRED TAX ASSET	$3,936	$3,453
NONCURRENT DEFERRED TAX ASSETS (LIABILITIES):		
STATE CREDIT CARRYFORWARDS	$ 999	$ 888
ACQUIRED COMPLETE TECHNOLOGY AND OTHER	(156)	(376)
ACQUIRED IN-PROCESS TECHNOLOGY	1,615	1,099
DEPRECIATION	(221)	(234)
TOTAL NET NONCURRENT DEFERRED TAX ASSET	$2,237	$1,377

The Company's state credit carryforwards, net of federal tax impact, are approximately $999,000, a portion of which will begin to expire in the year 2010.

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NET INCOME PER SHARE

Net income per share is calculated as follows:

<TABLE>
<CAPTION>

Year Ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
NET INCOME	$20,203	$40,536	$30,369
BASIC:			
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	40,978	41,322	40,594
NET INCOME PER COMMON SHARE	$ .49	$ .98	$ .75
DILUTED:			
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING	40,978	41,322	40,594
EFFECT OF DILUTIVE SECURITIES:			
STOCK OPTIONS	2,225	3,380	3,220
WEIGHTED-AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	43,203	44,702	43,814
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	$ .47	$ .91	$ .69

</TABLE>

Stock options to purchase 151,550, 545,386, and 66,500 shares of common stock were outstanding during the years ended December 31, 1998, 1997, and 1996, respectively, but were not included in the calculation of diluted EPS because the option's exercise price was greater than the average market price of the Company's common shares during those years. Although these options were antidilutive in 1998, 1997, and 1996, because they were still outstanding at December 31, 1998, they may be dilutive in future years' calculations. The 151,550 options in 1998 consisted of grants with exercise prices ranging from $18.94 - $36.31. The 545,386 options in 1997 consisted of grants with exercise prices ranging from $26.50 - $36.31. The 66,500 options in 1996 consisted of grants with exercise prices ranging from $24.00 - $26.50.

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEGMENT INFORMATION

The Company operates in a single segment: the sale of machine vision systems.

During the years ended December 31, 1998, 1997, and 1996, one customer accounted for $17,083,000, $27,292,000, and $13,765,000, or 14%, 18%, and 11%, respectively, of revenue.

The following table summarizes information about geographic areas (in thousands):

<TABLE>
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YEAR ENDED DECEMBER 31, 1998	UNITED STATES	JAPAN	OTHER	ELIMINATIONS	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>
REVENUE:					
UNAFFILIATED CUSTOMERS	$104,321	$17,523			$121,844
INTERCOMPANY	5,493			$ (5,493)	
LONG-LIVED ASSETS	33,807	2,035	$2,570		38,412

</TABLE>

<TABLE>
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YEAR ENDED DECEMBER 31, 1997	UNITED STATES	JAPAN	OTHER	ELIMINATIONS	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>
REVENUE:					
UNAFFILIATED CUSTOMERS	$137,887	$17,453			$155,340
INTERCOMPANY	10,336			$(10,336)	

LONG-LIVED ASSETS	34,010	674	$1,773		36,457

</TABLE>

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEGMENT INFORMATION (CONTINUED)

<TABLE>
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YEAR ENDED DECEMBER 31, 1996	UNITED STATES	JAPAN	OTHER	ELIMINATIONS	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>
REVENUE:					
UNAFFILIATED CUSTOMERS	$107,626	$15,217			$122,843
INTERCOMPANY	9,755			$(9,755)	
LONG-LIVED ASSETS	30,310	528	$1,027		31,865

</TABLE>

Revenue is presented geographically based on the country in which the sale is recorded. Inventories are transferred to the Company's Japanese subsidiary at previously established transfer prices, resulting in intercompany revenue and receivables for the United States operation.

"Other" represents all long-lived assets in other countries, none of which were significant, and certain deposits which are included in "Other Assets" on the Consolidated Balance Sheets.

Deferred tax assets recorded in Japan are not material compared to the Company's consolidated financial position, and therefore, are not presented.

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ACQUISITION OF ALLEN-BRADLEY TECHNOLOGY

In July 1998, the Company acquired certain technology of Rockwell Automation's Allen-Bradley machine vision business. The acquired technology related to certain products under development. The technology was valued using a risk-adjusted cash flow model, under which future cash flows were discounted taking into account risks related to existing markets, the technology's life expectancy, future target markets and potential changes thereto, and the competitive outlook for the technology. This analysis resulted in an allocation of $2,100,000 to in-process technology which had not reached technological feasibility and had no alternative future use, and accordingly, was expensed immediately.

ACQUISITION OF MAYAN AUTOMATION, INC.

On July 31, 1997, the Company acquired selected assets and assumed selected liabilities of Mayan Automation, Inc. (Mayan), a developer of low-cost machine vision systems used for surface inspection, for $4,800,000 in cash. At December 31, 1998, $900,000 of the purchase price remained to be paid in cash in 1999, contingent upon the attainment of certain performance milestones. The acquisition was accounted for under the purchase method of accounting. Accordingly, Mayan's results of operations have been included in the Company's consolidated results of operations since the date of acquisition. Mayan's historical results of operations were not material compared to the Company's consolidated results of operations, and therefore, pro forma results are not presented.

The purchase price was allocated among the identifiable assets of Mayan. After allocating the purchase price to the net tangible assets, acquired technology was valued using a risk-adjusted cash flow model, under which future cash flows were discounted taking into account risks related to existing markets, the technology's life expectancy, future target markets and potential changes thereto, and the competitive outlook for the technology. This analysis resulted in an allocation of $400,000 to complete technology, to be amortized over five years, and $3,115,000 to in-process technology which had not reached technological feasibility and had no alternative future use, and accordingly, was expensed immediately. Up to an additional $900,000 of contingent consideration will be recorded as purchase price when paid and will be allocated to goodwill to be amortized over the remaining period of expected benefit.

ACQUISITION OF ISYS CONTROLS, INC.

On February 29, 1996, the Company acquired Isys Controls, Inc. (Isys), a developer of machine vision systems for high-speed surface inspection. The acquisition was accounted for as a pooling of interests, and therefore the results of operations of Isys for the full year are included in the consolidated financial statements of the Company for the year ended December 31, 1996.

COGNEX CORPORATION -
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTAL STATEMENT OF CASH FLOWS DISCLOSURE

Cash paid for income taxes totaled $10,710,000 in 1998, $12,564,000 in 1997, and $11,218,000 in 1996.

Common stock received as payment for stock option exercises totaled $50,000 in 1998 and $547,000 in 1997.

The Company retired certain fully-depreciated property, plant, and equipment totaling $1,056,000 in 1997.

In 1996, the Company exchanged 1,078,380 shares of Cognex common stock for Isys common shares, and 253,547 shares of Cognex common stock for Isys restricted common shares, with similar restrictions, in connection with the acquisition of Isys.

COGNEX CORPORATION --
REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Cognex Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Cognex Corporation and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Boston, Massachusetts /s/ PricewaterhouseCoopers LLP
January 26, 1999 PricewaterhouseCoopers LLP

COGNEX CORPORATION --
SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

<TABLE>
<CAPTION>

QUARTER ENDED	APRIL 5, 1998	JULY 5, 1998	OCTOBER 4, 1998	DECEMBER 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
REVENUE	$40,056	$32,036	$24,659	$25,093
GROSS MARGIN	29,129	22,562	16,382	16,475
CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY			2,100	
INCOME (LOSS) FROM OPERATIONS	12,955	7,219	(1,095)	734
NET INCOME	10,542	6,517	951	2,193
BASIC NET INCOME PER SHARE	.25	.16	.02	.05
DILUTED NET INCOME PER SHARE	.24	.15	.02	.05
COMMON STOCK PRICES:				
HIGH	27.000	24.690	19.250	20.000
LOW	19.500	15.500	11.250	10.125

<CAPTION>

QUARTER ENDED	MARCH 30, 1997	JUNE 29, 1997	SEPTEMBER 28, 1997	DECEMBER 31, 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
REVENUE	$28,143	$36,271	$43,936	$46,990
GROSS MARGIN	20,448	26,331	32,476	33,812
CHARGE FOR ACQUIRED IN-PROCESS TECHNOLOGY			3,115	
INCOME FROM OPERATIONS	7,850	12,069	13,976	17,766
NET INCOME	6,491	9,372	10,941	13,732
BASIC NET INCOME PER SHARE	.16	.23	.26	.33
DILUTED NET INCOME PER SHARE	.15	.21	.24	.31
COMMON STOCK PRICES:				
HIGH	21.750	27.500	38.500	34.375
LOW	17.500	19.000	26.375	22.250

</TABLE>

COGNEX CORPORATION --
COMPANY INFORMATION

TRANSFER AGENT

BankBoston, N.A. c/o EquiServe
P.O. Box 8040
Boston, Massachusetts 02266-8040
Telephone (800) 736-3001

GENERAL COUNSEL

Hutchins, Wheeler & Dittmar -- Boston, Massachusetts

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP -- Boston, Massachusetts

FORM 10-K

A copy of the annual report filed with the Securities and Exchange Commission on Form 10-K is available to stockholders, without charge, upon request to:

Department of Investor Relations
Cognex Corporation
One Vision Drive
Natick, MA 01760

Additional copies of this annual report are also available, without charge, upon request to the above address.

The Company's common stock is traded on The NASDAQ Stock Market, under the symbol CGNX. As of February 11, 1999, there were approximately 14,000 registered and non-registered holders of the Company's common stock.

No dividends on the Company's common stock were paid during 1998 and 1997.

EXHIBIT 21

COGNEX CORPORATION
SUBSIDIARIES OF THE REGISTRANT

At December 31, 1998, the registrant had the following subsidiaries, the financial statements of which are all included in the consolidated financial statements of the registrant:

<TABLE>
<CAPTION>

NAME OF SUBSIDIARY	STATE/COUNTRY OF INCORPORATION	PERCENT OWNERSHIP
<S>	<C>	<C>
Cognex Technology and Investment Corporation	California	100%
Cognex Canada Technology, Inc.	California	100%
Cognex Foreign Sales Corporation	Barbados	100%
Vision Drive, Inc.	Delaware	100%
Isys Controls, Inc.	California	100%
Cognex K.K.	Japan	100%
Cognex Europe, Inc.	Delaware	100%
Cognex International, Inc.	Delaware	100%
Cognex Germany, Inc.	Massachusetts	100%
Cognex Singapore, Inc.	Delaware	100%
Cognex Korea, Inc.	Delaware	100%
Cognex Taiwan, Inc.	Delaware	100%
Cognex Canada, Inc.	Delaware	100%

</TABLE>

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Cognex Corporation on Form S-8 (File Nos. 33-31657, 33-32815, 33-36263, 33-72634, 33-72636, 33-72638, 33-81150, 33-81152, 333-2151, 333-4621, and 333-60807) of our reports dated January 26, 1999, on our audits of the consolidated financial statements and financial statement schedule of Cognex Corporation as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, which reports are incorporated by reference or included in this Annual Report on Form 10-K.

Boston, Massachusetts
March 26, 1999

/s/ PricewaterhouseCoopers LLP

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (A) THE CONSOLIDATED FINANCIAL STATEMENTS OF COGNEX CORPORATION FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH (B) CONSOLIDATED FINANCIAL STATEMENTS
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