COGNEX CORP

FORM 10-K
(Annual Report)

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Industry	Scientific & Technical Instr.
Sector	Technology
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

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, par value $.002 per share

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 ☑ 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. ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☑ No ☐

Aggregate market value of voting stock held by non-affiliates of the registrant as of June 29, 2003: $838,045,000

$.002 par value common stock outstanding as of February 29, 2004: 44,645,606 shares

Documents incorporated by reference:

The registrant intends to file a Definitive Proxy Statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2003. Portions of such Proxy Statement are incorporated by reference in Part III of this report. Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 2003 are incorporated by reference in Part I and Part II of this report.

COGNEX CORPORATION ANNUAL REPORT ON

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2003

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Federal Securities Laws. Readers can identify these forward-looking statements by the Company's use of the words "expects," "anticipates," "estimates," "believes," "projects," "intends," "plans," "will," "may," "shall," and similar words and other statements of a similar sense. The Company's future results may differ materially from current results and from those projected in the forward-looking statements as a result of known and unknown risks and uncertainties. Readers should pay particular attention to considerations described in the section captioned "Risk Factors," appearing in Part I — Item I of this Annual Report on Form 10-K.

Item 1. *Business*

Corporate Profile

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

The Company designs, develops, manufactures, and markets machine vision systems, or computers that can "see," which are used to automate a wide range of manufacturing processes where vision is required. Machine vision is important for applications in which human vision is inadequate to meet requirements for feature size, accuracy, or speed, or in instances where substantial cost savings are obtained through the reduction of direct labor or 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 feature size of items being manufactured.

The Company has two operating divisions: the Modular Vision Systems Division (MVSD), based in Natick, Massachusetts, and the Surface Inspection Systems Division (SISD), based in Alameda, California. MVSD designs, develops, manufactures, and markets modular vision systems that are used to automate the manufacture of discrete items, such as semiconductor chips, cellular phones, and light bulbs, by locating, identifying, inspecting, and measuring them during the manufacturing process. SISD designs, develops, manufactures, and markets surface inspection vision systems that are used to inspect the surfaces of materials processed in a continuous fashion, such as paper, metals, plastics, and non-wovens, to ensure there are no flaws or defects on the surfaces. Historically, MVSD has been the source of the majority of the Company's revenue, representing 81% of total revenue in 2003.

What is Machine Vision?

Since the beginning of the Industrial Revolution, human vision has played an indispensable role in the process of manufacturing products. Human eyes did what no machines could do themselves: locating and positioning work, tracking the flow of parts, and inspecting output for quality and consistency. Today, however, the requirements of many manufacturing processes have surpassed the limits of human eyesight. Manufactured items often are produced too quickly or with tolerances too small to be analyzed by the human eye.

In response to manufacturers' needs, "machine vision" technology emerged, providing manufacturing equipment with the gift of sight. In a typical machine vision application, a video camera positioned on the production line captures an image of the part to be inspected and sends the image to the machine vision computer. The computer then uses sophisticated image analysis software to extract information from the image and generate a decision about the image, such as:

Question	Description	Example
GUIDANCE Where is it?	Determining the exact physical location and orientation of an object.	Determining the position of a printed circuit board so that a robot can automatically be guided to insert electronic components.
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 paper that US currency is printed on.
GAUGING What size is it?	Determining the dimensions of an object.	Determining the diameter of a bearing prior to final assembly.

Once the machine vision system has processed the image and performed any necessary analysis, the result can then be communicated to other equipment on the factory floor, such as a robotic arm that will remove a bad part from the line. This process is repeated for each part on the production line, or continuously for process material, as it moves into position in front of the video camera.

The Machine Vision Market

The machine vision market consists of two customer types: original equipment manufacturers (OEMs) and end users. OEM customers purchase Cognex machine vision systems and integrate them into the capital equipment that they manufacture and then sell to their customers, primarily companies in the semiconductor and electronics industries that either make computer chips or make printed circuit boards containing computer chips. These customers have the technical expertise to integrate Cognex's programmable machine vision systems directly into their products, which are then sold to end users.

End-user customers purchase Cognex machine vision systems and install them directly on their production lines to automate the manufacture of a wide range of items in a variety of industries. Unlike OEMs and system integrators, these customers typically have limited computer programming or machine vision experience. The Company sells its products to end users through its own direct sales force, as well as through distributors and system integrators. System integrators are companies that create complete, automated inspection solutions for end users. For example, they combine lighting, conveyors, robotics, machine vision, and other components to produce custom inspection systems for various applications.

Business Strategy

The Company's goal is to expand its position as a leading worldwide supplier of machine vision systems for factory automation. Within the factory automation market, the Company has historically focused primarily on those industries where machine vision has become essential, either from a regulatory, economic, or manufacturing complexity standpoint, for controlling the manufacturing process to ensure high quality and/or reduce manufacturing costs.

Emphasizing high value-added products and applications is important to the Company's strategy because not every segment of the machine vision market offers the opportunity for sustained profitability. The Company believes 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 that solve challenging problems better than competing products. The other major mode of realizing high value-added is by offering products that are complete solutions to known problems, incorporating all of the necessary vision software, applications software, hardware, video cameras, 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. While the Company has traditionally served the OEM market, the end-user business represents a potentially much larger market for machine vision and the Company believes that the end-user business will account for the majority of its total revenue in the future. Consequently, the Company has invested in developing and acquiring easy-to-use products that meet the needs of end users and in developing a strong worldwide 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. In 2003, approximately 62% of the Company's revenue came from end-user customers.

The Company has historically pursued a global business strategy, investing in building a strong presence in North America, Japan, Europe, and Southeast Asia. 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 sales and support in these regions. In 2003, approximately 66% of the Company's revenue came from customers based outside of the United States.

The Company's business strategy includes selective expansion into other machine vision applications through the internal development of new products, as well as the acquisition of businesses and technologies. Since 1995, the Company has completed nine business and technology acquisitions, most of which were targeted at expanding the Company's presence in the worldwide end-user marketplace. The Company plans to continue to seek opportunities to expand its product line, customer base, and technical talent through acquisitions in the machine vision industry.

Products

In-Sight Vision Sensors

The Company is firmly positioned in the fast-growing market for vision sensors with its In-Sight ™ product line. Vision sensors are machine vision systems that combine a video camera, software, vision processor, and input/output capability in a low-cost, compact, easy-to-use package. They are designed for a number of general-purpose vision tasks including part location, identification, measurement, and assembly verification. The In-Sight product line provides Cognex's industry-leading machine vision technology in a choice of affordable platforms that do not require programming skills to deploy.

In late 2003, the Company introduced the In-Sight 3400. This new high-performance model extends the line of standalone Cognex vision sensors that provide complete vision application development and deployment without requiring a PC. The 3400 features a rugged, die-cast aluminum vision processing unit and a compact, high-speed digital camera. As with most other In-Sight vision sensors, the 3400 is Ethernet-enabled and equipped with a full library of Cognex vision software tools.

The In-Sight 4000 Series consists of three models: the In-Sight 4000, which provides fast frame rates and accelerated vision tool performance, the In-Sight 4001, a high resolution version of the 4000, and the In-Sight 4100, a compact, remote head camera version of the 4000.

The In-Sight 1000 is the Company's entry-level In-Sight product. The In-Sight 1000 combines a video camera, software, and processing in a single, compact unit. The In-Sight 1000C includes the same features as the In-Sight 1000, with the added ability to inspect and sort parts based on their color.

The first In-Sight products, the In-Sight 2000 and In-Sight 3000, are general-purpose vision sensors featuring a vision processing unit and separate video camera.

In-Sight 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 medical devices, automotive parts, disposable consumer goods, and electronic components. During the third quarter of 2003, the Company began selling its In-Sight product line to select distributors located in the United States for resale to end users.

PC-based Vision Systems

The Company sells a full range of PC-based vision systems that offer high-speed image acquisition, system flexibility, and the Company's most extensive library of vision software tools. The software library features PatMax®, high-accuracy pattern location software that can locate objects that vary in size and orientation or whose appearance is degraded.

In 2003, the Company introduced PatFlex, a new software tool in the PatMax family of pattern location technologies. PatFlex enables a vision system to locate an object, feature, or pattern whose perspective has changed or whose surface is curved, warped, wrinkled, or stretched.

MVS-8000 Product Family

The MVS-8000 ™ family of programmable machine vision systems combines Cognex's unique algorithms with Intel's MMX instruction set. The MVS-8100 Series features PCI bus-mastering frame grabbers for high-speed image transfer from the video camera to the host PC for processing and display. The MVS-8200 Series of embedded CPU machine vision systems enables all vision processing to occur on-board, freeing the PC to perform other tasks.

In 2003, the Company introduced the MVS-8500 Series of frame grabbers. These new frame grabbers are designed to support next generation, high-speed analog cameras that use the latest progressive scan CCD sensor technology. The Cognex MVS-8504 offers four completely independent channels supporting up to four cameras and is designed to handle asynchronous, synchronous, and dual tap image acquisition. The MVS-8501 provides the high-speed acquisition capability of the MVS-8504, in a cost-effective, single-channel architecture that supports up to four multiplexed cameras.

The MVS-8000 product family is sold primarily to OEMs located in North America, Japan, Europe, and Southeast Asia who integrate the machine vision systems into capital equipment for the semiconductor and electronics industries. These vision systems are also sold to system integrators located in North America, Japan, Europe, and Southeast Asia who integrate them into capital equipment for end users in a broad range of industries.

VisionPro Product Family

VisionPro®, is an Active X-based vision system that combines Cognex machine vision technology with quick and powerful application development. These PC-based systems offer the flexibility of an advanced programming language with the simplicity of graphical prototyping, speeding time-to-market for OEMs, system integrators, and advanced manufacturing engineers. VisionPro's powerful software, combined with Cognex MVS-8100 and 8500 Series frame grabbers, provide a complete vision system to solve demanding applications.

In 2003, the Company expanded the functionality of the VisionPro systems with the addition of new high-performance software tools. The new tools reduce setup time, improve process yield, and provide new options for pattern training in a broad range of semiconductor and other manufacturing applications that require general-purpose machine vision for inspection, measurement, identification, and guidance.

The VisionPro product family is sold to OEMs, system integrators, and end users located in North America, Japan, Europe, and Southeast Asia in a wide range of industries.

Application Specific PC-based Vision Systems

The Company offers a variety of application-specific systems that combine Cognex PC-based hardware and software to create a solution that is tailored to the particular requirements of certain vision applications. A partial list of application-specific systems is as follows:

SMD 4 ™ guides the placement of surface mount devices onto printed circuit boards and other assemblies.

BGA II ™ inspects ball grid array 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® inspects the small, high-resolution displays commonly found on cellular phones, pagers, medical test instruments, and other electronic devices.

FiberInspect ™ is a machine vision system specifically designed to automatically detect and measure scratches, cracks, and spots that form during the fiber end polishing process.

TIS-8000 ™ Tire Identification System and WIS-8000 ™ Wheel Identification System are high-performance identification systems for automatically identifying tires and wheels by their unique characteristics. The systems ensure the presence of correct tires or wheels at any point in the manufacturing or assembly process.

Application-specific systems are targeted to OEMs, system integrators, and end users located in North America, Japan, Europe, and Southeast Asia in a wide range of industries, depending upon the application.

Digital Cameras for PC-based Products

Cognex designs, develops, manufactures, and markets the CDC Series of digital Complementary Metal-Oxide Semiconductor (CMOS) cameras designed specifically for machine vision applications. The CDC-200, introduced in 2003, includes global shutter capability and faster frame rates and brings high-resolution image acquisition to high-speed moving applications without sacrificing image quality or performance. The CDC-50 is a standard format digital camera. All CDC cameras are designed for use with the MVS-8100D digital frame grabber. These products, in combination with Cognex's vision software, provide a complete, tightly-integrated solution to the Company's PC-based vision customers.

Industrial ID Systems

The Company continues to serve the Industrial ID market with systems designed to quickly and reliably read codes (e.g. serial numbers, bar codes, or two-dimensional codes) that have been stamped, scribed, etched, printed, or otherwise formed directly on the surfaces of manufactured goods ranging from pharmaceutical items to aircraft components to semiconductor wafers. The Company currently markets two Industrial ID systems, and plans to introduce several new fixed-mount and hand-held readers in 2004.

In-Sight 1010 ™ is a compact, fixed-mount, ethernet-ready ID reader designed specifically for reading 2D matrix and linear bar codes marked directly on parts. In 2003, the Company added the ability to read Composite Symbology (CS) in addition to Reduced Space Symbology (RSS) codes on pharmaceutical packages for the purpose of product identification and traceability.

In-Sight 1700 ™ is a compact reader for identifying and tracking semiconductor wafers through the manufacturing process by reading 2D matrix, alphanumeric, and bar codes on wafers. The In-Sight 1701 model is an enhanced version of the In-Sight 1700 wafer reader, offering advanced optics technology for reading identification scribes on wafers.

Industrial ID systems are sold to OEMs, system integrators, and end users located in North America, Japan, Europe, and Southeast Asia in a wide range of industries.

Expert Sensors

In 2003, Cognex entered the market for ultra-low cost vision sensors that are designed to solve specific automation problems. The Company's first product in this line of expert sensors is the Cognex CPS-1000. The CPS-1000 is a vision sensor designed for door security; it detects and counts people as they pass through an access-controlled doorway. The CPS-1000 utilizes Cognex's existing vision software, as well as patented 2D and 3D vision technology that Cognex has recently developed specifically for "people sensing" applications.

The Company is currently developing a new generation of expert sensors that are expected to compete in the worldwide market for "presence sensing" technology.

Expert sensors are currently sold to OEM customers located in North America.

Surface Inspection Systems

The SmartView ® surface/web inspection system provides reliable detection, identification, and visualization of defects on products which are manufactured in a continuous process. The SmartView system provides greyscale imaging capability to visualize the defects, as well as a high-quality snapshot of the inspected surface or web. Most advanced open data access capabilities embedded into the SmartView system ensure real-time inspection control and data access between the SmartView system and other business, production, and quality systems in the mill. The SmartView system is a modular and scalable system on a Microsoft Windows-based platform that enables the Company to expand into more complex vision applications in the paper, metals, plastics, and nonwovens industries.

In 2003, the Company expanded the detection and identification capabilities of the SmartView system. By leveraging these enhanced capabilities, the SmartView system gives users greater inspection capabilities and enables them to meet increasing quality requirements. SmartView is sold primarily to end users located in North America, Japan, Europe, and Southeast Asia in the paper, metals, plastics, and nonwovens industries. In 2003, sales to customers in the paper industry grew 39%, and represented 45% of surface inspections systems revenue.

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, 2003, the Company employed 170 professionals in R, D & E, most of whom are software developers. The Company's R, D & E expenses totaled $24,719,000, $25,630,000, and $30,094,000, or 16%, 22%, and 21% of revenue, in 2003, 2002, and 2001, respectively.

Manufacturing

The Company's MVSD manufacturing organization utilizes a turnkey operation whereby the majority of component procurement, subassembly, final assembly, and initial testing are performed under agreement by third-party contract manufacturers. After the completion of initial testing, the contract manufacturers deliver the products to the Company's Natick, Massachusetts facility for final testing, quality control, and shipment to the customer. The contract manufacturers use specified components and assembly and test documentation created and controlled by the Company. From time to time, the Company will procure large quantities of end-of-life components for strategic purposes that will not be consumed within one year. Certain components are presently available only from a single source.

The Company's SISD products are manufactured at its Alameda, California facility, with the exception of the frames on which the cameras are mounted. The manufacturing process at the Alameda facility consists of system design, configuration management and control, component procurement, and subassembly. After the completion of subassembly at the Alameda facility, some of the systems are delivered to the Company's Kuopio, Finland facility where the frames are manufactured. The manufacturing process at the Kuopio facility consists of system integration with the frames, final testing, quality control, and shipment to the customer. Certain products are manufactured by third-party contract manufacturers using documentation created and controlled by the Company. Certain components are presently available only from a single source.

Sales and Service

The Company sells its MVSD and SISD products primarily through a direct sales force in North America, Japan, Europe, and Southeast Asia. At December 31, 2003, the Company's direct sales force consisted of 172 professionals, including sales and application engineers. The majority of the Company's sales force holds engineering or science degrees. Sales engineers call directly on targeted accounts and coordinate the activity of the application engineers. In addition, the Company sells its MVSD products to end users through system integrators, and sells its MVSD In-Sight product line through distributors in select locations in the United States.

Sales to customers based outside of the United States represented approximately 66% of revenue in 2003, compared to 60% in 2002 and 63% in 2001. No customer accounted for greater than 10% of revenue in 2003, 2002, or 2001. Although international sales may from time to time be subject to federal technology export regulations, to date the Company has not suffered significant delays or prohibitions in sales to any of its foreign customers. Financial information about segments and geographic areas may be found in the Notes to the Consolidated Financial Statements, appearing on pages 31 and 32 of the Annual Report to Stockholders for the year ended December 31, 2003, which is Exhibit 13 hereto, and is incorporated herein by reference.

The Company's MVSD service offerings include maintenance and support, education, and consulting services. Maintenance and support programs include hardware support programs that entitle customers to have failed product repaired, as well as software support programs that provide customers with application support and software updates on the latest software releases. Education services include a variety of product courses that are available at the Company's offices worldwide, at customer facilities, and on computer-based tutorials, video, and the Internet. The Company provides consulting services that range from a specific area of functionality to a completely integrated machine vision application.

The Company's SISD service offerings include maintenance and support and education services similar to those provided by MVSD, as well as installation services. The installation services group supervises the physical installation of the hardware at the customer location, configures the software application to detect the customer's defects, validates that the entire integrated system with the peripheral components is functioning according to the specifications, and performs operator training.

Intellectual Property

Because the Company relies on the technical expertise, creativity, and knowledge of its personnel, it utilizes patent, trademark, copyright, and trade secret protection to safeguard its competitive position. At December 31, 2003, the Company had obtained 146 patents on various innovations in the field of machine vision technology and had more than 120 patent applications pending. 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. There can be no assurance, however, that any of the above measures will be adequate to protect the proprietary technology of the Company. Effective patent, trademark, copyright, and trade secret protection may be unavailable in certain foreign countries.

The Company's trademark and servicemark portfolio includes various registered marks, including but not limited to, Cognex®, PatMax®, VisionPro®, DisplayInspect®, and SmartView®, as well as many common-law marks, including but not limited to, In-Sight ™ and MVS-8000 ™ . In addition, the Company has sought and obtained a number of trademark registrations outside of the United States. All third-party brand names, servicemarks, and trademarks referenced in this document are the property of their respective owners.

The Company's software products are protected by various security schemes and are primarily licensed to customers pursuant to a license agreement that restricts the use of the products to the customer's purposes, as well as imposes strict limitations on the customer's use of the Company's trade secret, proprietary, and other confidential business information to which the customer may have access. The Company has made portions of the source code available to certain customers under very limited circumstances and for restricted uses. If the 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 (the "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. Cognex disclaims liability with respect to such indemnification requests. The Company does not believe its products infringe any valid and enforceable claims of the Partnership's patents.

Since July, 1998, the Partnership has filed numerous lawsuits against hundreds of companies within many industry sectors asserting infringement upon numerous Lemelson patents including certain machine vision patents. Some of the defendants are users of the Company's products that were purchased primarily from the Company's OEM customers whose equipment incorporates 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. After the judge in Massachusetts ruled that Massachusetts was not the proper jurisdiction, the Company refiled in Reno, Nevada on September 27, 1999 in the United States District Court, District of Nevada.

The bench trial against the Partnership began on November 18, 2002 in Las Vegas, Nevada, and ended on January 17, 2003. On January 23, 2004, Chief Judge Pro issued his court order ruling in favor of Cognex and finding that all of the Lemelson patents in suit are unenforceable, invalid, and not infringed by Cognex. The Partnership has indicated their intention to appeal the ruling. Cognex cannot predict the outcome of any such appeal.

Compliance with Environmental Provisions

The Company's capital expenditures, earnings, and competitive position are not materially affected by compliance with federal, state, and local environmental provisions which have been enacted or adopted to regulate the distribution of materials into the environment.

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 not available.

The primary competitive factors affecting the choice of a machine vision system include vendor reputation, product functionality and performance (e.g. speed, accuracy, and reliability) under real-world operating conditions, ease-of-use, and the availability of application support from the vendor. More recently, product price has become a more significant factor. The Company competes with low-cost smart camera and vision sensor solutions being introduced by various competitors on the basis of superior performance and price, rather than on price alone, through its In-Sight product line.

Backlog

At December 31, 2003, the Company’s backlog totaled $25,930,000, compared to $25,992,000 at December 31, 2002. Backlog reflects purchase orders for products scheduled for shipment primarily within three months. The level of backlog at any particular date is not necessarily indicative of future revenue of the Company. Certain of the Company’s end-user products, primarily the In-Sight product line, typically ship within one week of when the order is booked. In addition, delivery schedules may be extended and orders may be canceled at any time subject to certain cancellation penalties.

Employees

At December 31, 2003, the Company employed 634 persons, including 289 in sales, marketing, and service activities; 170 in research, development, and engineering; 67 in manufacturing and quality assurance; and 108 in information technology, finance, and administration. Of the Company’s 634 employees, 218 are based 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.

Risk Factors

Unfavorable changes in economic conditions and capital spending may negatively impact the Company’s operating results.

The Company’s revenue is dependent upon the capital spending trends of manufacturers in a number of industries and regions. These spending levels are, in turn, impacted by global economic conditions. In the past, the Company’s operating results have been materially adversely affected as a result of unfavorable economic conditions and reduced capital spending by manufacturers worldwide.

Downturns in the semiconductor and electronics industries may adversely affect the Company’s business.

In 2003, approximately 48% of the Company’s revenue was derived from customers directly or indirectly related to the semiconductor and electronics industries. This concentration has been as high as 78% in the past five years depending upon business trends in these industries. The semiconductor and electronics industries are highly cyclical and have historically experienced periodic downturns, which have often had a severe effect on demand for production equipment that incorporates the Company’s products. While the Company has been successful in recent years in diversifying its business beyond OEM customers who serve the semiconductor and electronics industries, the Company is still largely dependent upon the capital expenditures in these industries, which, in turn, are dependent upon the market demand for products containing computer chips. As a result, the Company’s operating results in the foreseeable future could be significantly and adversely affected by a slowdown in either of these industries.

Economic, political, and other risks associated with international sales and operations could adversely affect the Company’s business and operating results.

In 2003, approximately 66% of the Company’s revenue was derived from customers located outside of the United States. The Company anticipates that international sales will continue to account for a significant portion of its revenue. The Company intends to continue to expand its operations outside of the United States and to enter additional international markets, which will require significant management attention and financial resources. The Company’s operations are subject to the risks inherent in international sales, including, but not limited to, various regulatory requirements, transportation delays, difficulties in staffing and managing foreign sales operations, and potentially adverse tax consequences. In addition, fluctuations in foreign currency exchange rates may render the Company’s products less competitive relative to local product offerings, or could result in significant foreign currency losses if not properly hedged. The Company is also subject to the political risks inherent in international operations and their impact on the global economy, including economic disruption from acts of war or terrorism, particularly in the aftermath of the terrorist attacks of September 11, 2001. Any of these factors could have a material adverse effect on the Company’s operating results.

Fluctuations in foreign exchange rates could materially affect the Company's reported results.

The Company faces exposure to adverse movements in foreign currency exchange rates as a significant portion of its revenue, expenses, assets, and liabilities are denominated in currencies other than the functional currencies of the Company or its subsidiaries. In certain instances, the Company utilizes derivative instruments to hedge against certain foreign currency fluctuations. These contracts are used to reduce the Company's risk associated with foreign currency exchange rate changes, as the gains or losses on the derivative are intended to offset the losses or gains on the underlying exposure. The Company does not engage in foreign currency speculation. The success of the Company's foreign currency risk management program 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 foreign currency gains or losses that could have a material impact on the Company's results of operations. In addition, the failure to identify new exposures and hedge them in a timely manner may result in material foreign currency gains or losses.

The loss of a large customer could have an adverse effect on the Company's operating results.

In 2003, the Company's top five customers accounted for 15% of total revenue. In recent years, the Company's expansion into the end-user marketplace has reduced its reliance upon the revenue from any one of its larger OEM customers. For example, the top five customers in 2003 included one SISD customer. Nevertheless, the loss of, or significant curtailment of purchases by, any one or more of the Company's larger customers could have a material adverse effect on the Company's operating results.

The failure of a key supplier to deliver quality product in a timely manner or the Company's inability to obtain components for its products could adversely affect the Company's operating results.

A significant portion of the Company's MVSD inventory is manufactured by a third-party contractor. The Company is dependent upon this contractor to provide quality product and meet delivery schedules. The Company engages in extensive product quality programs and processes, including actively monitoring the performance of its third-party manufacturers. In addition, a variety of components used in the Company's products are only available from a single source. The announcement by a single-source supplier of a last-time component buy could result in a significant amount of inventory purchases, that in turn, could lead to an increased risk of inventory obsolescence. An interruption in, termination of, or material change in the purchase terms of any single-source components could have a material adverse effect on the Company's operating results.

The Company's business could suffer if it loses the services of, or fails to attract, key personnel.

The Company is highly dependent upon the management and leadership of Robert J. Shillman, President, Chief Executive Officer, and Chairman of the Board of Directors of the Company, as well as other members of the Company's senior management team, many of whom would be difficult to replace. Although the Company has retained other experienced and qualified senior managers, the loss of certain key personnel could have a material adverse effect on the Company. The Company's continued growth and success also depends upon its ability to attract and retain skilled employees and on the ability of its officers and key employees to effectively manage the growth of the Company through the implementation of appropriate management information systems and internal controls.

Products that the Company manufactures may contain design or manufacturing defects, which could result in reduced demand, significant delays, or substantial costs.

If flaws in either the design or manufacture of the Company's products were to occur, the Company could experience a rate of failure in its products that could result in significant delays in shipment and material repair or replacement costs. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers and contract manufacturers, there can be no assurance that these actions will be sufficient to avoid a product failure rate that results in substantial delays in shipment, significant repair or replacement costs, or potential damage to the Company’s reputation, any of which could have a material adverse effect on the Company’s operating results.

The Company’s failure to accurately forecast customer demand could result in inventory obsolescence and resulting charges.

In recent years, the Company has expanded its presence in the end-user marketplace, which accounted for approximately 62% of the Company’s revenue in 2003, compared to only 37% in 2000. The Company’s end-user business typically operates with a relatively short backlog and production plans are based on internal forecasts of customer demand. Due to these factors, the Company has in the past, and may again in the future, fail to accurately forecast demand, in terms of both volume and configuration for either its legacy or next-generation products. This has led to, and may again in the future lead to, an increased risk of inventory obsolescence and resulting charges.

Failure to develop new products and to respond to technological changes could result in the loss of market share and a decrease in the Company’s revenues.

The market for the Company’s products is characterized by rapidly changing technology. Accordingly, the Company believes that its future success will depend upon its ability to develop or acquire new products with improved price/performance and introduce them to the marketplace in a timely manner. There can be no assurance that the Company will be able to introduce and market new products successfully and respond effectively to technological changes or new product introductions by competitors. The inability to keep pace with the rapid rate of technological change in the high-technology marketplace could have a material adverse effect on the Company’s operating results.

If the Company fails to successfully defend its intellectual property, its competitive position and operating results could suffer.

The Company relies heavily on its proprietary software technology and hardware designs, as well as the technical expertise, creativity, and knowledge of its personnel. Although the Company uses a variety of methods to protect its intellectual property, it relies most heavily on patent, trademark, copyright, and trade secret protection, as well as 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. There can be no assurance, however, that any of these measures will be adequate to protect the proprietary technology of the Company, that any patents issued to the Company will not be challenged, invalidated, or circumvented, or that the rights granted thereunder will provide competitive advantages to the Company. Any such adverse circumstances could have a material effect on the Company’s operating results. Readers should refer to the section captioned “Intellectual Property,” appearing in Part I — Item I of this Annual Report on Form 10-K.

The Company may be subject to costly litigation.

From time to time, the Company may be subject to various claims and lawsuits by competitors, customers, or other parties arising in the ordinary course of business, including lawsuits charging patent infringement. Such matters can be time-consuming, divert management’s attention and resources, and cause the Company to incur significant expenses. Furthermore, there can be no assurance that the results of any of these actions will not have a material adverse effect on the Company’s operating results.

Increased competition may result in decreased demand or prices for the Company’s products and services.

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. In recent years, ease-of-use and product price have become significant competitive factors in the end-user marketplace. The Company competes with low-cost smart camera and vision sensor solutions being introduced by various competitors on the basis of superior performance and price, rather than on price alone, through its In-Sight product line. There can be no assurance that the Company will be able to compete successfully in the future or that the Company's investments in research and development, sales and marketing, and service activities will prove sufficient to enable the Company to maintain its competitive advantage. In addition, competitive pressures could lead to price erosion that could materially and adversely affect the Company's operating results. Readers should refer to the section captioned "Competition," appearing in Part I — Item 1 of this Annual Report on Form 10-K.

Implementation of the Company's acquisition strategy may not be successful, which could affect the Company's ability to increase its revenue or profitability.

The Company's business strategy includes selective expansion into other machine vision applications through the acquisition of businesses and technologies. Since 1995, the Company has completed nine business and technology acquisitions. The Company plans to continue to seek opportunities to expand its product line, customer base, and technical talent through acquisitions in the machine vision industry. Acquisitions involve numerous risks, including, but not limited to, diversion of management's attention from other operational matters, the inability to realize expected synergies resulting from the acquisition, failure to commercialize purchased technology, and the impairment of acquired intangible assets resulting from technological obsolescence or lower-than-expected cash flows from the acquired assets. Acquisitions are inherently risky and the inability to effectively manage these risks could have a material adverse effect on the Company's operating results.

The trading price of the Company's common stock may be volatile.

The price of the Company's common stock has historically experienced significant volatility due to fluctuations in the Company's revenue and earnings, changes in the market's expectations for the Company's growth, overall equity market conditions, conditions relating to the market for technology stocks, general economic conditions, and other factors unrelated to the Company's operations. The stock markets have experienced extreme price volatility in recent years. This volatility has had a substantial effect on the market prices of securities issued by many technology companies, often for reasons unrelated to the operating results of the specific company.

Available Information

The Company maintains a website on the World Wide Web at *www.cognex.com* . The Company makes available, free of charge, on its website in the section captioned "Investors — Annual Reports" its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The Company's reports filed with, or furnished to, the SEC are also available at the SEC's website at *www.sec.gov* . Information contained on the Company's website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K.

Item 2: ***Properties***

In 1994, the Company purchased and renovated a 100,000 square-foot building located in Natick, Massachusetts that 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 largely occupied with tenants who have lease agreements that expire at various dates through 2004. The Company uses a portion of the space for storage of its inventory.

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 being held for future expansion.

Item 3: *Legal Proceedings*

To the Company's knowledge, there are no pending legal proceedings, other than as described in the section captioned "Intellectual Property," appearing in Part I — Item I of this Annual Report on Form 10-K, which are material to the Company. From time to time, however, the Company may be subject to various claims and lawsuits by competitors, customers, or other parties arising in the ordinary course of business, including lawsuits charging patent infringement. There can be no assurance as to the outcome of any of this litigation.

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, 2003 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, 2003:

Name	Age	Title
Robert J. Shillman	57	President, Chief Executive Officer, and Chairman of the Board of Directors
Patrick Alias	58	Executive Vice President and Director
James Hoffmaster	52	Chief Operating Officer and President, MVSD
Richard Morin	54	Senior Vice President of Finance and Administration, Chief Financial Officer, and Treasurer

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

Mr. Hoffmaster joined the Company in 2001. Prior to joining the Company, Mr. Hoffmaster was the Chief Executive Officer of Fibersense, a Massachusetts-based company specializing in the application of fiber optic technology to gyroscopes and other sensors. Prior to that, Mr. Hoffmaster served as President of Fisher-Rosemount Systems, a division of Emerson Electric. He holds a Masters of Computer and Information Science degree and a Bachelor of Arts degree in Economics from Cleveland State University.

Mr. Morin joined the Company in 1999 after ten years as Chief Financial Officer for C&K Components, Inc., an international manufacturer of electronic components and security systems. Mr. Morin also served as Corporate Controller and Vice President of Finance for the Jamesbury Corporation. He holds a Bachelor of Arts degree in Economics and Accounting from The College of the Holy Cross and is a Certified Public Accountant.

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

Other members of the senior management team include the following individuals:

Name	Age	Title
Eric Ceyrolle	50	President, Cognex International
Markku Jaaskelainen	49	Senior Vice President and General Manager, SISD
Marilyn Matz	50	Senior Vice President of Engineering, MVSD
E. John McGarry	47	Senior Vice President and General Manager, Portland Operations
Akira Nakamura	59	President, Cognex K.K.
Kris Nelson	56	Senior Vice President of Sales, North America
William Silver	50	Senior Vice President of R&D and Chief Technology Officer, MVSD
Justin Testa	51	Senior Vice President of Marketing, MVSD

Messrs. Ceyrolle, Jaaskelainen, McGarry, Nelson, Silver, and Testa and Ms. Matz have been employed by the Company in their present or other capacities for no less than the past five years.

Mr. Jaaskelainen joined the Company in 1999. Prior to joining the Company, Mr. Jaaskelainen served as Vice President of Systems Strategy for Honeywell-Measurex Corporation, where he was responsible for overseeing and coordinating all new product development. He holds a Master’s degree and Ph.D. in Physics from the University of Jyvaskyla, Finland.

Mr. Nakamura joined the Company in 2000 after having served as President of Intergraph Japan, K.K., a worldwide provider of CAD/CAM technology. Prior to that, Mr. Nakamura spent 20 years in sales and sales management at senior levels for IBM Japan. Mr. Nakamura holds a Bachelor of Science degree in Electronic Communication from Tohoku University.

PART II

Item 5: *Market for Registrant’s Common Equity and Related Stockholder Matters*

Information with respect to this item may be found in the sections captioned “Selected Quarterly Financial Data (Unaudited)” and “Company Information,” appearing on pages 36 and 37 of the Annual Report to Stockholders for the year ended December 31, 2003, which is Exhibit 13 hereto, and is incorporated herein by reference.

The following table provides information as of December 31, 2003 regarding shares of common stock that may be issued under the Company’s existing equity compensation plans, including the 1998 Director Plan, the 1998 Stock Incentive Plan, the 2001 General Stock Option Plan, and the 2001 Interim General Stock Incentive Plan. The Company also has an Employee Stock Purchase Plan (ESPP).

	Equity Compensation Plan Information		
Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights**	**Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights**	**Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))**
	(a)	**(b)**	**(c)**
Equity compensation plans approved by stockholders	10,593,589(1)	$22.92	1,716,978(2)
Equity compensation plans not approved by stockholders	392,781	21.20	7,500,000
	10,986,370	$22.85	9,216,978

(1) Does not include purchase rights accruing under the ESPP because the purchase price (and therefore the number of shares to be purchased) will not be determined until the end of the purchase period.

(2) Includes 218,333 shares available for future issuance under the ESPP.

The 2001 General Stock Option Plan was adopted by the Board of Directors on December 11, 2001 without stockholder approval. This plan provides for the granting of nonqualified stock options to any employee who is actively employed by the Company and is not an officer or director of the Company. The maximum number of shares of common stock available for grant under the plan is 7,500,000 shares. All option grants must have an exercise price per share that is no less than the fair market value per share of the Company’s common stock on the grant date and must have a term that is no longer than fifteen years from the grant date. No stock options have been granted under the 2001 General Stock Option Plan.

The 2001 Interim General Stock Incentive Plan was adopted by the Board of Directors on July 17, 2001 without stockholder approval. This plan provides for the granting of nonqualified stock options to any employee who is actively employed by the Company and is not an officer or director of the Company. The maximum number of shares of common stock available for grant under the plan is 400,000 shares. All option grants have an exercise price per share that is no less than the fair market value per share of the Company's common stock on the grant date and must have a term that is no longer than fifteen years from the grant date. All 400,000 stock options have been granted under the 2001 Interim General Stock Incentive Plan.

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 35 of the Annual Report to Stockholders for the year ended December 31, 2003, 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 9 through 16 of the Annual Report to Stockholders for the year ended December 31, 2003, which is Exhibit 13 hereto, and is incorporated herein by reference.

Item 7A: ***Quantitative and Qualitative Disclosures About Market Risk***

Information with respect to this item may be found in the section captioned "Quantitative and Qualitative Disclosures About Market Risk," appearing on pages 15 and 16 of the Annual Report to Stockholders for the year ended December 31, 2003, which is Exhibit 13 hereto, and is incorporated herein by reference.

Item 8: ***Financial Statements and Supplementary Data***

Information with respect to this item, which includes the consolidated financial statements and notes thereto, reports of independent auditors, and supplementary data, may be found on pages 17 through 36 of the Annual Report to Stockholders for the year ended December 31, 2003, which is Exhibit 13 hereto, and is incorporated herein by reference.

Item 9: ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

On June 10, 2003, the Company filed a Current Report, dated June 5, 2003, on Form 8-K regarding the dismissal of PricewaterhouseCoopers LLP and the engagement of Ernst & Young LLP as their principal independent accountants.

There were no disagreements with accountants on accounting or financial disclosure during 2003 or 2002.

Item 9A: ***Controls and Procedures***

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, the Company has evaluated with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, as of the end of the period covered by this report, the effectiveness of the design and operation of its disclosure controls and procedures. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective in ensuring that material information relating to the Company, including its consolidated subsidiaries, is made known to the certifying officers by others within the Company and its consolidated subsidiaries during the period covered by this report. From time to time, the Company reviews the disclosure controls and procedures, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business. There was no change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10: ***Directors and Executive Officers of the Registrant***

Information with respect to Directors and Executive Officers of the Company required by Item 10 shall be included in the Company's definitive Proxy Statement for the Special Meeting in Lieu of the 2004 Annual Meeting of Stockholders to be held on April 22, 2004 and is incorporated herein by reference. In addition, certain 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 — Item 4A of this Annual Report on Form 10-K.

The Company has adopted a Code of Business Conduct and Ethics covering all employees, which is available, free of charge, on the Company's website, www.cognex.com, and is included in this Annual Report on Form 10-K as Exhibit 14. The Company intends to disclose any amendments to or waivers of the Code of Business Conduct and Ethics on behalf of the Company's Chief Executive Officer, Chief Financial Officer, Controller, and persons performing similar functions on the Company's website.

Item 11: ***Executive Compensation***

Information with respect to executive compensation required by Item 11 shall be included in the Company's definitive Proxy Statement for the Special Meeting in Lieu of the 2004 Annual Meeting of Stockholders to be held on April 22, 2004 and is incorporated herein by reference.

Item 12: ***Security Ownership and Certain Beneficial Owners and Management and Related Stockholder Matters***

Information with respect to security ownership and the other matters required by Item 12 shall be included in the Company's definitive Proxy Statement for the Special Meeting in Lieu of the 2004 Annual Meeting of Stockholders to be held on April 22, 2004 and is incorporated herein by reference. Information regarding equity compensation plans may be found in Part I — Item 5 of this Annual Report on Form 10-K.

Item 13: ***Certain Relationships and Related Transactions***

Information with respect to certain relationships and related transactions required by Item 13 shall be included in the Company's definitive Proxy Statement for the Special Meeting in Lieu of the 2004 Annual Meeting of Stockholders to be held on April 22, 2004 and is incorporated herein by reference.

Item 14: ***Principal Accountant Fees and Services***

Information with respect to principal accountant fees and services required by Item 14 shall be included in the Company's definitive Proxy Statement for the Special Meeting in Lieu of the 2004 Annual Meeting of Stockholders to be held on April 22, 2004 and is incorporated herein by reference.

PART IV

Item 15: ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) (1) Financial Statements

The following consolidated financial statements of Cognex Corporation and the reports of independent auditors relating thereto are included in the Company's Annual Report to Stockholders for the year ended December 31, 2003, which is Exhibit 13 hereto, and are incorporated herein by reference:

Consolidated Statements of Operations for the years ended December 31, 2003, 2002, and 2001

Consolidated Balance Sheets at December 31, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002, and 2001

Notes to Consolidated Financial Statements

Reports of Independent Auditors

(2) Financial Statement Schedule

Included at the end of this report are the following:

Report of Independent Auditors 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, immediately preceding such Exhibits.

(b) Reports on Form 8-K

On October 14, 2003, the Company furnished a Current Report, dated the same date, on Form 8-K regarding its earnings press release for the fiscal quarter ended September 28, 2003.

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)

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.

Signature	Title	Date
/s/ ROBERT J. SHILLMAN Robert J. Shillman	President, Chief Executive Officer, and Chairman of the Board of Directors (principal executive officer)	March 12, 2004
/s/ RICHARD MORIN Richard Morin	Senior Vice President of Finance, Chief Financial Officer, and Treasurer (principal financial and accounting officer)	March 12, 2004
/s/ PATRICK ALIAS Patrick Alias	Executive Vice President and Director	March 12, 2004
/s/ JERALD FISHMAN Jerald Fishman	Director	March 12, 2004
/s/ WILLIAM KRIVSKY William Krivsky	Director	March 12, 2004
/s/ ANTHONY SUN Anthony Sun	Director	March 12, 2004
/s/ REUBEN WASSERMAN Reuben Wasserman	Director	March 12, 2004

COGNEX CORPORATION

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders of Cognex Corporation:

We have audited the consolidated financial statements of Cognex Corporation as of December 31, 2003 and for the year then ended, and have issued our report thereon dated January 24, 2004 (incorporated by reference in this Annual Report (Form 10-K)). Our audit also included the financial statement schedule listed in Item 15(a)(2) of this Annual Report (Form 10-K). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts
January 23, 2004

COGNEX CORPORATION

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders of Cognex Corporation:

Our audits of the consolidated financial statements referred to in our report dated January 24, 2003 appearing in the 2003 Annual Report to Stockholders of Cognex Corporation (which reports 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 for the years ended December 31, 2002 and 2001, listed in Item 15(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 24, 2003

COGNEX CORPORATION

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Other	Balance at End of Period
	(Dollars in thousands)					
Reserve for Uncollectible Accounts:						
2003	$ 2,207	$ 689	—	$ (283)(b)	—	$ 2,613
2002	2,080	340	—	(213)(b)	—	2,207
2001	2,150	190	—	(260)(b)	—	2,080
Reserve for Inventory Obsolescence:						
2003	$20,478	$ 914	$ —	$(2,694)(c)	(1,290)(d)	$17,408
2002	19,563	1,695	1,506(a)	(496)(c)	(1,790)(d)	20,478
2001	3,709	16,289	—	(435)(c)	—	19,563

(a) Settlement of inventory purchase commitments

(b) Specific write-offs

(c) Specific dispositions

(d) Sale of inventory previously reserved

EXHIBIT INDEX

Exhibit Number	
3A	Restated Articles of Organization of Cognex Corporation effective June 27, 1989, as amended April 30, 1991, April 21, 1992, April 25, 1995, April 23, 1996, and May 8, 2000 (incorporated by reference to Exhibit 3A of Cognex's Annual Report on Form 10-K for the year ended December 31, 2002 [File No. 0-17869])
3B	By-laws of the Company, as amended March 16, 1998 (incorporated by reference to Exhibit 3B of Cognex's Annual Report on Form 10-K for the year ended December 31, 2002 [File No. 0-17869])
4	Specimen Certificate for Shares of Common Stock (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 [Registration No. 33-29020]) Cognex Corporation 1993 Stock Option Plan for Non-Employee Directors (incorporated by reference to
10A	Exhibit 4A to the Registration Statement on Form S-8 [Registration No. 33-81150])
10B	Cognex Corporation 1993 Stock Option Plan, as amended November 14, 1995 and February 25, 1996 (incorporated by reference to Exhibit 4A to the Registration Statement on Form S-8 [Registration No. 333-04621])
10C	1991 Isys Controls, Inc. Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 4A to the Registration Statement on Form S-8 [Registration No. 333-02151])
10D	Amendment to the Cognex Corporation 1993 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10E of Cognex's Annual Report on Form 10-K for the year ended December 31, 2002 [File No. 0-17869])
10E	Amendment to the Cognex Corporation 1993 Stock Option Plan (incorporated by reference to Exhibit 10F of Cognex's Annual Report on Form 10-K for the year ended December 31, 2002 [File No. 0-17869])
10F	Cognex Corporation 1998 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 [Registration No. 333-60807])
10G	Cognex Corporation 1998 Stock Incentive Plan (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 [Registration No. 333-60807])
10H	First Amendment to the Cognex Corporation 1998 Stock Incentive Plan (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 [Registration No. 333-60807])
10I	Cognex Corporation 2000 Employee Stock Purchase Plan (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 [Registration No. 333-44824])
10J	Cognex Corporation 2001 Interim General Stock Incentive Plan (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 [Registration No. 333-68158])
10K	Cognex Corporation 2001 General Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 [Registration No. 333-100709])
10L	Transition Loan Agreement between James F. Hoffmaster and Cognex Corporation, dated May 24, 2001 (incorporated by reference to Exhibit 10M of Cognex's Annual Report on Form 10-K for the year ended December 31, 2002 [File No. 0-17869])
10M	Termination Agreement between James F. Hoffmaster and Cognex Corporation dated June 4, 2001 (incorporated by reference to Exhibit 10N of Cognex's Annual Report on Form 10-K for the year ended December 31, 2002 [File No. 0-17869])
13	Annual Report to Stockholders for the year ended December 31, 2003 (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)*
14	Code of Business Conduct and Ethics*
21	Subsidiaries of the registrant*
23.1	Consent of Ernst & Young LLP*

Exhibit Number	
23.2	Consent of PricewaterhouseCoopers LLP*
31.1	Certification of Chief Executive Officer*
31.2	Certification of Chief Financial Officer*
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO)*
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO)*

* Filed herewith

EXHIBIT 13

COGNEX CORPORATION: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements made in this report, as well as oral statements made by the Company from time to time, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers can identify these forward-looking statements by the Company's use of the words "expects," "anticipates," "estimates," "believes," "projects," "intends," "plans," "will," "may," "shall," and similar words and other statements of a similar sense. These statements are based upon the Company's current estimates and expectations 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 involve known and unknown risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include: (1) global economic conditions that impact the capital spending trends of manufacturers in a variety of industries; (2) the cyclicality of the semiconductor and electronics industries; (3) the inability to achieve significant international revenue; (4) fluctuations in foreign exchange rates; (5) the loss of, or a significant curtailment of purchases by, any one or more principal customers; (6) the reliance upon certain sole-source suppliers to manufacture and deliver critical components for the Company's products; (7) the inability to attract and retain skilled employees; (8) the inability to design and manufacture high-quality products; (9) inaccurate forecasts of customer demand; (10) the technological obsolescence of current products and the inability to develop new products; (11) the inability to protect the Company's proprietary technology and intellectual property; (12) the Company's involvement in time-consuming and costly litigation; (13) the impact of competitive pressures; and (14) the inability to achieve expected results from acquisitions. The foregoing list should not be construed as exhaustive and the Company encourages readers to refer to the detailed discussion of risk factors included in Part I - Item 1 of the Company's Annual Report on Form 10-K. The Company cautions readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. The Company disclaims any obligation to subsequently revise forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date such statements are made.

EXECUTIVE OVERVIEW

Cognex Corporation (the Company) designs, develops, manufactures, and markets machine vision systems, or computers that can "see," which are used to automate a wide range of manufacturing processes where vision is required. The Company's Modular Vision Systems Division (MVSD) specializes in machine vision systems that are used to automate the manufacture of discrete items, while the Company's Surface Inspection Systems Division (SISD) specializes in machine vision systems that are used to inspect the surfaces of materials processed in a continuous fashion.

In addition to product revenue derived from the sale of machine vision systems, the Company also generates revenue by providing maintenance and support, education, consulting, and installation services to its customers. The Company has two primary types of customers: original equipment manufacturers (OEMs) and end users. OEM customers purchase Cognex machine vision systems and integrate them into the capital equipment that they manufacture and then sell to their customers, primarily companies in the semiconductor and electronics industries that either make computer chips or make printed circuit boards containing computer chips. End-user customers purchase Cognex machine vision systems and install them directly on their production lines to automate the manufacture of a wide range of items in a variety of industries.

Over the past few years, the Company has been successful in diversifying its business beyond OEM customers who primarily serve the semiconductor and electronics industries. These industries are highly cyclical, with periods of investment followed by temporary downturns, which have had a severe effect on demand for capital equipment that incorporates the Company's products. In 2000, a spike in demand from these semiconductor and electronics OEMs drove the Company's revenue up to $251 million. At the end of 2000, demand started to decline significantly, and the Company's results in 2001 and 2002 were negatively impacted by this slowdown. In 2003, demand from OEM customers rebounded from the deep downturn and sales to these customers increased 51% from 2002.

While the OEM business improved in 2003, the end-user business represents a potentially much larger market for machine vision and the Company believes that the end-user business will account for the majority of its total revenue in the future. Sales to end-user customers have increased from only 37% of revenue in 2000 to 62% of revenue in 2003. While the capital spending trends of the Company's end-user customers have also been negatively impacted by global economic conditions, the industries and applications of these customers are far more diversified than those of its OEM customers. Sales to end-user customers increased 22% from 2002.

The Company's total revenue from both OEM and end-user customers in 2003 increased 32% from the prior year to $150 million. During 2003, the Company continued to keep tight control over expenses and invested only in strategic areas that will help drive revenue growth, such as sales and marketing. The growth in revenue, along with expense control, resulted in the Company reporting an operating profit of 13% of revenue in 2003 compared to an operating loss of 9% of revenue in 2002.

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

Year ended December 31,	2003	2002	2001
Revenue	100%	100%	100%
Cost of revenue	33	35	44
Gross margin	67	65	56
Research, development, and engineering expenses	17	23	21
Selling, general, and administrative expenses	37	51	44
Amortization of goodwill	--	--	2
Charge for intangible asset impairment	--	--	8
Operating income (loss)	13	(9)	(19)
Nonoperating income	3	2	8
Income (loss) before taxes	16	(7)	(11)
Income tax provision (benefit)	5	(2)	(3)
Net income (loss)	11%	(5)%	(8)%

COGNEX CORPORATION: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

REVENUE

Revenue for the year ended December 31, 2003 increased 32% to $150,092,000 from $114,107,000 for the year ended December 31, 2002. During the year, the Company experienced an increase in demand as its business rebounded from a slowdown in capital spending by manufacturers worldwide. Sales to OEM customers, most of whom make capital equipment used in the semiconductor and electronics industries, increased $19,076,000, or 51%, from the prior year. Sales to end-user customers increased from the prior year by $16,909,000, or 22%, due to higher demand from customers across a variety of industries. Sales to end-user customers continued to comprise the majority of the Company's revenue despite the rebound in the OEM business, representing 62% of total revenue in 2003 compared to 67% in 2002. Geographically, revenue increased from the prior year in all of the Company's major regions, but most significantly in Japan, where many of the Company's OEM customers are located.

Product revenue for the year ended December 31, 2003 increased 36% to $130,670,000 from $96,202,000 for the year ended December 31, 2002. The increase in product revenue was due to a higher volume of machine vision systems sold to customers in the semiconductor, electronics, automotive, paper, metals, and other industries. Service revenue, which is derived from the sale of maintenance and support, education, consulting, and installation services, increased 8% to $19,422,000 from $17,905,000. Many of the Company's products that were sold during 2003 included bundled maintenance and support programs for which a portion of the revenue will be recognized in future quarters over the program period. As a result, service revenue did not increase as dramatically as product revenue, and it decreased as a percentage of total revenue from 16% in 2002 to 13% in 2003.

MVSD revenue for the year ended December 31, 2003 increased 34% to $121,016,000 from $90,358,000 for the year ended December 31, 2002. The increase in MVSD revenue was due to a higher volume of modular vision systems sold to customers in the semiconductor, electronics, automotive, and other industries. SISD revenue for the year ended December 31, 2003 increased 22% to $29,076,000 from $23,749,000 for the year ended December 31, 2002. The increase in SISD revenue was due principally to a higher volume of SmartView(R) systems sold to customers in the paper and metals industries. The markets served by SISD had not been as severely impacted by the worldwide slowdown in capital spending. As a result, SISD revenue did not increase as dramatically as MVSD revenue, and it decreased as a percentage of total revenue to 19% in 2003 compared to 21% in 2002.

GROSS MARGIN

Gross margin as a percentage of revenue was 67% for 2003 compared to 65% for 2002. The increase in gross margin was primarily due to the impact of the higher sales volume with relatively flat manufacturing overhead costs, as well as a greater percentage of revenue from the sale of modular vision systems, which have higher margins than the sale of services and surface inspection systems. This increase was partially offset by a lower amount of benefits recorded to "Cost of product revenue" in 2003 from the sale of previously reserved inventory and the favorable resolution of inventory purchase commitments, both of which had been reserved in 2001. These benefits amounted to $1,290,000 in 2003 compared to $2,684,000 in 2002.

Product gross margin as a percentage of revenue was 71% for 2003 compared to 70% for 2002. The increase in product margin was primarily due to the increased sales volume, as well as the shift in product mix to higher-margin modular vision systems. This increase was partially offset by the decreased benefit from the sale of previously reserved inventory. Service gross margin as a percentage of revenue remained consistent with the prior year at 37%.

MVSD gross margin as a percentage of revenue was 71% for 2003 compared to 70% for 2002. The increase in MVSD margin was primarily due to the impact of the higher sales volume, as well as a greater percentage of revenue from the sale of products, which carry higher margins than the service business. This increase was partially offset by the decreased benefit from the sale of previously reserved inventory. SISD gross margin as a percentage of revenue was 48% for 2003 compared to 45% for 2002. The increase in SISD margin was due principally to the increased sales volume.

OPERATING EXPENSES

Research, development, and engineering (R,D&E) expenses for the year ended December 31, 2003 decreased 4% to $24,719,000 from $25,630,000 for the year ended December 31, 2002. MVSD R,D&E expenses decreased $1,245,000, or 5%, from the prior year primarily due to a headcount reduction in the third quarter of 2002. SISD R,D&E expenses increased $334,000, or 15%, from the prior year due principally to an increase in spending on software translation services and other activities related to the SmartView(R) product line.

Selling, general, and administrative (S,G&A) expenses for the year ended December 31, 2003 decreased 5% to $55,724,000 from $58,376,000 for the year ended December 31, 2002. MVSD S,G&A expenses increased $1,674,000, or 4%, from the prior year, while SISD S,G&A expenses increased $587,000, or 8%, from 2002. Corporate expenses that are not allocated to a division decreased $4,913,000, or 46%, from the prior year. The increase in MVSD and SISD expenses was primarily due to higher spending in sales and marketing undertaken to increase sales opportunities, as well as the unfavorable impact of foreign exchange rate changes on the Company's international operations. A significant amount of the Company's sales and marketing costs are denominated in currencies other than the U.S. Dollar, primarily the Euro Dollar and Japanese Yen. During 2003, the Euro Dollar and Japanese Yen strengthened versus the U.S. Dollar, resulting in a higher level of expenses when these amounts were translated into U.S. Dollars. The decrease in corporate expenses was due principally to lower legal expenses associated with patent infringement lawsuits initiated by the Company to protect its intellectual property.

NONOPERATING INCOME

Investment and other income for the year ended December 31, 2003 decreased 40% to $5,450,000 from $9,156,000 for the year ended December 31, 2002. This decrease was due principally to lower average interest rates on the Company's portfolio of debt securities. In addition, during 2003, the Company reduced the carrying value of its investment in a limited partnership by $1,031,000 compared to $680,000 during 2002, representing realized investment losses and fund expenses that were not offset by realized investment gains.

During the fourth quarter of 2002, based upon the estimated fair value of the Company's investment in a limited partnership, the Company determined that it may be unable to recover its full carrying value. As a result, the Company recorded a charge of $1,768,000, representing an other-than-temporary impairment in the carrying value of this investment. In addition, during 2002, the Company recorded losses from the sale of equity securities totaling $6,184,000.

The foreign currency loss for the year ended December 31, 2003 was $1,712,000 compared to a gain of $350,000 for the year ended December 31, 2002. The loss in 2003 was primarily due to the revaluation and settlement of the Company's Irish subsidiary's accounts receivable denominated in U.S. Dollars and Japanese Yen. During 2003, the Euro Dollar strengthened versus the U.S. Dollar and Japanese Yen, resulting in foreign currency losses on the Irish subsidiary's books when these receivables were revalued and collected. Although the Company experienced similar losses in 2002, they were offset by gains on the revaluation of intercompany balances that were not fully hedged. In addition, a smaller percentage of the Company's Irish subsidiary's accounts receivable were denominated in currencies other than the Euro Dollar in 2002.

INCOME TAXES

The Company's effective tax rate for 2003 was a provision of 31% compared to a benefit of 27% for 2002. The increase in the effective tax rate was primarily due to lower tax-exempt investment income, generated from the Company's municipal bond portfolio.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

REVENUE

Revenue for the year ended December 31, 2002 decreased 19% to $114,107,000 from $140,729,000 for the year ended December 31, 2001. During 2002, the Company's results continued to be negatively impacted by a worldwide slowdown in capital spending, primarily by manufacturers in the semiconductor and electronics industries. Sales to OEM customers, most of whom make capital equipment used by manufacturers in these industries, decreased $23,993,000, or 39%, from the prior year. Sales to end-user customers decreased from the prior year by $2,629,000, or 3%, primarily due to lower demand from customers who make electronic products. Sales to end-user customers represented 67% of total revenue in 2002 compared to 56% in 2001. Geographically, revenue decreased from the prior year in all of the Company's major regions, but most significantly in Japan, where many of the Company's OEM customers are located.

Product revenue for the year ended December 31, 2002 decreased 19% to $96,202,000 from $119,288,000 for the year ended December 31, 2001. The decrease in product revenue was primarily due to a lower volume of machine vision systems sold to customers in the semiconductor and electronics industries. Service revenue, which is derived from the sale of maintenance and support, education, consulting, and installation services, decreased 16% to $17,905,000 from $21,441,000 due principally to lower revenue generated by maintenance and support programs that are sold bundled with product offerings. Service revenue accounted for 16% of total revenue in 2002 compared to 15% in 2001.

MVSD revenue for the year ended December 31, 2002 decreased 23% to $90,358,000 from $117,074,000 for the year ended December 31, 2001. The decrease in MVSD revenue was primarily due to a lower volume of systems sold to customers in the semiconductor and electronics industries. SISD revenue totaled $23,749,000 and was slightly higher than the prior year, as the markets served by SISD, such as the paper and metals industries, were not as severely impacted by the worldwide slowdown in capital spending. SISD revenue represented 21% of total revenue in 2002 compared to 17% in 2001.

GROSS MARGIN

Gross margin as a percentage of revenue was 65% for 2002 compared to 56% for 2001. In 2001, the Company recorded a $16,615,000 charge in "Cost of product revenue" for excess inventories, inventory purchase commitments, and the impairment of complete technology. During 2002, the Company recorded benefits to "Cost of product revenue" amounting to $2,684,000 from the sale of previously reserved inventory and the favorable resolution of inventory purchase commitments, both of which had been reserved in 2001. The increase in gross margin was primarily due to the charges to "Cost of product revenue" recorded in 2001, as well as the benefits recorded in 2002. In addition, the impact of the lower sales volume, as well as a greater percentage of revenue from the sale of services and surface inspection systems, both of which have lower margins than modular vision systems, had a negative effect on gross margin.

Product gross margin as a percentage of revenue was 70% for 2002 compared to 58% for 2001. The increase in product margin was primarily due to the charges and benefits recorded in "Cost of product revenue" in 2001 and 2002, respectively, partially offset by unfavorable absorption of manufacturing overhead due to the decreased sales volume, as well as the shift in product mix to lower-margin surface inspection systems. Service gross margin as a percentage of revenue was 37% for 2002 compared to 43% for 2001. Many of the Company's products are sold with bundled maintenance and support programs for which the revenue is recognized over the program period. The declining volume of product sales in 2001 and 2002 has resulted in lower service revenue derived from these maintenance and support programs. Although the Company has reduced its cost structure to more closely align expenses to the lower sales volume, the decline in service revenue was much greater than the expense reductions made by the Company.

MVSD gross margin as a percentage of revenue was 70% for 2002 compared to 59% for 2001. The increase in MVSD margin was primarily due to the charges and benefits recorded in "Cost of product revenue" in 2001 and 2002, respectively, partially offset by the impact of the declining sales volume, as well as lower service margins resulting from lower maintenance and support revenue. SISD gross margin as a percentage of revenue was 45% for 2002 compared to 42% for 2001. The increase in SISD margin was due principally to product cost improvements and higher service revenue.

OPERATING EXPENSES

Research, development, and engineering (R,D&E) expenses for the year ended December 31, 2002 decreased 15% to $25,630,000 from $30,094,000 for the year ended December 31, 2001. MVSD R,D&E expenses decreased $4,333,000, or 16%, from the prior year primarily due to cost reduction initiatives that began in 2001 and continued in 2002, including headcount reductions in both 2001 and 2002 and tight control over discretionary spending. SISD R,D&E expenses were relatively flat with the prior year.

Selling, general, and administrative (S,G&A) expenses for the year ended December 31, 2002 decreased 5% to $58,376,000 from $61,262,000 for the year ended December 31, 2001. MVSD S,G&A expenses decreased $4,428,000, or 10%, from the prior year, while SISD S,G&A expenses increased $705,000, or 11%, from 2001. Corporate expenses that are not allocated to a division increased $837,000, or 9% from the prior year. The decrease in MVSD expenses was primarily due to headcount reductions and lower discretionary spending. The increase in SISD expenses resulted from higher spending in sales and marketing undertaken to increase sales opportunities and grow market share. The increase in corporate expenses was principally due to an expense in 2002 related to the acquisition of the web inspection business of Honeywell International Inc.

Effective January 1, 2002, the Company ceased the amortization of goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

NONOPERATING INCOME

Investment and other income for the year ended December 31, 2002 decreased 22% to $9,156,000 from $11,669,000 for the year ended December 31, 2001. This decrease was due to lower average interest rates on the Company's portfolio of debt securities, as well as a lower average invested balance as a result of using $26,425,000 in cash to repurchase common stock in 2002. In addition, during 2002, the Company reduced the carrying value of its investment in a limited partnership by $680,000, representing realized investment losses and fund expenses that were not offset by realized investment gains.

During the fourth quarter of 2002, based upon the estimated fair value of the Company's investment in a limited partnership, the Company determined that it may be unable to recover its full carrying value. As a result, the Company recorded a charge of $1,768,000, representing an other-than-temporary impairment in the carrying value of this investment. In addition, during 2002, the Company recorded losses from the sale of equity securities totaling $6,184,000.

The foreign currency gain for the year ended December 31, 2002 was $350,000 compared to a loss of $328,000 for the year ended December 31, 2001. These gains and losses were primarily due to the revaluation of intercompany balances that were not fully hedged. The gain in 2002 was partially offset by losses due to the revaluation and settlement of the Company's Irish subsidiary's accounts receivable denominated in U.S. Dollars and Japanese Yen. During 2002, the Euro Dollar strengthened versus the U.S. Dollar and Japanese Yen, resulting in foreign currency losses on the Irish subsidiary's books when these receivables were revalued and collected. Similar losses were not material in 2001 because a smaller percentage of the Company's Irish subsidiary's accounts receivable were denominated in currencies other than the Euro Dollar, and foreign exchange rates did not fluctuate as significantly.

INCOME TAXES

The Company's effective tax rate for 2002 and 2001 was a benefit of 27% and 29%, respectively. The benefit reflects the Company's significant tax-exempt investment income and future reductions in taxes payable relating to net operating loss carryforwards in various jurisdictions. These benefits are offset by investments in the Company's foreign operations that are taxed at rates different from those in the United States and the impairment charge related to the Company's investment in a limited partnership, for which no tax benefit was provided.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically been able to generate positive cash flow from operations, which has funded the Company's operating activities and other cash requirements and has resulted in an accumulated cash, cash equivalent, and investments balance of $303,502,000 at December 31, 2003, representing 79% of stockholders' equity. The Company has established guidelines relative to credit ratings, diversification, and maturities of its investments that maintain liquidity.

The Company's cash requirements during the year ended December 31, 2003 were met with positive cash flow from operations and the proceeds from the issuance of common stock under stock option and stock purchase plans. Cash requirements consisted of operating activities, capital expenditures, cash paid for business acquisitions, and the payment of dividends. Capital expenditures in 2003 totaled $2,462,000 and consisted primarily of expenditures for computer hardware and software.

The Company believes that its existing cash, cash equivalent, and investments balance, together with continued positive cash flow from operations, will be sufficient to meet its operating, investing, and financing activities in 2004, as well as for the next few years.

The following table summarizes the Company's material contractual obligations, both fixed and contingent (in thousands):

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              As of            Limited
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December 31, 2003	Partnership Interest	Acquisitions	Leases	Total
2004	$11,375	$ 440	$2,443	$14,258
2005	-	2,703	1,643	4,346
2006	-	-	287	287
2007	-	-	264	264
2008	-	-	108	108
Thereafter	-	-	428	428
	$11,375	$3,143	$5,173	$ 19,691

LIMITED PARTNERSHIP INTEREST

On June 30, 2000, Cognex Corporation became a Limited Partner in Venrock Associates III, L.P., a venture capital fund. The Company has committed to a total investment in the limited partnership of up to $25,000,000, of which $13,625,000 had been contributed as of December 31, 2003, including $3,250,000 during 2003. The commitment to contribute capital expires on January 1, 2005 and the Company does not have the right to withdraw from the partnership prior to December 31, 2010.

ACQUISITIONS

On March 31, 2003, the Company acquired the wafer identification business of Siemens Dematic AG for 7,000,000 Euros in cash (or approximately $7,630,000) paid at closing, with the potential for an additional cash payment in 2005 of up to 1,700,000 Euros (or approximately $2,138,000) depending upon the achievement of certain performance criteria.

On December 1, 2003, the Company acquired the machine vision business of Gavitec AG for 3,800,000 Euros in cash (or approximately $4,534,000), including 3,500,000 Euros paid at closing, 100,000 Euros to be paid on December 1, 2004, and 200,000 Euros to be paid on December 1, 2005. There is the potential for an additional cash payment of up to 250,000 Euros in both 2004 and 2005 (or approximately $314,000 in each year) depending upon the achievement of certain performance criteria.

In addition to the aforementioned commitments, the following items may also result in future material uses of cash:

DERIVATIVE INSTRUMENTS

In certain instances, the Company enters into forward contracts and currency swaps to hedge against foreign currency fluctuations. Because the terms of the derivative instrument and underlying exposure are generally matched at inception, changes in foreign currency exchange rates should not expose the Company to significant net cash outflows.

BANK GUARANTEES

On May 27, 2003, the Company provided bank guarantees totaling 3,051,000,000 Yen (or approximately $28,416,000) to taxing authorities in Japan. The Tokyo Regional Taxation Bureau (TRTB) has asserted that Cognex Corporation has a permanent establishment in Japan that would require certain income, previously reported on U.S. tax returns for the years ended December 31, 1997 through December 31, 2001, to be subject instead to taxation in Japan. The Company disagrees with this position and believes that this assertion is inconsistent with principles under the U.S. - Japan income tax treaty. Until this matter is resolved, the Company is required to provide bank guarantees to collateralize these tax assessments. Should the TRTB prevail in its assertion, the income in question would be taxable in Japan and the Company would be required to pay approximately $28,416,000 in taxes, interest, and penalties to Japanese taxing authorities. The Company would then be entitled to recoup the majority of this amount from taxing authorities in the U.S.

STOCK REPURCHASE PROGRAM

On December 12, 2000, the Company's Board of Directors authorized the repurchase of up to $100,000,000 of the Company's common stock. During 2003, the Company did not repurchase any shares under this program. During 2002, a total of 1,768,452 shares were repurchased at a cost of $26,425,000. There were no shares repurchased under this program prior to 2002. The Company may repurchase additional shares under this program in future periods depending upon a variety of factors, including the market value of the Company's common stock and the average return on the Company's invested balances.

DIVIDENDS

In the third and fourth quarters of 2003, the Company's Board of Directors declared and paid a cash dividend of $0.06 per share, amounting to $2,607,000 and $2,630,000, respectively. The Company's Board of Directors also declared and paid a cash dividend of $0.06 per share in the first quarter of 2004, amounting to $2,677,000. Future dividends will be declared at the discretion of the Board of Directors and will depend upon such factors as the Board of Directors deems relevant. The Board of Directors may modify the Company's dividend policy from time to time.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and various other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or circumstances resulting in charges that could be material in future reporting periods. The Company believes the following critical accounting policies require the use of significant estimates and judgments in the preparation of its consolidated financial statements.

REVENUE RECOGNITION

The Company recognizes revenue from product sales upon delivery if a signed customer contract or purchase order has been received, the fee is fixed or determinable, and collection of the resulting receivable is probable. If the arrangement contains customer-specified acceptance criteria, then revenue is deferred until the Company can demonstrate that the customer's criteria have been met. The Company maintains reserves against revenue for potential product returns. Revenue from maintenance and support programs is deferred and recognized ratably over the program period. Revenue from education and consulting services are recognized over the period the services are provided. Revenue from installation services is recognized when the customer has signed off that the installation is complete.

While the Company applies the guidance of Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as amended by SOP No. 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions," management exercises judgment in connection with the determination of the amount of revenue to be recognized each period. Such judgments include, but are not limited to, assessing the probability of collecting the receivable, assessing whether the fee is fixed or determinable, and assessing whether customer-specified acceptance criteria are substantive in nature.

INVESTMENTS

At December 31, 2003, the Company's investment balance totaled $227,275,000, of which $212,917,000 consisted of municipal bonds and $4,212,000 consisted of corporate bonds. Investments in municipal and corporate bonds are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity as other comprehensive income (loss). The remaining investment balance of $10,146,000 represents a limited partnership interest in Venrock Associates III, L.P., a venture capital fund. A director of the Company is a Managing General Partner of Venrock Associates. The Company's limited partnership interest is accounted for using the cost method because the Company's investment is less than 5% of the partnership and the Company has no influence over the partnership's operating and financial policies.

The fair value of the Company's limited partnership interest is based upon valuations of the partnership's investments as determined by the General Partner. The Company understands that the General Partner adjusts the investment valuations at least quarterly to reflect both realized and unrealized gains and losses on partnership investments. Securities of public companies are valued at market, subject to appropriate discounts to reflect limitations on liquidity. Securities of private companies are valued at an estimated fair value, which initially is at cost, adjusted for subsequent transactions that indicate a higher or lower value is warranted. The value of private securities may be discounted when, in the General Partner's judgment, the carrying value of such private securities has been impaired by specific events.

The Company monitors the carrying value of its investment compared to the valuations provided by the General Partner. The carrying value is adjusted each quarter for realized gains and losses on partnership investments, as well as for fund expenses. Unrealized gains and losses on partnership investments are monitored each quarter by the Company to determine whether an other-than-temporary impairment in its interest in the limited partnership has occurred. In considering whether a decline in fair value is other than temporary, the Company considers many factors, both qualitative and quantitative in nature. Some of these factors include the duration and extent of the fair value decline, the length of the Company's contractual commitment to the partnership, general economic and stock market trends, and specific communications from the General Partner.

The Company has committed to a total investment in the limited partnership of up to $25,000,000, of which $13,625,000 had been contributed as of December 31, 2003. The commitment to contribute capital expires on January 1, 2005 and the Company does not have the right to withdraw from the partnership prior to December 31, 2010.

To date, the Company has reduced the carrying value of its investment in the limited partnership by $1,711,000, representing realized investment losses and fund expenses that were not offset by realized investment gains, and $1,768,000, representing an other-than-temporary impairment in the carrying value of this investment recorded in 2002. At December 31, 2003, the carrying value of this investment was $10,146,000 compared to an estimated fair value, as determined by the General Partner, of $9,536,000. The unrealized loss of $610,000 was determined to be temporary.

Given the nature of the partnership's portfolio and the difficulty inherent in valuing these investments, there is a great deal of uncertainty surrounding the future value of the Company's interest in the limited partnership and future impairment charges may be required.

ACCOUNTS RECEIVABLE

The Company maintains reserves against its accounts receivable for potential credit losses. Ongoing credit evaluations of customers are performed and the Company has historically not experienced significant losses related to the collection of its accounts receivable. Allowances for uncollectible accounts are estimated by management taking into account the length of time receivables have been outstanding, specific accounts determined to be at risk for collection, the risks associated with selling to smaller end-user customers, and the economic conditions of the primary regions and industries sold to, as well as general economic conditions. An adverse change in any of these factors may result in the need for additional bad debt provisions.

INVENTORIES

Inventories are stated at the lower of cost or market. The Company estimates excess and obsolescence exposures based upon assumptions about future demand, product transitions, and market conditions and records reserves to reduce the carrying value of inventories to their net realizable value. The failure to accurately forecast demand, in terms of both volume and configuration, and adjust material requirement plans in a timely manner may lead to additional excess and obsolete inventory and future charges.

In 2001, the Company recorded a $16,300,000 charge for excess inventories and purchase commitments resulting from an extended slowdown in the semiconductor and electronics industries, as well as the expected transition to newer Cognex hardware platforms by the Company's OEM customers. The Company has been able to subsequently sell $3,080,000 of this inventory to customers as a result of actual demand being higher than the demand that was forecasted at the time of the charge. In addition, the Company has negotiated the favorable resolution of $894,000 of the inventory purchase commitments. The Company did not record significant excess and obsolete inventory provisions in 2002 or 2003.

LONG-LIVED ASSETS

The Company has long-lived assets including property, plant, and equipment, as well as acquired goodwill and other intangible assets. These assets are susceptible to shortened estimated useful lives and changes in fair value due to changes in their use, market or economic changes, or other events or circumstances. In addition, the fair value of goodwill is susceptible to changes in the fair value of the reporting units in which the goodwill resides, which are also reportable segments. The Company evaluates the potential impairment of its long-lived assets annually, as required, or whenever events or circumstances indicate their carrying value may not be recoverable. If events or circumstances occur which would require a significant reduction in the estimated useful lives of these assets or a significant decrease in fair value below their carrying value, an adjustment to the lives or carrying values would result in a charge to income in the period of determination.

WARRANTY OBLIGATIONS

The Company records the estimated cost of fulfilling product warranties at the time of sale based upon historical costs to fulfill warranty obligations. Provisions may also be recorded subsequent to the time of sale whenever specific events or circumstances impacting product quality that would not have been taken into account using historical data become known. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers and third-party contract manufacturers, the Company's warranty obligation is affected by product failure rates, material usage, and service delivery costs incurred in correcting a product failure. An adverse change in any of these factors may result in the need for additional warranty provisions.

CONTINGENCIES

Estimated losses from contingencies are accrued by management based upon the likelihood of a loss and the ability to reasonably estimate the amount of the loss. Estimating potential losses, or even a range of losses, is difficult and involves a great deal of judgment. The Company relies primarily on assessments made by its internal and external legal counsel to make its determination as to whether a loss contingency arising from litigation should be recorded or disclosed. Should the resolution of a contingency result in a loss that the Company did not accrue because management did not believe that the loss was probable or capable of being reasonably estimated, then this loss would result in a charge to income in the period the contingency was resolved.

INCOME TAXES

As part of the process of preparing consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which the Company operates. This process involves estimating the current tax liability, as well as assessing temporary differences arising from the different treatment of items for financial statement and tax purposes. These differences result in deferred tax assets and liabilities, which are recorded on the consolidated balance sheet.

At December 31, 2003, the Company had net deferred tax assets of $27,651,000, primarily resulting from temporary differences between the financial statement and tax bases of assets and liabilities. Management has evaluated the realizability of these deferred tax assets and has determined that it is more likely than not that these assets will be realized. In reaching this conclusion, management has evaluated certain criteria, including the Company's historical profitability, current projections of future profitability, and the lives of tax credits, net operating and capital losses, and other carry-forwards, certain of which have indefinite lives. Should the Company fail to generate sufficient pre-tax profits in future periods, the Company may be required to record material adjustments to these deferred tax assets, resulting in a charge to income in the period of determination.

Significant judgment is required in determining worldwide income tax expense based upon tax laws in the various jurisdictions in which the Company operates. The Company is subject to audits by various tax authorities, which may result in future charges or credits.

DERIVATIVE INSTRUMENTS

In certain instances, the Company enters into forward contracts and currency swaps to hedge against foreign currency fluctuations. These contracts are used to reduce the Company's risk associated with foreign currency exchange rate changes, as the gains or losses on these contracts are intended to offset the losses or gains on the underlying exposures. The Company does not engage in foreign currency speculation.

The Company recorded foreign currency losses of $1,712,000 in 2003, foreign currency gains of $350,000 in 2002, and foreign currency losses of $328,000 in 2001. The Company's exposure to foreign currency gains and losses has increased in recent years as a greater portion of its revenues, expenses, assets, and liabilities are denominated in currencies other than the functional currencies of the Company or its subsidiaries. In addition, foreign exchange rates have fluctuated more significantly in the past two years.

NEW PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities," to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities, and activities of another entity. Previously, a company generally included other entities in its consolidated financial statements only if it controlled the entity through voting interests. Interpretation No. 46 changes that guidance by requiring variable interest entities, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns. Interpretation No. 46 also requires disclosure about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. On December 24, 2003, the FASB deferred the effective date of Interpretation No. 46 for certain transactions until periods ending after March 15, 2004. The Company does not believe the adoption of Interpretation No. 46 will have a material impact on its consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN CURRENCY RISK

The Company faces exposure to adverse movements in foreign currency exchange rates as a significant portion of its revenues, expenses, assets, and liabilities are denominated in currencies other than the functional currencies of the Company or its subsidiaries. These exposures may change over time as business practices evolve. The Company evaluates its foreign currency exposures on an ongoing basis and makes adjustments to its foreign currency risk management program as circumstances change.

In certain instances, the Company enters into forward contracts and currency swaps to hedge against foreign currency fluctuations. Currency swaps are used to hedge long-term transactions between the Company and its subsidiaries. Forward contracts are used to position an economic hedge against transactions denominated in currencies other than the functional currencies of the Company or its subsidiaries. These forward contracts and currency swaps are used to reduce the Company's risk associated with foreign currency exchange rate changes, as the gains or losses on these contracts are intended to offset the losses or gains on the underlying exposures. The Company does not engage in foreign currency speculation.

The success of the Company's foreign currency risk management program depends upon forecasts of transaction activity denominated in various foreign currencies. To the extent that these forecasts are overstated or understated during periods of currency volatility, the Company could experience unanticipated foreign currency gains or losses that could have a material impact on the Company's results of operations. In addition, the failure to identify new exposures and hedge them in a timely manner may result in material foreign currency gains or losses.

The Company enters into currency swaps to hedge the foreign currency exposure of its net investments in certain of its European subsidiaries. Currency swaps to exchange a total of 48,340,000 Euro Dollars for U.S. Dollars at a weighted-average settlement price of 1.02 USD/Euro, with original terms of two to five years, were outstanding at December 31, 2003. The Company also enters into forward contracts to hedge the foreign currency exposure of a portion of its intercompany transactions between its subsidiaries. Forward contracts to exchange 500,000,000 Japanese Yen for Euro Dollars at a weighted-average settlement price of 132.79 Yen/Euro and contracts to exchange 23,000,000 Euro Dollars for U.S. Dollars at a settlement price of 1.24 USD/Euro, both with terms of approximately three months, were outstanding at December 31, 2003. In addition, the Company enters into forward contracts to hedge the foreign currency exposure of its Irish subsidiary's accounts receivable denominated in U.S. dollars and Japanese Yen. Forward contracts to exchange 270,000,000 Japanese Yen for Euro Dollars at a settlement price of 132.40 Yen/Euro and contracts to exchange 2,100,000 U.S. dollars for Euro Dollars at a settlement price of 1.23 USD/Euro, both with terms of approximately three months, were outstanding at December 31, 2003.

While the contract amounts of derivative instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to changes in foreign currency exchange rates. Because the terms of the derivative instrument and underlying exposure are generally matched at inception, changes in foreign currency exchange rates should not expose the Company to significant losses in earnings or net cash outflows when exposures are properly hedged.

INTEREST RATE RISK

The Company's investment portfolio includes municipal and corporate bonds. Debt securities with original maturities greater than three months are designated as available-for-sale and are reported at fair value. At December 31, 2003, the fair value of the Company's bond portfolio amounted to $243,376,000, with principal amounts totaling $237,425,000, maturities that do not exceed three years, and a yield to maturity of 1.59%.

Given the relatively short maturities and investment-grade quality of the Company's bond portfolio at December 31, 2003, a sharp rise in interest rates should not have a material adverse effect on the fair value of these instruments. As a result, the Company does not currently hedge these interest rate exposures.

The following table (dollars in thousands) presents hypothetical changes in the fair value of the Company's bond portfolio at December 31, 2003 arising from selected potential changes in interest rates:

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
Municipal and corporate bonds	$245,569	$244,446	$243,376	$242,322	$241,277

A 50 basis point (BP) movement in the Federal Funds Rate has occurred in 13 of the last 52 quarters. There has not been a 100 BP movement in the Federal Funds Rate in any of the last 52 quarters.

OTHER MARKET RISKS

The Company's investment portfolio also includes a limited partnership interest in Venrock Associates III, L.P., a venture capital fund with an investment focus on Information Technology and Health Care and Life Sciences. The majority of the partnership's portfolio consists of investments in early stage, private companies characterized by a high degree of risk, volatility, and illiquidity.

The fair value of the Company's limited partnership interest is based upon valuations of the partnership's investments as determined by the General Partner. The Company understands that the General Partner adjusts the investment valuations at least quarterly to reflect both realized and unrealized gains and losses on partnership investments. Securities of public companies are valued at market, subject to appropriate discounts to reflect limitations on liquidity. Securities of private companies are valued at an estimated fair value, which initially is at cost, adjusted for subsequent transactions that indicate a higher or lower value is warranted. The value of private securities may be discounted when, in the General Partner's judgment, the carrying value of such private securities has been impaired by specific events.

Given the nature of the partnership's portfolio and the difficulty inherent in valuing these investments, there is a great deal of uncertainty surrounding the future value of the Company's interest in the limited partnership and future impairment charges may be required.

COGNEX CORPORATION: CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

Year Ended December 31,	2003	2002	2001
Revenue			
Product	$ 130,670	$ 96,202	$ 119,288
Service	19,422	17,905	21,441
	150,092	114,107	140,729
Cost of revenue			
Product	37,870	28,499	50,170
Service	12,269	11,360	12,175
	50,139	39,859	62,345
Gross margin			
Product	92,800	67,703	69,118
Service	7,153	6,545	9,266
	99,953	74,248	78,384
Research, development, and engineering expenses	24,719	25,630	30,094
Selling, general, and administrative expenses	55,724	58,376	61,262
Amortization of goodwill	--	--	3,108
Charge for intangible asset impairment	--	--	10,932
Operating income (loss)	19,510	(9,758)	(27,012)
Investment and other income	5,450	9,156	11,669
Loss on sale of equity securities and impairment of investment in limited partnership	--	(7,952)	--
Foreign currency gain (loss)	(1,712)	350	(328)
Income (loss) before taxes	23,248	(8,204)	(15,671)
Income tax provision (benefit)	7,297	(2,177)	(4,544)
Net income (loss)	$ 15,951	$ (6,027)	$ (11,127)
Net income (loss) per common and common equivalent share:			
Basic	$ 0.37	$ (0.14)	$ (0.25)
Diluted	$ 0.36	$ (0.14)	$ (0.25)
Weighted-average common and common equivalent shares outstanding:			
Basic	43,173	43,503	43,639
Diluted	44,466	43,503	43,639
Cash dividends per common share	$ 0.12	$ --	$ --

The accompanying notes are an integral part of these consolidated financial statements.

COGNEX CORPORATION: CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

December 31,	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 76,227	$ 60,864
Short-term investments	56,406	75,769
Accounts receivable, less reserves of $2,613 and $2,207 in 2003 and 2002, respectively	26,697	18,981
Inventories, net	15,519	18,952
Deferred income taxes	8,223	9,969
Prepaid expenses and other current assets	14,526	9,687
Total current assets	197,598	194,222
Long-term investments	170,869	139,352
Property, plant, and equipment, net	24,980	27,405
Deferred income taxes	19,428	16,608
Intangible assets, net	8,582	919
Goodwill, net	7,222	3,742
Other assets	3,854	3,686
	$ 432,533	$ 385,934
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,555	$ 3,496
Accrued expenses	32,098	19,972
Customer deposits	3,932	3,659
Deferred revenue	5,702	4,287
Total current liabilities	47,287	31,414
Other liabilities	252	--
Commitments (Notes 4, 9, 10, 11, 12, and 18)		
Stockholders' equity:		
Common stock, $.002 par value - Authorized: 140,000 shares, issued: 48,186 and 46,877 shares in 2003 and 2002, respectively	96	94
Additional paid-in capital	209,679	184,595
Treasury stock, at cost, 4,253 and 4,249 shares in 2003 and 2002, respectively	(72,445)	(72,311)
Retained earnings	258,724	248,010
Accumulated other comprehensive loss	(11,060)	(5,868)
Total stockholders' equity	384,994	354,520
	$ 432,533	$ 385,934

The accompanying notes are an integral part of these consolidated financial statements.

COGNEX CORPORATION: CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Year Ended December 31,	2003	2002	2001
Cash flows from operating activities:			
Net income (loss)	$ 15,951	$ (6,027)	$ (11,127)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	5,422	6,534	6,953
Amortization of intangible assets	1,012	543	4,161
Amortization of investments	3,728	2,447	2,430
Tax benefit from exercise of stock options	4,302	3,450	3,745
Deferred income tax benefit	(432)	(2,196)	(7,843)
Net loss on investment in limited partnership	1,031	680	--
Impairment on investment in limited partnership	--	1,768	--
Loss on sale of equity securities	--	6,184	--
Charge for excess inventory	--	--	16,300
Charge for intangible asset impairment	--	--	11,247
Changes in current assets and current liabilities:			
Accounts receivable	(4,775)	(348)	27,824
Inventories	5,833	5,010	(12,893)
Accounts payable	1,482	(2,569)	(4,775)
Accrued expenses	148	(1,411)	(12,277)
Other current assets and current liabilities	(2,783)	1,979	(3,118)
Other operating activities	45	402	243
Net cash provided by operating activities	30,964	16,446	20,870
Cash flows from investing activities:			
Purchase of investments	(165,534)	(97,723)	(139,863)
Maturity and sale of investments	149,429	139,353	106,310
Purchase of property, plant, and equipment	(2,462)	(2,227)	(4,455)
Cash paid for business acquisitions	(11,787)	(349)	(361)
Net cash provided by (used in) investing activities	(30,354)	39,054	(38,369)
Cash flows from financing activities:			
Issuance of common stock under stock option, stock purchase, and other plans	20,650	5,004	4,637
Repurchase of common stock	--	(26,425)	--
Payment of dividends	(5,237)	--	--
Net cash provided by (used in) financing activities	15,413	(21,421)	4,637
Effect of exchange rate changes on cash	(660)	(4,875)	1,597
Net increase (decrease) in cash and cash equivalents	15,363	29,204	(11,265)
Cash and cash equivalents at beginning of year	60,864	31,660	42,925
Cash and cash equivalents at end of year	$ 76,227	$ 60,864	$ 31,660

The accompanying notes are an integral part of these consolidated financial statements.

COGNEX CORPORATION: CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Accumulated Common Stock Shares	Par Value
Balance at December 31, 2000	45,788	$92
Issuance of common stock under stock option, stock purchase, and other plans	501	1
Tax benefit from exercise of stock options	-	-
Common stock received for payment of stock option exercises	-	-
Comprehensive loss:		
Net loss	-	-
Unrealized loss on investments, net of tax of $1,807	-	-
Gains on foreign intercompany loans, net of losses on currency swaps, net of tax of $64	-	-
Foreign currency translation adjustment	-	-
	-	-
Comprehensive loss		
Balance at December 31, 2001	46,289	$93
Issuance of common stock under stock option, stock purchase, and other plans	588	1
Tax benefit from exercise of stock options	-	-
Repurchase of common stock	-	-
Common stock received for payment of stock option exercises	-	-
Comprehensive loss:		
Net loss	-	-
Recognition of accumulated losses on equity securities in current operations, net of tax of $2,506	-	-
Losses on currency swaps, net of gains on foreign intercompany loans, net of tax of $21	-	-
Foreign currency translation adjustment	-	-
	_	_
Comprehensive loss		
Balance at December 31, 2002	46,877	$94
Issuance of common stock under stock option, stock purchase, and other plans	1,309	2
Tax benefit from exercise of stock options	-	-
Payment of dividends	-	-
Common stock received for payment of stock option exercises	-	-
Comprehensive income:		
Net income	-	-
Losses on currency swaps, net of gains on foreign intercompany loans, net of tax of $367	-	-
Net unrealized gain on available-for-sale investments, net of tax of $299	-	-
Foreign currency translation adjustment	-	-
	-	-
Comprehensive income		
Balance at December 31, 2003	48,186	$96

The accompanying notes are in an integral part of these consolidated financial statements.

	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Comprehensive Income (Loss)	Stockholders' Equity
Balance at December 31, 2000	$163,815	2,365	$(42,675)	$265,164	$ (2,447)		$383,949
Issuance of common stock under stock option, stock purchase, and other plans	6,115	-	-	-	-	-	6,116
Tax benefit from exercise of stock options	3,745	-	-	-	-	-	3,745
Common stock received for payment of stock option exercises	-	25	(744)	-	-	-	(744)
Comprehensive loss:							
Net loss							
Unrealized loss on investments, net of tax of $1,807	-	-	-	(11,127)	-	(11,127)	(11,127)
Gains on foreign intercompany loans, net of losses on currency swaps, net of tax of $64	-	-	-	-	(3,076)	(3,076)	(3,076)
Foreign currency translation adjustment	-	-	-	-	109	109	109
	-	-	-	-	(928)	(928)	(928)
Comprehensive loss						$(15,022)	
Balance at December 31, 2001	$173,675	2,390	$(43,419)	$254,037	$ (6,342)		$378,044
Issuance of common stock under stock option, stock purchase, and other plans	7,470	-	-	-	-	-	7,471
Tax benefit from exercise of stock options	3,450	-	-	-	-	-	3,450
Repurchase of common stock	-	1,768	(26,425)	-	-	-	(26,425)
Common stock received for payment of stock option exercises	-	91	(2,467)	-	-	-	(2,467)
Comprehensive loss:							
Net loss	-	-	-	(6,027)	-	(6,027)	(6,027)
Recognition of accumulated losses on equity securities in current operations, net of tax of $2,506	-	-	-	-	4,269	4,269	4,269
Losses on currency swaps, net of gains on foreign intercompany loans, net of tax of $21	-	-	-	-	(35)	(35)	(35)
Foreign currency translation adjustment	-	-	-	-	(3,760)	(3,760)	(3,760)
Comprehensive loss						$ (5,553)	
Balance at December 31, 2002	$184,595	4,249	$(72,311)	$248,010	$ (5,868)		$354,520
Issuance of common stock under stock option, stock purchase, and other plans	20,782	-	-	-	-	-	20,784
Tax benefit from exercise of stock options	4,302	-	-	-	-	-	4,302
Payment of dividends	-	-	-	(5,237)	-	-	(5,237)
Common stock received for payment of stock option exercises	-	4	(134)	-	-	-	(134)
Comprehensive income:							
Net income							
Losses on currency swaps, net of gains on foreign intercompany loans, net of tax of $367	-	-	-	15,951	-	15,951	15,951
Net unrealized gain on available-for-sale investments, net of tax of $299	-	-	-	-	(625)	(625)	(625)
Foreign currency translation adjustment	-	-	-	-	509	509	509
	-	-	-	-	(5,076)	(5,076)	(5,076)
Comprehensive income						$10,759	
Balance at December 31, 2003	$209,679	4,253	$(72,445)	$258,724	$(11,060)		$384,994

COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NATURE OF OPERATIONS

Cognex Corporation (the Company) designs, develops, manufactures, 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 judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenue 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 adjustment is recorded in stockholders' equity as other comprehensive income (loss).

CASH, CASH EQUIVALENTS, AND INVESTMENTS

Debt securities purchased with original maturities of three months or less are classified as cash equivalents and are stated at amortized cost. Debt securities with original maturities greater than three months and remaining maturities of one year or less are classified as short-term investments. Debt securities with remaining maturities greater than one year, as well as a limited partnership interest, are classified as long-term investments. It is the Company's policy to invest in debt securities with contractual maturities that do not exceed three years.

Debt securities with original maturities greater than three months are designated as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity as other comprehensive income (loss). Realized gains and losses are included in current operations, along with the amortization of the discount or premium arising at acquisition.

The Company's limited partnership interest is accounted for using the cost method because the Company's investment is less than 5% of the partnership and the Company has no influence over the partnership's operating and financial policies. The Company monitors the carrying value of its investment compared to the valuations provided by the General Partner. The carrying value is adjusted each quarter for realized gains and losses on partnership investments, as well as for fund expenses. Unrealized gains and losses on partnership investments are monitored each quarter by the Company to determine whether an other-than-temporary impairment in its interest in the limited partnership has occurred. If the decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in current operations.

ACCOUNTS RECEIVABLE

The Company establishes reserves against its accounts receivable for potential credit losses when it determines receivables are at risk for collection based upon the length of time receivables have been outstanding, as well as various other factors. Receivables are written off against these reserves in the period they are determined to be uncollectible.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined using standard costs, which approximate the first in, first out (FIFO) method. The Company estimates excess and obsolescence exposures based upon assumptions about future demand, product transitions, and market conditions and records reserves to reduce the carrying value of inventories to their net realizable value.

The Company generally disposes of obsolete inventory upon determination of obsolescence. The Company does not dispose of excess inventory immediately, due to the possibility that some of this inventory could be sold to customers as a result of differences between actual and forecasted demand.

When inventory has been written down below cost, such reduced amount is considered the new cost basis for subsequent accounting purposes. As a result, the Company would recognize a higher than normal gross margin if the reserved inventory were subsequently sold to customers.

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 five 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 two to ten years. The Company evaluates the possible impairment of long-lived assets, including intangible assets, whenever events or circumstances indicate the carrying value of the assets may not be recoverable. At the occurrence of a certain event or change in circumstances, the Company evaluates the potential impairment of an asset based upon the estimated future undiscounted cash flows. If an impairment exists, the Company determines the amount of such impairment based upon the present value of the estimated future cash flows using a discount rate commensurate with the risks involved.

GOODWILL

Goodwill is stated at cost. As of January 1, 2002, the Company ceased the amortization of goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and performed the transitional goodwill impairment test for each reporting unit. The Company evaluates the possible impairment of goodwill annually each fourth quarter, and whenever events or circumstances indicate the carrying value of the goodwill may not be recoverable. The Company evaluates the potential impairment of goodwill by comparing the fair value of the reporting unit to its carrying value, including goodwill. If the fair value is less than the carrying value, the Company determines the amount of such impairment by comparing the implied fair value of the goodwill to its carrying value.

WARRANTY OBLIGATIONS

The Company warrants its hardware products to be free from defects in material and workmanship for periods ranging from six months to two years from the time of sale based upon the product being purchased and the terms of the customer arrangement. Warranty obligations are accounted for in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," since it is probable that customers will make claims under warranties related to products that have been sold and the amount of these claims can be reasonably estimated based upon experience. Estimated warranty obligations are evaluated and recorded at the time of sale based upon historical costs to fulfill warranty obligations. Provisions may also be recorded subsequent to the time of sale whenever specific events or circumstances impacting product quality that would not have been taken into account using historical data become known.

REVENUE RECOGNITION

The Company's revenue is derived primarily from two sources: (1) product sales to both original equipment manufacturer (OEM) customers, who incorporate the Company's product into their product for resale, and end-user customers, who install the Company's product directly on their production line, and (2) service revenue derived principally from providing maintenance and support, education, consulting, and installation services to both OEM and end-user customers. During the third quarter of 2003, the Company began selling its MVSD In-Sight product line to select distributors located in the United States for resale to end-users. Sales to distributors were not significant in 2003.

The Company recognizes revenue in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as amended by SOP No. 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions," since the software is not incidental to the arrangement and the services in the arrangement do not involve significant production, modification, or customization of the software. The Company recognizes revenue from product sales upon delivery if a signed customer contract or purchase order has been received, the fee is fixed or determinable, and collection of the resulting receivable is probable. If the arrangement contains customer-specified acceptance criteria, then revenue is deferred until the Company can demonstrate that the customer's criteria have been met.

Certain of the Company's products are sold with multiple elements, such as maintenance and support programs, education services, and installation services. The Company accounts for each element separately. The amount allocated to each undelivered element is the price charged when the item is sold separately. In addition, the Company also provides consulting services. Revenue from maintenance and support programs is deferred and recognized ratably over the program period. Revenue from education and consulting services are recognized over the period the services are provided. Revenue from installation services is recognized when the customer has signed off that the installation is complete.

The Company establishes reserves against revenue for potential product returns in accordance with Statement of Financial Accounting Standards No. 48, "Revenue Recognition When Right of Return Exists," since the amount of future returns can be reasonably estimated based upon experience.

Amounts billed to customers related to shipping and handling, as well as reimbursements received from customers for out-of-pocket expenses, are classified as revenue.

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 Company determines technological feasibility at the time the product reaches beta in its stage of development. Historically, the time incurred between beta and general release to customers has been short, and therefore, the costs have been insignificant. As a result, the Company has not capitalized software costs associated with internally-developed products.

The cost of acquired software for products determined to have reached technological feasibility is capitalized; otherwise the cost is expensed. Capitalized software costs are amortized using the straight-line method over the economic life of the product, which is typically two to five years.

INCOME TAXES

The Company accounts for income taxes under the liability method. Under this method, a deferred tax asset or liability is determined based upon the differences between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that 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 (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period plus potential dilutive common shares. All potential dilutive common shares are excluded from the computation of net loss per share because they are antidilutive. Dilutive common equivalent shares consist of stock options and are calculated using the treasury stock method.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances, excluding transactions resulting from investments by owners and distributions to owners. Other comprehensive income (loss) consists of foreign currency translation adjustments, unrealized gains and losses on available-for-sale investments, net of tax, and gains and losses on foreign intercompany loans and their associated currency swaps, net of tax.

CONCENTRATIONS OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, investments, and trade receivables. The Company primarily invests in municipal obligations of state and local government entities. The Company has established guidelines relative to credit ratings, diversification, and maturities of its debt securities that maintain safety and liquidity. The Company has not experienced any significant realized losses on its debt securities.

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.

A significant portion of the Company's MVSD inventory is manufactured by a third-party contractor. The Company is dependent upon this contractor to provide quality product and meet delivery schedules. The Company engages in extensive product quality programs and processes, including actively monitoring the performance of its third-party manufacturers.

DERIVATIVE INSTRUMENTS

The Company has adopted the accounting and disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." 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 operations or in stockholders' equity as other comprehensive income (loss), depending upon whether the derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Hedges of underlying exposures are designated and documented at the inception of the hedge and are evaluated for effectiveness at least quarterly. As the terms of the derivative are generally matched at inception with the underlying exposure, hedging effectiveness is calculated by comparing the change in fair value of the derivative to the change in fair value of the underlying exposure.

In certain instances, the Company enters into forward contracts and currency swaps to hedge against foreign currency fluctuations. Currency swaps are used to hedge long-term transactions between the Company and its subsidiaries. Forward contracts are used to position an economic hedge against transactions denominated in currencies other than the functional currencies of the Company or its subsidiaries. These forward contracts and currency swaps are used to reduce the Company's risk associated with foreign currency exchange rate changes, as the gains or losses on these contracts are intended to offset the losses or gains on the underlying exposures. The Company does not engage in foreign currency speculation.

STOCK-BASED COMPENSATION PLANS

The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." 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 2003, 2002, or 2001.

Net income (loss) and net income (loss) 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:

Year Ended December 31,	2003	2002	2001
Net income (loss), as reported	$ 15,951	$ (6,027)	$ (11,127)
Less: Total stock-based compensation costs determined under fair value based method, net of tax	(14,092)	(17,235)	(17,698)
Net income (loss), pro forma	$ 1,859	$ (23,262)	$ (28,825)
Basic net income (loss) per share, as reported	$ 0.37	$ (0.14)	$ (0.25)
Basic net income (loss) per share, pro forma	$ 0.04	$ (0.53)	$ (0.66)
Diluted net income (loss) per share, as reported	$ 0.36	$ (0.14)	$ (0.25)
Diluted net income (loss) per share, pro forma	$ 0.04	$ (0.53)	$ (0.66)

For the purpose of providing pro forma disclosures, the fair values of stock options granted were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants:

Year Ended December 31,	2003	2002	2001
Risk-free interest rate	2.1%	3.5%	4.5%
Expected life (in years)	2.9	2.9	2.7
Expected volatility	58%	57%	62%
Expected annualized dividend yield	.85%	--	--

NOTE 2: NEW PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities," to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities, and activities of another entity. Previously, a company generally included other entities in its consolidated financial statements only if it controlled the entity through voting interests. Interpretation No. 46 changes that guidance by requiring variable interest entities, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns. Interpretation No. 46 also requires disclosure about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. On December 24, 2003, the FASB deferred the effective date of Interpretation No. 46 for certain transactions until periods ending after March 15, 2004. The Company does not believe the adoption of Interpretation No. 46 will have a material impact on its consolidated financial statements.

NOTE 3: FOREIGN CURRENCY RISK MANAGEMENT

The Company enters into currency swaps to hedge the foreign currency exposure of its net investments in certain of its European subsidiaries. These contracts, which relate primarily to the Euro Dollar, generally have an original term of two to five years. Currency swaps hedging firm commitments qualify for hedge accounting when they are designated as a hedge of the foreign currency exposure and they are effective in minimizing such exposure. Gains and losses on currency swaps that qualify for hedge accounting are recognized in stockholders' equity as other comprehensive income (loss), along with the associated losses and gains on the net investments, net of tax. The Company recorded net foreign currency losses of $625,000 and $35,000 in other comprehensive income (loss) on the net investments and associated currency swaps for the years ended December 31, 2003 and 2002, respectively, compared to a net foreign currency gain of $109,000 for the year ended December 31, 2001.

The Company enters into forward contracts to hedge the foreign currency exposure of a portion of its intercompany transactions between its subsidiaries and to hedge the foreign currency exposure of its Irish subsidiary's accounts receivable denominated in U.S. Dollars and Japanese Yen. These contracts, which relate primarily to the Euro Dollar and Japanese Yen, generally have a term of three months. Gains and losses on forward contracts that do not qualify for hedge accounting are recognized in current operations, along with the associated losses and gains on the revaluation of the inter-company balances and accounts receivable. The Company recorded net exchange rate gains of $472,000 and $433,000 in current operations on the revaluation of the intercompany balances and accounts receivable and associated forward contracts for the years ended December 31, 2003 and 2002, respectively, compared to a net exchange rate loss of $154,000 for the year ended December 31, 2001.

In addition to the transactions described in the preceding paragraph, the Company enters into other transactions denominated in foreign currencies for which the exchange rate gains or losses are included in current operations. The Company recorded foreign currency losses of $1,712,000 in 2003, foreign currency gains of $350,000 in 2002, and foreign currency losses of $328,000 in 2001, representing the total foreign currency gains or losses that are recognized in current operations.

NOTE 4: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments consist of the following (in thousands):

December 31,	2003	2002
Cash	$ 49,980	$ 58,424
Municipal bonds	26,247	2,440
Total cash and cash equivalents	76,227	60,864
Municipal bonds	56,406	75,769
Total short-term investments	56,406	75,769
Municipal bonds	156,511	131,425
Corporate bonds	4,212	--
Limited partnership interest	10,146	7,927
Total long-term investments	170,869	139,352
	$303,502	$275,985

The following is a summary of the Company's available-for-sale investments at December 31, 2003 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal bonds	$ 56,242	$ 165	$ (1)	$ 56,406
Total short-term investments	56,242	165	(1)	56,406
Municipal bonds	$ 155,881	785	(155)	156,511
Corporate bonds	4,198	14	--	4,212
Total long-term investments	160,079	799	(155)	160,723
	$ 216,321	$ 964	$ (156)	$ 217,129

The Company recorded gross realized gains on the sale of debt securities totaling $1,222,000 in 2003, $1,112,000 in 2002, and $521,000 in 2001. The Company recorded gross realized losses on the sale of debt securities totaling $24,000 in 2003, $25,000 in 2002, and $50,000 in 2001.

On June 30, 2000, Cognex Corporation became a Limited Partner in Venrock Associates III, L.P., a venture capital fund. A director of the Company is a Managing General Partner of Venrock Associates. The Company has committed to a total investment in the limited partnership of up to $25,000,000, of which $13,625,000 and $10,375,000 had been contributed as of December 31, 2003 and 2002, respectively. The commitment to contribute capital expires on January 1, 2005 and the Company does not have the right to withdraw from the partnership prior to December 31, 2010.

The Company reduced the carrying value of its investment in the limited partnership by $1,031,000 and $680,000 during 2003 and 2002, respectively, representing realized investment losses and fund expenses that were not offset by realized investment gains. In addition, during the fourth quarter of 2002, based upon the estimated fair value of this investment, the Company determined that it may be unable to recover its full carrying value. As a result, the Company recorded a charge of $1,768,000, representing an other-than-temporary impairment in the carrying value of this investment.

NOTE 5: INVENTORIES

Inventories, net, consist of the following (in thousands):

December 31,	2003	2002
Raw materials	$ 8,948	$12,530
Work-in-process	3,514	4,068
Finished goods	3,057	2,354
	$15,519	$18,952

In the fourth quarter of 2001, the Company recorded a $16,300,000 charge in "Cost of product revenue" on the Consolidated Statements of Operations for excess inventories and purchase commitments resulting from an extended slowdown in the semiconductor and electronics industries, as well as the expected transition to newer Cognex hardware platforms by the Company's OEM customers. A total of $12,500,000 of this charge represented reserves against existing inventories and was accordingly included in "Inventories" on the Consolidated Balance Sheets at December 31, 2001. The remaining $3,800,000 of the charge represented commitments to purchase excess components and systems from various suppliers and accordingly was included in "Accrued Expenses" on the Consolidated Balance Sheets at December 31, 2001.

The following table summarizes the change in the inventory-related reserve established in the fourth quarter of 2001(in thousands):

	Balance Sheet		
	Inventories	Accrued Expenses	Statement of Operations Benefits
Initial charge in the fourth quarter of 2001	$ 12,500	$ 3,800	--
Inventory sold to customers	(1,790)	--	$ 1,790
Settlement of purchase commitments	1,506	(2,400)	894
Reserve balance at December 31, 2002	$ 12,216	$ 1,400	
Benefits to cost of product revenue recorded in 2002			$ 2,684
Inventory sold to customers	(1,290)	--	1,290
Inventory sold to brokers	(667)	--	--
Write-off and scrap of inventory	(876)	--	--
Reserve balance at December 31, 2003	$ 9,383	$ 1,400	
Benefits to cost of product revenue recorded in 2003			$ 1,290

A favorable settlement of the remaining purchase commitments may result in a recovery of a portion of the remaining $1,400,000 accrued at December 31, 2003.

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following (in thousands):

December 31,	2003	2002
Land	$ 3,051	$ 3,051
Buildings	17,571	17,571
Building improvements	4,156	4,079
Computer hardware and software	32,100	31,116
Furniture and fixtures	3,919	3,672
Leasehold improvements	2,308	2,056
	63,105	61,545
Less: accumulated depreciation	(38,125)	(34,140)
	$ 24,980	$ 27,405

Buildings include property held for lease with a cost basis of $4,950,000 at December 31, 2003 and 2002 and accumulated depreciation of $1,079,000 and $952,000 at December 31, 2003 and 2002, respectively.

NOTE 7: INTANGIBLE ASSETS

Amortized intangible assets consist of the following (in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
DECEMBER 31, 2003			
Customer contracts and			

relationships	$ 7,832	$ 492	$ 7,340
Complete technology	5,388	4,280	1,108
Patents	113	17	96
Noncompete agreements	50	12	38
	$13,383	$ 4,801	$ 8,582
December 31, 2002			
Complete technology	$ 4,708	$ 3,789	$ 919
Noncompete agreement	793	793	--
	$ 5,501	$ 4,582	$ 919

Aggregate amortization expense for the years ended December 31, 2003, 2002, and 2001 was $1,012,000, $543,000, and $1,053,000, respectively. Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

Year ended December 31,	Amount
2004	$1,545
2005	1,238
2006	1,119
2007	1,065
2008	971
Thereafter	2,644
	$8,582

In the fourth quarter of 2001, as a result of a significant adverse change in the business climate, the Company evaluated the possible impairment of its intangible assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This analysis resulted in an impairment charge based upon the difference between the carrying value and the estimated fair value of certain acquisition-related intangible assets. The fair value was based upon discounting estimated future cash flows for assets grouped at the lowest level for which there were identifiable cash flows at a discount rate commensurate with the risks involved. The result was a $315,000 charge, included in "Cost of product revenue" on the Consolidated Statements of Operations, related to the impairment of complete technology primarily acquired from Komatsu Ltd. in 2000.

NOTE 8: GOODWILL

The Company has identified two reporting units with goodwill, the Modular Vision Systems Division (MVSD) and the Surface Inspection Systems Division (SISD), which are also reportable segments.

The changes in the carrying value of goodwill are as follows (in thousands):

	MVSD	SISD	Consolidated
Balance at December 31, 2001	$1,355	$1,913	$3,268
Reclassification of workforce	133	--	133
Foreign exchange rate changes	--	341	341
Balance at December 31, 2002	$1,488	$2,254	$3,742
Business acquisitions (Note 19)	2,753	--	2,753
Foreign exchange rate changes	281	446	727
Balance at December 31, 2003	$4,522	$2,700	$7,222

As of January 1, 2002, the Company ceased the amortization of goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." During the first quarter of 2002, the Company performed the transitional goodwill impairment test for each reporting unit. In addition, the Company evaluates the possible impairment of goodwill annually each fourth quarter, and whenever events or circumstances indicate that the carrying value of the goodwill may not be recoverable. Each analysis resulted in a fair value of each reporting unit that exceeded its carrying amount, and therefore, the goodwill in each reporting unit was determined not to be impaired.

In the fourth quarter of 2001, as a result of a significant adverse change in the business climate, the Company evaluated the possible impairment of its intangible assets, including goodwill, in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This analysis resulted in an impairment charge based upon the difference between the carrying value and the estimated fair value of certain acquisition-related intangible assets. The fair value was based upon discounting estimated future cash flows for assets grouped at the lowest level for which there were identifiable cash flows at a discount rate commensurate with the risks involved. The result was a $10,932,000 impairment charge related to goodwill arising primarily from the acquisitions in 2000 of the machine vision businesses of Komatsu Ltd. and Honeywell International Inc.

Reported net loss and net loss per basic and diluted share adjusted to exclude amortization of goodwill for the year ended December 31, 2001 are as follows (in thousands, except per share amounts):

Year ended December 31, 2001	Net Loss	Net Loss per Basic Share	Net Loss per Diluted Share
Reported results	$(11,127)	$(.25)	$(.25)
Goodwill amortization, net of tax	2,274	.05	.05
Adjusted results	$ (8,853)	$(.20)	$(.20)

NOTE 9: ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

December 31,	2003	2002
Forward contracts and currency swaps	$12,971	$ 3,414
Income taxes	3,017	1,738
Salaries, commissions, and payroll taxes	2,763	3,097
Consumption taxes	2,368	404
Vacation	2,348	1,586
Warranty obligation	2,119	1,523
Professional fees	1,780	2,737
Purchase commitments	1,400	1,400
Other	3,332	4,073
	$32,098	$19,972

The changes in the warranty obligation are as follows (in thousands):

Balance at December 31, 2002	$ 1,523
Provisions for warranties issued during the period	1,591
Provisions related to pre-existing warranties	550
Fulfillment of warranty obligations	(1,771)
Foreign exchange rate changes	226
Balance at December 31, 2003	$ 2,119

NOTE 10: LEASES

The Company conducts certain of its operations in leased facilities. These lease agreements expire at various dates through 2014 and are accounted for as operating leases. Annual rental expense totaled $4,427,000 in 2003, $4,536,000 in 2002, and $4,673,000 in 2001. Future minimum rental payments under these agreements are as follows at December 31, 2003 (in thousands):

Year ended December 31,	Amount
2004	$2,443
2005	1,643
2006	287
2007	264
2008	108
Thereafter	428
	$5,173

The Company owns 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 2007. Annual rental income totaled $1,137,000 in 2003, $1,224,000 in 2002, and $1,426,000 in 2001. Rental income and related expenses are included in "Investment and other income" on the Consolidated Statements of Operations. Future minimum rental receipts under non-cancelable lease agreements are $746,000 in 2004, $796,000 in 2005 and 2006, and $199,000 in 2007.

NOTE 11: INDEMNIFICATION PROVISIONS

Except as limited by Massachusetts law, the by-laws of the Company require it to indemnify certain current or former directors, officers, and employees of the Company against expenses incurred by them in connection with each proceeding in which he or she is involved as a result of serving or having served in certain capacities. Indemnification is not available with respect to a proceeding as to which it has been adjudicated that the person did not act in good faith in the reasonable belief that the action was in the best interests of the Company. The maximum potential amount of future payments the Company could be required to make under these provisions is unlimited. The Company has never incurred significant costs related to these indemnification provisions. As a result, the Company believes the estimated fair value of these provisions is minimal.

The Company accepts standard limited indemnification provisions in the ordinary course of business, whereby it indemnifies its customers for certain direct damages incurred in connection with third-party patent or other intellectual property infringement claims with respect to the use of the Company's products. The term of these indemnification provisions generally coincides with the customer's use of the Company's products. The maximum potential amount of future payments the Company could be required to make under these provisions is always subject to fixed monetary limits. The Company has never incurred significant costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the Company believes the estimated fair value of these provisions is minimal.

The Company also accepts limited indemnification provisions from time to time, whereby it indemnifies customers for certain direct damages incurred in connection with bodily injury and property damage arising from the installation of the Company's products. The term of these indemnification provisions generally coincides with the period of installation. The maximum potential amount of future payments the Company could be required to make under these provisions is limited and is likely recoverable under the Company's insurance policies. As a result of this coverage, and the fact that the Company has never incurred significant costs to defend lawsuits or settle claims related to these indemnification provisions, the Company believes the estimated fair value of these provisions is minimal.

NOTE 12: BANK GUARANTEES

On May 27, 2003, the Company provided bank guarantees totaling 3,051,000,000 Yen (or approximately $28,416,000) to taxing authorities in Japan. The Tokyo Regional Taxation Bureau (TRTB) has asserted that Cognex Corporation has a permanent establishment in Japan that would require certain income, previously reported on U.S. tax returns for the years ended December 31, 1997 through December 31, 2001, to be subject instead to taxation in Japan. The Company disagrees with this position and believes that this assertion is inconsistent with principles under the U.S. - Japan income tax treaty. The Company has filed a notice of objection and request for deferral of tax payment and intends to contest this assessment vigorously, although no assurances can be made that the Company will prevail in this matter. The Company has also filed a request with the Internal Revenue Service Tax Treaty Division for competent authority assistance. Until this matter is resolved, the Company is required to provide bank guarantees to collateralize these tax assessments. Should the TRTB prevail in its assertion, the income in question would be taxable in Japan and the Company would be required to pay approximately $28,416,000 in taxes, interest, and penalties to Japanese taxing authorities. The Company would then be entitled to recoup the majority of this amount from taxing authorities in the U.S.

NOTE 13: STOCKHOLDERS' EQUITY

PREFERRED STOCK

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

STOCK REPURCHASE PROGRAM

On December 12, 2000, the Company's Board of Directors authorized the repurchase of up to $100,000,000 of the Company's common stock. During 2003, the Company did not repurchase any shares under this program. During 2002, a total of 1,768,452 shares were repurchased at a cost of $26,425,000. There were no shares repurchased under this program prior to 2002.

STOCK OPTION PLANS

At December 31, 2003, the Company had 8,998,645 shares available for grant under the following stock option plans: the 1998 Director Plan, 34,000; the 1998 Stock Incentive Plan, 1,464,645; no shares under the 2001 Interim General Stock Incentive Plan; and the 2001 General Stock Option Plan, 7,500,000.

The 2001 General Stock Option Plan was adopted by the Board of Directors on December 11, 2001 without stockholder approval. This plan provides for the granting of nonqualified stock options to any employee who is actively employed by the Company and is not an officer or director of the Company. The maximum number of shares of common stock available for grant under the plan is 7,500,000 shares. All option grants must have an exercise price per share that is no less than the fair market value per share of the Company's common stock on the grant date and must have a term that is no longer than fifteen years from the grant date. No stock options have been granted under the 2001 General Stock Option Plan.

The 2001 Interim General Stock Incentive Plan was adopted by the Board of Directors on July 17, 2001 without stockholder approval. This plan provides for the granting of nonqualified stock options to any employee who is actively employed by the Company and is not an officer or director of the Company. The maximum number of shares of common stock available for grant under the plan is 400,000 shares. All option grants have an exercise price per share that is no less than the fair market value per share of the Company's common stock on the grant date and must have a term that is no longer than fifteen years from the grant date. All 400,000 stock options have been granted under the 2001 Interim General Stock Incentive Plan.

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 1st 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 by 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 31st of the preceding year.

On November 27, 2000, employees forfeited 652,280 stock options. The Company committed to grant those employees the same number of options approximately seven months later having exercise prices equal to the then fair market value with similar terms and conditions. On June 8, 2001, the Company granted 583,580 options at the then fair market value to those same employees. The number of options granted on June 8, 2001 was less than the original amount forfeited due to employee terminations.

Stock options generally vest over four years and generally expire no later than ten years from the date of grant.

The following table summarizes the status of the Company's stock option plans at December 31, 2003, 2002, and 2001, and changes during the years then ended (in thousands, except per share amounts):

	2003		2002		2001	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	10,381	$ 22.40	9,529	$ 22.31	8,014	$ 21.04
Granted at fair market value	2,402	21.54	2,211	21.38	2,630	25.28
Exercised	(1,279)	15.84	(550)	12.56	(467)	10.10
Forfeited	(518)	25.75	(809)	25.26	(648)	27.54
Outstanding at end of year	10,986	22.85	10,381	22.40	9,529	22.31
Options exercisable at year-end	5,182	22.37	4,156	19.01	2,842	15.93
Weighted-average grant-date fair value of options granted during the year at fair market value	$ 8.32		$ 8.39		$ 10.34	

No stock options were granted above fair market value in 2003, 2002, or 2001.

The following table summarizes information about stock options outstanding at December 31, 2003 (in thousands, except per share amounts):

	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
1.00 - 15.72	1,476	4.6	$ 11.13	1,247	$ 10.45
15.88 - 20.63	1,743	7.1	17.53	902	16.90
21.11 - 21.20	1,895	9.4	21.19	16	21.11
21.38 - 22.44	1,848	8.1	21.89	722	21.90
22.63 - 28.76	2,089	7.6	25.79	1,173	25.85
28.88 - 59.69	1,935	8.0	35.96	1,122	36.67
	10,986	7.6	22.85	5,182	22.37

COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 common stock purchased under the ESPP for a period of one year from the date of purchase. The maximum number of shares of common stock available for issuance under the ESPP is 250,000 shares. Effective January 1, 2001 and each January 1st thereafter during the term of the ESPP, 250,000 shares of common stock will always be available for issuance. Shares purchased under the ESPP totaled 31,667 in 2003, 38,105 in 2002, and 34,004 in 2001. The weighted-average fair value of shares purchased under the ESPP was $9.89 in 2003, $5.73 in 2002, and $7.73 in 2001.

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:

Year Ended December 31,	2003	2002	2001
Risk-free interest rate	2.0%	1.5%	2.9%
Expected life (in months)	12	6	6
Expected volatility	58%	57%	62%
Expected annualized dividend yield	.85%	--	--

NOTE 14: EMPLOYEE SAVINGS PLAN

Under the Company's Employee Savings Plan, a defined contribution plan, employees who have attained age 21 may contribute up to 25% of their salary on a pre-tax basis subject to the annual dollar limitations established by the Internal Revenue Service. The Company contributes fifty cents for each dollar an employee contributes, with a maximum contribution of 3% of an employee's pre-tax salary. Company contributions vest 20%, 40%, 60%, and 100% after two, three, four, and five years of continuous employment with the Company, respectively. Company contributions totaled $917,000 in 2003, $869,000 in 2002, and $1,004,000 in 2001. Cognex stock is not an investment alternative, nor are Company contributions made in the form of Cognex stock.

NOTE 15: INCOME TAXES

Domestic income before taxes was $24,852,000, $3,422,000, and $3,068,000 and foreign loss before taxes was $1,604,000, $11,626,000, and $18,739,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

The provision (benefit) for income taxes consists of the following (in thousands):

Year Ended December 31,	2003	2002	2001
Current:			
Federal	$ 6,330	$(1,930)	$ 3,742
State	431	48	(319)
Foreign	2,181	1,040	536
	8,942	(842)	3,959
Deferred:			
Federal	(616)	524	(7,093)
State	48	(51)	822
Foreign	(1,077)	(1,808)	(2,232)
	(1,645)	(1,335)	(8,503)
	$ 7,297	$(2,177)	$(4,544)

A reconciliation of the United States federal statutory corporate tax to the Company's effective tax is as follows (in thousands):

Year Ended December 31,	2003	2002	2001
Income tax provision (benefit) at federal statutory rate	$ 8,137	$(2,871)	$(5,485)
State income taxes, net of federal benefit	325	67	38
Tax-exempt investment income	(1,901)	(2,992)	(3,656)
Foreign tax rate differential	1,023	2,934	1,933
Goodwill amortization and impairment charges	--	846	2,382
Other	(287)	(161)	244

Provision (benefit) for income taxes	$ 7,297	$(2,177)	$(4,544)

Deferred tax assets consist of the following (in thousands):

December 31,	2003	2002
Current deferred tax assets:		
Inventory and revenue related	$ 6,494	$ 7,929
Bonus, commission, and other compensation	500	334
Other	1,229	1,706
Total net current deferred tax asset	$ 8,223	$ 9,969
Noncurrent deferred tax assets (liabilities):		
Federal and state tax credit carryforwards	$ 6,638	$ 4,473
Foreign net operating loss carryforwards	5,519	4,523
Acquired complete technology and other intangibles	3,353	3,528
Federal and state capital loss carryforwards	1,694	1,979
Acquired in-process technology	1,021	1,135
Depreciation	1,308	435
Unrealized investment gains (losses)	(462)	95
Other	357	440
Total net noncurrent deferred tax asset	$ 19,428	$ 16,608

At December 31, 2003, the Company had federal research and experimentation tax credit carryforwards of approximately $4,053,000, which may be available to offset future federal income tax liabilities and will expire in 2021. The Company also had approximately $1,266,000 of alternative minimum tax credits and approximately $708,000 of foreign tax credits, which may be available to offset future regular income tax liabilities. The alternative minimum tax credits have an unlimited life and the foreign tax credits will begin to expire in 2007. In addition, the Company had approximately $611,000 of state research and experimentation tax credit and investment tax credit carry-forwards, which will begin to expire in 2005.

At December 31, 2003, the Company's foreign subsidiaries had net operating loss carryforwards of approximately $39,950,000, of which $1,775,000, representing a tax benefit of $747,000, will expire in 2006. The remaining balance of $38,175,000, representing a tax benefit of $4,772,000, has an unlimited life.

The Company did not establish valuation allowances against its deferred tax assets at December 31, 2003 and 2002. While these assets are not assured of realization, the Company has evaluated the realizability of these deferred tax assets and has determined that it is more likely than not that these assets will be realized. In reaching this conclusion, the Company has evaluated certain relevant criteria including the Company's historical profitability, current projections of future profitability, and the lives of tax credits, net operating and capital losses, and other carryforwards. Should the Company fail to generate sufficient pre-tax profits in future periods, the Company may be required to establish valuation allowances against these deferred tax assets, resulting in a charge to income in the period of determination.

NOTE 16: NET INCOME (LOSS) PER SHARE

Net income (loss) per share is calculated as follows (in thousands, except per share amounts):

Year Ended December 31,	2003	2002	2001
Net income (loss)	$ 15,951	$ (6,027)	$(11,127)
Basic:			
Weighted-average common shares outstanding	43,173	43,503	43,639
Net income (loss) per common share	$ 0.37	$ (0.14)	$ (0.25)
Diluted:			
Weighted-average common shares outstanding	43,173	43,503	43,639
Effect of dilutive stock options	1,293	--	--
Weighted-average common and common equivalent shares outstanding	44,466	43,503	43,639
Net income (loss) per common and common equivalent share	$ 0.36	$ (0.14)	$ (0.25)

Stock options to purchase 2,934,936, 6,347,233, and 3,066,622 shares of common stock were outstanding during the years ended December 31, 2003, 2002, and 2001, respectively, but were not included in the calculation of diluted net income (loss) per share because the options' exercise prices were greater than the average market price of the Company's common stock during those years. Additionally, stock options to purchase 939,961 and 1,615,524 shares of common stock were not included in the calculation of diluted net loss per share for the years ended December 31, 2002 and 2001, respectively, because they were antidilutive.

NOTE 17: SEGMENT AND GEOGRAPHIC INFORMATION

The Company has two reportable segments: the Modular Vision Systems Division (MVSD) and the Surface Inspections Systems Division (SISD). MVSD designs, develops, manufactures, and markets modular vision systems that are used to control the manufacturing of discrete items by locating, identifying, inspecting, and measuring them during the manufacturing process. SISD designs, develops, manufactures, and markets surface inspection vision systems that are used to inspect surfaces of materials that are processed in a continuous fashion to ensure there are no flaws or defects in the surfaces. Segments are determined based upon the way that management organizes its business for making operating decisions and assessing performance. The Company evaluates segment performance based upon income or loss from operations, excluding unusual items.

The following table summarizes information about the Company's segments (in thousands):

	MVSD	SISD	Reconciling Items	Consolidated
YEAR ENDED DECEMBER 31, 2003				
Product revenue	$ 108,170	$ 22,500	--	$ 130,670
Service revenue	12,846	6,576	--	19,422
Depreciation and amortization	5,863	392	$ 179	6,434
Operating income (loss)	20,107	3,830	(4,427)	19,510
Year Ended December 31, 2002				
Product revenue	$ 78,270	$ 17,932	--	$ 96,202
Service revenue	12,088	5,817	--	17,905
Depreciation and amortization	6,487	388	$ 202	7,077
Operating income (loss)	(3,181)	1,369	(7,946)	(9,758)
Year Ended December 31, 2001				
Product revenue	$ 100,188	$ 19,100	--	$ 119,288
Service revenue	16,886	4,555	--	21,441
Depreciation and amortization	9,247	1,644	$ 223	11,114
Inventory and intangible asset impairment charges	--	--	27,547	27,547
Operating income (loss)	10,189	138	(37,339)	(27,012)

Reconciling items consist of the benefit from the sale of previously reserved inventory of $1,290,000 in 2003 and the sale of previously reserved inventory and the favorable resolution of inventory purchase commitments of $2,684,000 in 2002, which related to the MVSD segment. Reconciling items also consist of inventory and intangible asset impairment charges in 2001, $21,892,000 of which related to the MVSD segment and $5,655,000 of which related to the SISD segment. These items are not included in the segment's operating income (loss) for the purpose of making operating decisions and assessing performance. In addition, reconciling items include unallocated corporate expenses that totaled $5,717,000, $10,630,000, and $9,792,000 in 2003, 2002, and 2001, respectively. These expenses primarily include corporate headquarters costs and patent infringement litigation.

Asset information by segment is not produced internally for use by the chief operating decision maker, and therefore, is not presented. Asset information is not provided because the cash and investments are comingled and the divisions share assets and resources in a number of locations around the world.

No customer accounted for greater than 10% of revenue in 2003, 2002, or 2001.

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

	United States	Japan	Ireland	Other	Consolidated
YEAR ENDED DECEMBER 31, 2003					
Product revenue	$ 43,001	--	$ 87,669	--	$130,670
Service revenue	12,792	--	6,630	--	19,422
Long-lived assets	27,921	$ 2,434	13,358	$ 925	44,638
Year Ended December 31, 2002					
Product revenue	$ 44,292	$ 14,355	$ 37,555	--	$ 96,202
Service revenue	13,263	2,119	2,523	--	17,905
Long-lived assets	28,891	3,077	2,744	$ 1,040	35,752
Year Ended December 31, 2001					
Product revenue	$ 75,124	$ 26,680	$ 17,484	--	$119,288
Service revenue	17,287	2,607	1,547	--	21,441
Long-lived assets	32,733	3,830	2,031	$ 1,195	39,789

Revenue is presented geographically based upon the country in which the sale is recorded. The "Other" column represents all long-lived assets in other countries, none of which were individually significant, and that are included in "Other assets" on the Consolidated Balance Sheets.

NOTE 18: ACQUISITIONS

ACQUISITION OF SIEMENS DEMATIC AG WAFER IDENTIFICATION BUSINESS

On March 31, 2003, the Company acquired the wafer identification business of Siemens Dematic AG, a subsidiary of Siemens AG. Siemens Dematic is a leading supplier of logistics and factory automation equipment and has been a leading supplier of wafer identification systems to semiconductor manufacturers in Europe. Under the terms of the agreement, the Company acquired the rights to all of Siemens' patented and unpatented wafer identification technology, as well as substantially all of the assets related to its wafer identification business. This acquisition enhances the Company's position as a leading provider of wafer identification systems worldwide. The results of operations of the acquired business have been included in the Company's consolidated results of operations since the date of the acquisition. The historical results of operations of the acquired business were not material compared to the consolidated results of operations, and therefore, pro forma results are not presented.

The purchase price consisted of 7,000,000 Euros in cash (or approximately $7,630,000) paid on March 31, 2003, with the potential for an additional cash payment in 2005 of up to 1,700,000 Euros (or approximately $2,138,000) depending upon the achievement of certain performance criteria. The contingent consideration will be recorded as purchase price when paid and will be allocated to goodwill. The March 31, 2003 cash payment of 7,000,000 Euros was based upon an estimated balance sheet for the wafer identification business as of March 31, 2003. The Company has reviewed the actual March 31, 2003 balance sheet and is currently disputing certain amounts with Siemens which will be resolved by an independent arbiter. As such, the cash payment may be adjusted in 2004 based upon the outcome of this arbitration, with such adjustment allocated to goodwill.

The purchase price was allocated as follows: $616,000 to inventories; $628,000 to receivables; $25,000 to accrued expenses; $4,469,000 to customer contracts and relationships, to be amortized over eight years; $447,000 to complete technology, to be amortized over five years; $98,000 to patents, to be amortized over five years; $44,000 to non-compete agreements, to be amortized over three years; and $1,353,000 to goodwill, which is assigned to the MVSD segment and is not deductible for tax purposes.

ACQUISITION OF GAVITEC AG MACHINE VISION BUSINESS

On December 1, 2003, the Company acquired the machine vision business of Gavitec AG. Gavitec produces machine vision products for direct part mark identification (or Industrial ID), which can read markings on the surfaces of manufactured items to collect data about product components during the manufacturing process and trace the manufacturing history of the components during the product's lifetime. Under the terms of the agreement, the Company acquired all of the tangible and intangible assets and assumed certain liabilities associated with Gavitec's machine vision business. This acquisition strengthens the Company's overall market position in Germany and combines Gavitec's experience in the design of easy-to-use Industrial ID products with Cognex's global sales force and engineering support to enable the Company to provide additional products for the growing Industrial ID market. The results of operations of the acquired business have been included in the Company's consolidated results of operations since the date of the acquisition. The historical results of operations of the acquired business were not material compared to the consolidated results of operations, and therefore, pro forma results are not presented.

The purchase price consisted of 3,800,000 Euros in cash (or approximately $4,534,000), including 3,500,000 Euros paid at closing, 100,000 Euros to be paid on December 1, 2004, and 200,000 Euros to be paid on December 1, 2005. There is the potential for an additional cash payment of up to 250,000 Euros in both 2004 and 2005 (or approximately $314,000 in each year) depending upon the achievement of certain performance criteria. The contingent consideration will be recorded as purchase price when paid and will be allocated to goodwill.

The purchase price was allocated as follows: $213,000 to inventories; $76,000 to receivables; $60,000 to fixed assets; $114,000 to accrued expenses; $2,726,000 to customer contracts and relationships, to be amortized over nine years; $155,000 to complete technology, to be amortized over three years; and $1,400,000 to goodwill, which is assigned to the MVSD segment and is not deductible for tax purposes.

NOTE 19: DIVIDENDS

On August 5, 2003, the Company's Board of Directors declared a cash dividend of $0.06 per share. The dividend was paid on September 19, 2003 to all stockholders of record at the close of business on August 29, 2003. On October 24, 2003, the Company's Board of Directors declared a cash dividend of $0.06 per share. The dividend was paid on November 25, 2003 to all stockholders of record at the close of business on November 10, 2003.

NOTE 20: SUBSEQUENT EVENT (UNAUDITED)

On February 5, 2004, the Company's Board of Directors declared a cash dividend of $0.06 per share. The dividend was paid on March 5, 2004 to all stockholders of record at the close of business on February 20, 2004. Future dividends will be declared at the discretion of the Board of Directors and will depend upon such factors as the Board of Directors deems relevant. The Board of Directors may modify the Company's dividend policy from time to time.

NOTE 21: SUPPLEMENTAL STATEMENT OF CASH FLOWS DISCLOSURE

Cash paid for income taxes totaled $4,169,000 in 2003, $1,180,000 in 2002, and $6,741,000 in 2001.

Common stock received as payment for stock option exercises totaled $134,000 in 2003, $2,467,000 in 2002, and $744,000 in 2001.

The Company retired certain fully-depreciated property, plant, and equipment totaling $2,497,000 in 2003, $5,407,000 in 2002, and $282,000 in 2001.

COGNEX CORPORATION: REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF COGNEX CORPORATION:

We have audited the accompanying consolidated balance sheet of Cognex Corporation and subsidiaries as of December 31 2003, and the related consolidated statement of operations, stockholders' equity, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cognex Corporation and subsidiaries at December 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST + YOUNG LLP
Boston, Massachusetts
January 23, 2004

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF COGNEX CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, 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, 2002 and the results of their operations and their cash flows for each of the two years in the periods ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted In the United States of America, 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 our opinion.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

/s/ PRICEWATERHOUSECOOPERS LLP
Boston, Massachusetts
January 24, 2003

COGNEX CORPORATION: FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(In thousands, except per share amounts)

Year Ended December 31,	2003	2002	2001	2000	1999
Statement of Operations Data:					
Revenue	$ 150,092	$ 114,107	$ 140,729	$ 250,726	$ 152,125
Cost of revenue	50,139	39,859	62,345	63,820	45,221
Gross margin	99,953	74,248	78,384	186,906	106,904
Research, development, and engineering expenses	24,719	25,630	30,094	33,341	27,536
Selling, general, and administrative expenses	55,724	58,376	61,262	62,015	44,478
Amortization of goodwill	--	--	3,108	1,964	265
Charge for acquired in-process technology	--	--	--	--	--
Charge for intangible asset impairment	--	--	10,932	--	--
Operating income (loss)	19,510	(9,758)	(27,012)	89,586	34,625
Nonoperating income	3,738	1,554	11,341	10,632	8,255
Income (loss) before taxes	23,248	(8,204)	(15,671)	100,218	42,880
Income tax provision (benefit)	7,297	(2,177)	(4,544)	32,070	12,435
Net income (loss)	$ 15,951	$ (6,027)	$ (11,127)	$ 68,148	$ 30,445
Basic net income (loss) per share	$ 0.37	$ (0.14)	$ (0.25)	$ 1.58	$ 0.74
Diluted net income (loss) per share	$ 0.36	$ (0.14)	$ (0.25)	$ 1.49	$ 0.69
Basic weighted-average common shares outstanding	43,173	43,503	43,639	43,043	40,932
Diluted weighted-average common shares outstanding	44,466	43,503	43,639	45,698	43,986
Cash dividends per common share	$ 0.12	$ --	$ --	$ --	$ --

December 31,	2003	2002	2001	2000	1999
BALANCE SHEET DATA:					
Working capital	$150,311	$162,808	$143,712	$167,913	$126,298
Total assets	432,533	385,934	406,904	436,141	314,822
Long-term debt	--	--	--	--	--
Stockholders' equity	384,994	354,520	378,044	383,949	276,624

COGNEX CORPORATION: SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In thousands, except per share amounts)

2003 Quarter Ended	MARCH 30	JUNE 29	SEPTEMBER 28	DECEMBER 31
Revenue	$ 32,888	$ 36,622	$ 38,704	$ 41,878
Gross margin	21,172	24,623	25,514	28,644
Operating income	1,945	4,411	5,507	7,647
Net income	1,793	3,306	5,138	5,714
Basic net income per share	0.04	0.08	0.12	0.13
Diluted net income per share	0.04	0.08	0.11	0.13
Cash dividends per common share	--	--	0.06	0.06
Common stock prices:				
High	24.40	24.00	31.79	31.11
Low	18.17	17.91	20.55	25.00

2002 Quarter Ended	March 31	June 30	September 29	December 31
Revenue	$ 21,780	$ 26,671	$ 31,827	$ 33,829
Gross margin	13,215	17,443	20,762	22,828
Operating income (loss)	(5,855)	(3,759)	(1,503)	1,359
Net income (loss)	(2,520)	(4,712)	781	424
Basic net income (loss) per share	(0.06)	(0.11)	0.02	0.01
Diluted net income (loss) per share	(0.06)	(0.11)	0.02	0.01
Cash dividends per common share	--	--	--	--
Common stock prices:				
High	30.00	29.68	21.10	23.30
Low	21.20	18.55	13.75	13.01

COGNEX CORPORATION: COMPANY INFORMATION

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

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Chief Technology Officer, MVSD

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 27, 2004, there were approximately 600 holders of record of the Company's common stock. The Company believes the number of beneficial owners of the Company's common stock on that date was substantially greater.

The Company declared and paid a cash dividend of $0.06 per share in the third and fourth quarters of 2003 and the first quarter of 2004. Any future declaration and payment of cash dividends will be subject to the discretion of the Board of Directors and will depend upon the Company's results of operations, financial condition, cash requirements, future prospects, changes to tax legislation, and other factors deemed relevant by the Company's Board of Directors.

This annual report, including the letter to stockholders, contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Please see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements" in this report for a discussion regarding risks associated with these statements.

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EXHIBIT 14

COGNEX CORPORATION

CODE OF BUSINESS CONDUCT AND ETHICS

INTRODUCTION

PURPOSE AND SCOPE

The Board of Directors of Cognex Corporation (together with its subsidiaries, branches and affiliates, "Cognex") has adopted this Code of Business Conduct and Ethics to aid Cognex's directors, officers and employees in making ethical and legal decisions when conducting Cognex's business and performing their day-to-day duties.

Cognex's Board of Directors or a committee of the Board is responsible for administering the Code. The Board of Directors has delegated day-to-day responsibility for administering and interpreting the Code to a Compliance Officer. The highest ranking employee in the Cognex Human Resources Department (currently, the Vice President, Corporate Employee Services) has been appointed Cognex's Compliance Officer under this Code.

Cognex expects its directors, officers and employees to exercise reasonable judgment when conducting Cognex's business. Cognex encourages its directors, officers and employees to refer to this Code frequently to ensure that they are acting within both the letter and the spirit of this Code. Cognex also understands that this Code will not specifically address every situation you may encounter or every concern you may have about conducting Cognex's business ethically and legally. In these situations, or if you otherwise have questions or concerns about this Code, Cognex encourages each director, officer and employee to speak with his or her supervisor (if applicable) or, if you are uncomfortable doing that, with our Compliance Officer.

CONTENTS OF THIS CODE

This Code has two sections which follow this Introduction. The first section, "Standards of Conduct," contains the actual guidelines that our directors, officers and employees are expected to adhere to in the conduct of Cognex's business. The second section, "Compliance Procedures," contains specific information about how this Code functions, including who administers the Code, who can provide guidance under the Code and how violations may be reported, investigated and enforced. This section also contains a discussion about waivers of and amendments to this Code.

A NOTE ABOUT OTHER OBLIGATIONS

Cognex's directors, officers and employees generally have other legal and contractual obligations to Cognex, including without limitation Cognex's Invention, Non-Disclosure and Non-Competition Agreement and/or other employee agreements that may be applicable. This Code is not intended to reduce or limit the other obligations that you may have to Cognex. Instead, the standards in this Code should be viewed as the minimum standards that Cognex expects from its directors, officers and employees in the conduct of Cognex's business.

STANDARDS OF CONDUCT

CONFLICTS OF INTEREST

Cognex recognizes and respects the right of its directors, officers and employees to engage in outside activities which they may deem proper and desirable, provided that these activities do not impair or interfere with the performance of their duties to the Company or their ability to act in Cognex's best interests. In most, if not all cases, this will mean that our directors, officers and employees must avoid situations that present a potential or actual conflict between their personal interests and Cognex's interests.

A "conflict of interest" occurs when a director's, officer's or employee's personal interest interferes with Cognex's interests. Conflicts of interest may arise in many situations. Each individual's situation is different and, in evaluating his or her own situation, a director, officer or employee will have to consider many factors. By way of example, to avoid even the appearance of impropriety:

- No director, officer or employee may take an action or have an outside interest, responsibility or obligation that would have a high likelihood of affecting his/her ability to perform the responsibilities of his or her position objectively and/or effectively in Cognex's best interests.

- Employees may only accept personal favors, loans, meals, entertainment, transportation or services worth a nominal value from Cognex's customers, contractors, suppliers, vendors or anyone else doing business with Cognex. Such payments likely to improperly influence decisions to the non-Cognex party's benefit are considered improper, whether or not that purpose was intended. Similarly, under no circumstances are personal, intimate, romantic or sexual relationships between any Cognex employee and any Cognex customer, contractor, supplier, vendor or anyone else doing business with Cognex (whether actual or potential) allowed to influence a decision pertaining to that outside party. If there is any reason to believe a gift, entertainment, or other item of value offered to, or received from, a customer, purchasing agent, supplier, provider of services, or other person, creates the appearance of impropriety, the employee considering making/receiving the gift or providing the entertainment or other item, should discuss the proposal/item with his/her manager or the highest ranking employee in the Human Resources Department.

- Employees are not permitted to become employed by, or retained as a consultant by, or otherwise provide services to any customer, contractor, supplier, vendor or competitor of Cognex. Before accepting any consulting or freelance work, employees should discuss the work with Cognex's Human Resources Department to ensure that it does not conflict with Cognex's interests.

Any transaction or relationship that reasonably could be expected to give rise to a conflict of interest should be reported promptly to the Compliance Officer. The Compliance Officer may notify the Board of Directors or a committee thereof as he or she deems appropriate. Actual or potential conflicts of interest involving a director or executive officer should be disclosed directly to the Chairman of the Board of Directors.

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

Cognex seeks to conduct its business in compliance with both the letter and the spirit of applicable laws, rules and regulations. No director, officer or employee shall engage in any unlawful activity in conducting Cognex's business or in performing his or her day-to-day company duties, nor shall any director, officer or employee instruct others to do so.

PROTECTION AND PROPER USE OF COGNEX'S ASSETS

Loss, theft and misuse of Cognex's assets has a direct impact on Cognex's business and its profitability. Employees, officers and directors are expected to protect Cognex's assets that are entrusted to them and to protect Cognex's assets in general. Employees, officers and directors are also expected to take steps to ensure that Cognex's assets are used only for legitimate business purposes.

CORPORATE OPPORTUNITIES

Employees, officers and directors owe a duty to Cognex to advance its legitimate business interests when the opportunity to do so arises. Each employee, officer and director is prohibited from:

- diverting to himself or herself or to others any opportunities that are discovered through the use of Cognex's property or information or as a result of his or her position with Cognex,

- using Cognex's property or information or his or her position for improper personal gain, or

- competing with the Company.

CONFIDENTIALITY

Confidential Information (see below) generated and gathered in Cognex's business plays a vital role in Cognex's business, prospects and ability to compete. Directors, officers and employees shall use Confidential Information solely for legitimate company purposes. Directors, officers and employees may not disclose or distribute Cognex's Confidential Information, except when disclosure is authorized by Cognex or required by applicable law, rule or regulation or pursuant to an applicable legal proceeding. If any Cognex director, officer or employee believes he or she has a need, duty or obligation to divulge a Cognex trade secret or other confidential or proprietary information to a third party, that employee must first contact the Legal Department to discuss the matter, which may result in the need to execute a non-disclosure agreement with said third party. Directors, officers and employees must return all of Cognex's Confidential Information in their possession to Cognex when they cease to be employed by or to otherwise serve Cognex.

"Confidential Information" includes all non-public information that might be of use to competitors or harmful to the Company or its customers if disclosed. Examples of Cognex trade secrets include, but are not limited to:
software algorithms, software source code, designs of Cognex boards and chips, vision technology, "how" Cognex vision software tools work, new product developments, customer identification and lists, customer contract prices, sales data, business strategies, marketing plans and studies, cost reports and bookkeeping methods.

Further, Cognex considers the components of each employee's compensation package as Confidential Information. Any employee found to be discussing, with anyone other than his/her manager or Human Resources Representative, his or her salary, stock option agreements, performance bonuses, commission plans, and/or profit-sharing contributions - or that of any other employee other than for an official company purpose - may be subject to disciplinary action, up to and including termination of employment.

Employees should also refer to their Employee Invention, Non-Disclosure and Non-Competition Agreement regarding the protection of Cognex's Confidential Information.

FAIR DEALING

Competing vigorously, yet lawfully, with competitors and establishing advantageous, but fair, business relationships with customers and suppliers is a part of the foundation for long-term success. However, unlawful and unethical conduct, which may lead to short-term gains, may damage a company's reputation and long-term business prospects. Accordingly, it is Cognex's policy that directors, officers and employees must endeavor to deal ethically and lawfully with Cognex's customers, suppliers, competitors and employees in all business dealings on Cognex's behalf. No director, officer or employee should take unfair advantage of another person in business dealings on Cognex's behalf through the abuse of privileged or confidential information or through improper manipulation, concealment or misrepresentation of material facts.

ACCURACY OF RECORDS

The integrity, reliability and accuracy in all material respects of Cognex's books, records and financial statements is fundamental to Cognex's continued and future business success. No director, officer or employee may cause Cognex to enter into a transaction with the intent to document or record it in a deceptive or unlawful manner. In addition, no director, officer or employee may create any false or artificial documentation or book entry for any transaction entered into by Cognex. Similarly, officers and employees who have responsibility for accounting and financial reporting matters have a responsibility to accurately record all funds, assets and transactions on Cognex's books and records.

QUALITY OF PUBLIC DISCLOSURES

Cognex is committed to providing its shareholders with complete and accurate information about its financial condition and results of operations in accordance with the securities laws of the United States. It is

Cognex's policy that the reports and documents it files with or submits to the Securities and Exchange Commission, and its earnings releases and similar public communications made by Cognex, include fair, timely and understandable disclosures. Officers and employees who are responsible for these filings and disclosures, including Cognex's principal executive, financial and accounting officers, must use reasonable judgment and perform their responsibilities honestly, ethically and objectively in order to ensure that this disclosure policy is fulfilled.

COMPLIANCE PROCEDURES

COMMUNICATION OF CODE

All directors and employees will be supplied with a copy of the Code upon beginning service at Cognex. Updates of the Code will be provided from time to time. A copy of the Code is also available to all directors and employees by requesting one from the Human Resources Department, and may be accessed by all employees and the general public by accessing the company's website at www.cognex.com.

MONITORING COMPLIANCE AND DISCIPLINARY ACTION

Cognex's management, under the supervision of its Board of Directors or a committee thereof or, in the case of accounting, internal accounting controls or auditing matters, the Audit Committee, shall take reasonable steps from time to time to (i) monitor compliance with the Code, and (ii) when appropriate, impose and enforce appropriate disciplinary measures for violations of the Code.

Disciplinary measures for violations of the Code may include, but are not limited to, counseling, oral or written reprimands, warnings, probation or suspension with or without pay, demotions, reductions in salary, termination of employment or service and restitution.

Cognex's management shall periodically report to the Board of Directors or a committee thereof on these compliance efforts including, without limitation, periodic reporting of alleged violations of the Code and the actions taken with respect to any such violation.

REPORTING CONCERNS/RECEIVING ADVICE

COMMUNICATION CHANNELS

Be Proactive. Every employee is required to act proactively by asking questions, seeking guidance and reporting suspected violations of the Code and other policies and procedures of Cognex, as well as any violation or suspected violation of applicable law, rule or regulation arising in the conduct of Cognex's business or occurring on Cognex's property. IF ANY EMPLOYEE BELIEVES THAT ACTIONS HAVE TAKEN PLACE, MAY BE TAKING PLACE, OR MAY BE ABOUT TO TAKE PLACE THAT VIOLATE OR WOULD VIOLATE THE CODE, HE OR SHE IS OBLIGATED TO BRING THE MATTER TO COGNEX'S ATTENTION.

Seeking Guidance. The best starting point for an employee seeking advice on ethics-related issues or reporting potential violations of the Code will usually be his or her manager. However, if the conduct in question involves his or her manager, if the employee has reported the conduct in question to his or her manager and does not believe that he or she has dealt with it properly, or if the employee does not feel that he or she can discuss the matter with his or her manager, the employee may raise the matter with the Compliance Officer.

Communication Alternatives. Any employee may communicate with the Compliance Officer by any of the following methods:

a) In writing (which may be done anonymously as set forth below under "Reporting; Anonymity; Retaliation"), addressed to the Compliance Officer, by U.S. mail to P.O. Box 2232, Natick, MA 01760;

b) By e-mail to feedback@cognex.com;

c) Through Cognex's intranet site; or

d) By leaving a voice mail message at (508) 652-3777. This voice mailbox will only be accessible by the Compliance Officer and the Chair of the Audit Committee.

Please note that anonymity may not be completely maintained through options b, c and d.

Reporting Accounting and Similar Concerns. Any concerns or questions regarding potential violations of the Code, any other company policy or procedure or applicable law, rules or regulations involving accounting, internal accounting controls or auditing matters should be directed to the Audit Committee or the Compliance Officer. Such communication may be made by any of the methods listed above, or by writing directly to the Chair of Audit Committee.

Misuse of Reporting Channels. Employees should only use these reporting channels for complaints that he/she reasonably believes, in good faith, may be valid. Any use by an employee of these reporting channels in bad faith or in a false or frivolous manner, will be considered a material breach of his/her employment and such employee would be subject to disciplinary action, including termination.

REPORTING; ANONYMITY; RETALIATION

When reporting suspected violations of the Code, Cognex prefers that employees identify themselves in order to facilitate Cognex's ability to take appropriate steps to address the report, including conducting any appropriate investigation. However, Cognex also recognizes that some people may feel more comfortable reporting a suspected violation anonymously.

If an employee wishes to remain anonymous, he or she may do so, and Cognex will use reasonable efforts to protect the confidentiality of the reporting person subject to applicable law, rule or regulation or to any applicable legal proceedings. In the event the report is made anonymously, however, Cognex may not have sufficient information to look into or otherwise investigate or evaluate the allegations. Accordingly, persons who make reports anonymously should provide as much detail as is reasonably necessary to permit Cognex to evaluate the matter(s) set forth in the anonymous report and, if appropriate, commence and conduct an appropriate investigation.

NO RETALIATION

Cognex expressly forbids any retaliation against any employee who, acting in good faith, reports suspected misconduct. Any person who participates in any such retaliation is subject to disciplinary action, including termination.

WAIVERS AND AMENDMENTS

No waiver of any provisions of the Code for the benefit of a director or an executive officer (which includes without limitation, for purposes of this Code, Cognex's principal executive, financial and accounting officers) shall be effective unless (i) approved by the Board of Directors or, if permitted, a committee thereof, and (ii) if applicable, such waiver is promptly disclosed to Cognex's shareholders in accordance with applicable United States securities laws and/or the rules and regulations of the exchange or system on which the Company's shares are traded or quoted, as the case may be.

Any waivers of the Code for other employees may be made by the Compliance Officer, the Board of Directors or, if permitted, a committee thereof.

All amendments to the Code must be approved by the Board of Directors or a committee thereof and, if applicable, must be promptly disclosed to Cognex's shareholders in accordance with applicable United States securities laws and/or the rules and regulations of the exchange or system on which the Company's shares are traded or quoted, as the case may be.

EXHIBIT 21

COGNEX CORPORATION
SUBSIDIARIES OF THE REGISTRANT

At December 31, 2003, the registrant had the following subsidiaries, the financial statements of which are all included in the consolidated financial statements of the registrant:

NAME OF SUBSIDIARY	STATE/COUNTRY OF INCORPORATION	PERCENT OWNERSHIP
Cognex Technology and Investment Corporation	California	100%
Cognex Canada Technology, Inc.	California	100%
Cognex Foreign Sales Corporation	Barbados	100%
Vision Drive, Inc.	Delaware	100%
Cognex Canada, Inc.	Delaware	100%
Cognex K.K.	Japan	100%
Cognex International, Inc.	Delaware	100%
Cognex Europe, Inc.	Delaware	100%
Cognex Europe, b.v.	Netherlands	100%
Cognex Germany, Inc.	Massachusetts	100%
Cognex, Ltd.	Ireland	100%
Cognex UK Ltd.	United Kingdom	100%
Cognex Finland Oy	Finland	100%
Cognex Singapore, Inc.	Delaware	100%
Cognex Korea, Inc.	Delaware	100%
Cognex Taiwan, Inc.	Delaware	100%
Cognex Asia, Inc. (formerly Cognex China, Inc.)	Delaware	100%

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Cognex Corporation of our report dated January 23, 2004, included in the 2003 Annual Report to Stockholders of Cognex Corporation.

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-81150, 333-04621, 333-02151, 333-60807, 33-32815, 333-44824, 333-68158, 333-96961, and 333-100709) of Cognex Corporation of our report dated January 23, 2004, with respect to the consolidated financial statements of Cognex Corporation incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2003 and our report dated January 23, 2004 with respect to the financial statement schedule of Cognex Corporation for the year ended December 31, 2003 included in this Annual Report (Form 10-K).

/s/ Ernst & Young LLP

Boston, Massachusetts
March 12, 2004

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-81150, 333-04621, 333-02151, 333-60807, 33-32815, 333-44824, 333-68158, 333-96961, and 333-100709) of Cognex Corporation of our report dated January 24, 2003 relating to the financial statements, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 24, 2003 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
March 12, 2004

EXHIBIT 31.1

CERTIFICATION

I, Robert J. Shillman, President, Chief Executive Officer, and Chairman of the Board of Directors of Cognex Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cognex Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

/s/ Robert J. Shillman

Robert J. Shillman
President, Chief Executive Officer,
and Chairman of the Board of Directors

EXHIBIT 31.2

CERTIFICATION

I, Richard A. Morin, Senior Vice President of Finance, Chief Financial Officer, and Treasurer of Cognex Corporation, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cognex Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

/s/ Richard A. Morin

Richard A. Morin
Senior Vice President of Finance,
Chief Financial Officer, and Treasurer

EXHIBIT 32.1*

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Cognex Corporation (the "Company") hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 12, 2004

/s/ Robert J. Shillman

Robert J. Shillman
President, Chief Executive Officer and
Chairman of the Board of Directors
(principal executive officer)

*This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

EXHIBIT 32.2*

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Cognex Corporation (the "Company") hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 12, 2004

/s/ Richard A. Morin

Richard A. Morin
Senior Vice President of Finance,
Chief Financial Officer, and Treasurer
(principal financial officer)

*This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.