
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, 2002

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
*(State or other jurisdiction of
incorporation or organization)*

04-2713778
*(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 28, 2002: \$790,039,000

\$.002 par value common stock outstanding as of February 23, 2003: 46,921,916 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, 2002. 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, 2002 are incorporated by reference in Part I, Part II, and Part III of this report.

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**COGNEX CORPORATION ANNUAL REPORT ON
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2002**

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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 that are used to automate a wide range of manufacturing processes. These systems consist of sophisticated image analysis software and high-speed, special-purpose computers (vision engines) which, when connected to a video camera, interpret video images and generate information about them.

Machine vision systems are used in a variety of industries including the semiconductor, electronics, automotive, packaging, medical, consumer products, paper, and metals industries. Machine vision is important for applications in which human vision is inadequate to meet requirements for repeatability, 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 control the manufacturing of discrete items, such as semiconductor chips, cellular phones, and medical instruments, 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 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 79% of total revenue in 2002.

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, a new technology known as "machine vision" 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

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machine vision computer. The computer then uses sophisticated image analysis software to extract information from the image and generate decisions about the image, such as:

Question	Description	Example
<i>GUIDANCE</i> 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.
<i>IDENTIFICATION</i> 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.
<i>INSPECTION</i> How good is it?	Inspecting an object for flaws or defects.	Inspecting the paper that US currency is printed on.
<i>GAUGING</i> 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 is then communicated to other equipment on the factory floor, such as an industrial controller, a robotic arm, a deflector that removes the part from the line, a positioning table that moves the part, or alternatively, to a computer file for analysis or subsequent process control. 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. Machine vision systems can perform tasks quickly enough to keep pace with machines that process thousands of parts or material feet per minute, thus increasing both quality and productivity.

The Machine Vision Market

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

End users are companies that manufacture products, such as spark plugs, cellular telephones, surgical staples, metals, and paper. While they may purchase capital equipment containing machine vision or hire a system integrator to build an inspection system, many end users choose to purchase machine vision systems and install them directly on their production lines to inspect products and control the manufacturing process. Unlike OEMs and system integrators, these customers typically have limited computer programming or machine vision experience.

The Company includes system integrators in its definition of end users. 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. Because system integrators encounter a broad range of automation problems, they purchase a variety of Cognex products, from general-purpose systems to application-specific systems tailored to solve particular manufacturing tasks.

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 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. Historically, OEMs have been the source of the majority of the Company's revenue. However, the Company believes that end users have the potential in the long term to generate more revenue than OEMs. Consequently, the Company has invested in developing and acquiring products that meet the needs of end users and in developing a strong worldwide direct sales and support infrastructure. The Company will continue to invest in both customer types, defending its strong position in the OEM market while expanding in the end-user market. In 2002, approximately 67% of the Company's revenue came from end-user customers.

The Company has historically pursued a global business strategy, investing in building a strong direct presence in North America, Japan, Europe, and Southeast Asia. In all of these regions, the Company is acknowledged to be a leading machine vision supplier. The Company intends to continue to invest in the expansion of direct sales and support in these regions. In 2002, approximately 60% 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 seven business 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. In particular, the Company will look for opportunities to acquire technologies that complement its product line or provide the Company with an enhanced market presence around the world.

Products

In-Sight Vision Sensors

The Company is now 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 designed for a number of general purpose vision tasks. 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 or a PC to deploy.

In early 2002, the Company added three new models to the In-Sight family of vision sensors, bringing the total number of In-Sight products to nine. The In-Sight 4000 Series consists of three models, the In-Sight 4000 high performance vision sensor providing 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.

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The In-Sight 1000 Series are general-purpose vision sensors with built-in ethernet networking capability for remotely managing, monitoring, and controlling vision activity. 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 designed for part location, identification, measurement, and assembly verification tasks. Both products feature a rugged 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.

PC-based Vision Systems

The Company's PC-based vision systems combine the power and flexibility of advanced programming with the simplicity of a graphical programming environment. These systems offer high-speed image acquisition, processing, and system flexibility featuring PatMax®, high-accuracy object location software that can locate objects that vary in size and orientation or whose appearance is degraded.

MVS-8000 Product Family

The MVS-8000™ product 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.

Cognex also designs, develops, manufactures, and markets the CDC-100™, a small, high-resolution digital Complementary Metal-Oxide Semiconductor (CMOS) camera designed specifically for machine vision applications, and the CDC-50 standard format digital camera. Both 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 customers.

The MVS-8000 product family is sold 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 machine vision systems are also sold to system integrators located in North America, Japan, Europe, and Southeast Asia who integrate the vision systems into capital equipment for the factory floor in a broad range of industries.

VisionPro Product Family

In early 2002, the Company introduced VisionPro®, 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 series frame grabbers, provide a complete vision system to solve demanding applications.

In late 2002, the company expanded the functionality of the VisionPro systems with the addition of new high-performance software tools. The new tools include a suite of geometric measurement tools for gauging parts and a data analysis tool for quick and easy statistical analysis of vision tool results.

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

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Checkpoint Family

Checkpoint® is a family of PC-based vision systems for complex precision guidance, gauging, and defect inspection applications. Checkpoint features a graphical user interface and requires some knowledge of programming and machine vision to configure a vision application. Deployment of Checkpoint on the factory floor requires the services of trained system integrators to mechanically and electrically integrate Checkpoint into production lines.

Checkpoint is sold primarily to end users located in North America, Japan, Europe, and Southeast Asia in a wide range of industries.

Application-Specific Systems

In-Sight 1700™ is a compact vision sensor 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, introduced in July 2002, is an enhanced version of the In-Sight 1700 wafer reader, offering the most advanced optics technology ever available for reading identification scribes on wafers.

TIS-8000™ Tire Identification System and WIS-8000™ Wheel Identification System, introduced in September 2002, 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.

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.

CapInspect™ and LabelInspect™ are application-specific tools for In-Sight vision sensors that solve common packaging applications such as verifying that the cap is on a bottle, that the bottle is filled to the correct level, and that the label is in the correct place.

In-Sight 1010™ is a compact, standalone, ethernet-ready vision sensor designed specifically for reading 2D matrix and linear bar codes on parts.

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.

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

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. 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 2002, the Company expanded the data access capabilities of the SmartView system. Expanded open data access ensures real-time inspection control and data access between the SmartView system and business, production, and quality systems in the mill. Further, it provides flexible, remote access to inspection data from mill information systems and other third-party production data management applications. By leveraging these

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enhanced capabilities, the SmartView system gives users greater control of their processes by providing increased access to the data they need, when and where they need it.

SmartView is sold primarily to end users located in North America, Japan, Europe, and Southeast Asia in the paper, metals, plastics, and nonwovens industries.

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 ongoing efforts in R, D & E to be a key component of its strategy.

At December 31, 2002, the Company employed 156 professionals in R, D & E, most of whom are software developers. The Company's R, D & E expenses totaled \$25,630,000, \$30,094,000, and \$33,341,000, or 22%, 21%, and 13% of revenue, in 2002, 2001, and 2000, 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 products provided by the contract manufacturers are manufactured using 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.

During 2001, the Company began to transition the contract manufacturing for the majority of its MVSD products from a vendor located in Massachusetts to a vendor located in Europe. This transition was completed in 2002.

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 markets its MVSD and SISD products primarily through a direct sales force in North America, Japan, Europe, and Southeast Asia. At December 31, 2002, the Company's direct sales force consisted of 182 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. They focus on potential customers that represent possible volume purchases and long-term relationships.

Sales to customers based outside of the United States represented approximately 60% of revenue in 2002, compared to 63% of revenue in 2001 and 69% in 2000. One customer based in Japan, Fuji America Corporation, accounted for approximately 10% of revenue in 2000. No customer accounted for greater than 10% of revenue in 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 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

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the Consolidated Financial Statements, appearing on pages 41 and 42 of the Annual Report to Stockholders for the year ended December 31, 2002, which is Exhibit 13 hereto, and is incorporated herein by reference.

The Company's MVSD service offerings include vision solutions consulting services, technical support, educational services, and product services. The Company's vision solutions consulting group provides services that range from a specific area of functionality to a completely integrated machine vision application. The technical support group consists of a team of vision experts ready to respond to questions that may arise while customers are deploying a Cognex machine vision system. The educational services group offers 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 product services group offers a variety of software and hardware maintenance programs that provide updates on the latest software releases and new software vision tools.

The Company's SISD service offerings include installation services and technical support. 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. The technical support group provides post-installation system, application, and service parts support.

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, 2002, 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®, Checkpoint®, DisplayInspect®, and SmartView®, as well as many common-law marks, including but not limited to, In-Sight™, MVS-8000™, and CDC-100™. 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. Furthermore, the Partnership has stated that it is not the Company's products that infringe the Partnership's patents, but rather the use of those products by certain of the Company's customers.

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In July 1998, the Partnership filed a lawsuit against 26 semiconductor device manufacturers asserting infringement upon numerous Lemelson patents including certain machine vision patents. Several of the defendants are users of the Company's products that were purchased primarily from the Company's OEM customers whose equipment 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. The complaint was served on the Partnership on October 14, 1998. 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 trial against the Partnership began on November 18, 2002 in Las Vegas, Nevada, and ended on January 17, 2003. Post-trial activities are scheduled to conclude by May 16, 2003, with a decision expected before the end of 2003.

The Company cannot predict the outcome of the litigation with the Partnership or any similar litigation that may arise in the future, or the effect of such litigation on the financial results of the Company.

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, flexibility, programmability, and the availability of application support from the vendor. More recently, ease-of-use has become a competitive factor and product price has become a more significant factor with respect to simpler guidance and gauging applications. The Company competes with 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, 2002, the Company's backlog totaled \$25,992,000, compared to \$15,984,000 at December 31, 2001. 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, 2002, the Company employed 622 persons, including 285 in sales, marketing, and service activities; 156 in research, development, and engineering; 70 in manufacturing and quality assurance; and 111 in information technology, finance, and administration. Of the Company's 622 employees, 213 are

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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

Economic Conditions

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. The Company's recent operating results have been materially adversely affected as a result of unfavorable economic conditions and reduced capital equipment spending, primarily in the semiconductor and electronics industries, but also in other general manufacturing industries. If economic conditions do not improve or if they deteriorate further, the Company's operating results could continue to be materially adversely affected.

Industry Concentration

In 2002, approximately 44% 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. For the foreseeable future, the Company's operating results will continue to be dependent upon the capital expenditures in these industries, which, in turn, are largely dependent upon the market demand for products containing integrated circuits. While the Company's long-term strategy is designed to diversify beyond the semiconductor and electronics industries, the Company's operating results in the foreseeable future could be significantly and adversely affected by a continued slowdown in either of these industries.

International Operations

In 2002, approximately 60% 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 exchange rate 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.

Dependence Upon Principal Customers

In 2002, the Company's top five customers accounted for 10% of total revenue, compared to 15% in 2001 and 29% in 2000. 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. Nevertheless, the loss of, or significant curtailment of purchases by, any one or more of these customers could have a material adverse effect on the Company's operating results.

Dependence Upon Key Suppliers

At present, the majority of the Company's proprietary MVSD vision hardware is manufactured by third-party contractors. The Company's reliance on outside contractors involves several risks including limited control by the Company over quality and delivery schedules. The failure by one or more of these contract

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manufacturers to deliver quality product in a timely manner could significantly and adversely affect the Company's operating results. 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.

Product Quality

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.

Dependence Upon 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.

Forecast Accuracy

In recent years, the Company has expanded its presence in the end-user marketplace, which accounted for approximately 67% of the Company's revenue in 2002, compared to 56% in 2001 and 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 our 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.

Technological Change

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.

Intellectual Property

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

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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 Item I of this Annual Report on Form 10-K.

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.

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. 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, 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 Item 1 of this Annual Report on Form 10-K.

Acquisitions

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 seven business 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.

Stock Price Volatility

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, at which point the Company may take occupancy of the building. 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 Item 1 of this Annual Report on Form 10-K, which are material to the Company, to which it is a party, or to which any of its property is subject. From time to time, however, the Company may be subject to various claims and lawsuits by 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, 2002 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, 2002:

Name	Age	Title
Robert J. Shillman	56	President, Chief Executive Officer, and Chairman of the Board of Directors
Patrick Alias	57	Executive Vice President and Director
James Hoffmaster	51	Chief Operating Officer and President, MVSD

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

Mr. 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-

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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.

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

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

Name	Age	Title
Eric Ceyrolle	49	President, Cognex International
Markku Jaaskelainen	48	Senior Vice President and General Manager, SISD
Marilyn Matz	49	Senior Vice President of Engineering, MVSD
E. John McGarry	46	Senior Vice President and General Manager, Portland Operations
Richard Morin	53	Senior Vice President of Finance and Administration, Chief Financial Officer, and Treasurer
Akira Nakamura	58	President, Cognex K.K.
Kris Nelson	55	Senior Vice President of Sales, North America
William Silver	49	Senior Vice President of R&D and Chief Technology Officer, MVSD
Justin Testa	50	Senior Vice President of Marketing, MVSD

Messrs. Ceyrolle, 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. 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.

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 46 and 47 of the Annual Report to Stockholders for the year ended December 31, 2002, which is Exhibit 13 hereto, and is incorporated herein by reference.

The following table provides information as of December 31, 2002 regarding shares of common stock that may be issued under the Company's existing equity compensation plans, including the 1998 Director Plan, the

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1998 Stock Incentive Plan, the 2001 General Stock Option Plan, and the 2001 Interim General Stock Incentive Plan.

Plan Category	Equity Compensation Plan Information		Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	
	(a)	(b)	(c)
Equity compensation plans approved by shareholders	10,381,000	\$ 22.40	889,699
Equity compensation plans not approved by shareholders	0	N/A	7,900,000
	<u>10,381,000</u>	<u>\$ 22.40</u>	<u>8,789,699</u>

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. No 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 45 of the Annual Report to Stockholders for the year ended December 31, 2002, 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 13 through 22 of the Annual Report to Stockholders for the year ended December 31, 2002, 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 21 and 22 of the Annual Report to Stockholders for the year ended December 31, 2002, 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, report of independent accountants, and supplementary data, may be found on pages 23 through 46 of the Annual Report to Stockholders for the year ended December 31, 2002, which is Exhibit 13 hereto, and is incorporated herein by reference.

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

There were no changes in or disagreements with accountants on accounting or financial disclosure during 2002 or 2001.

PART III

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

Information with respect to Directors of the Company may be found in the section captioned "Election of Directors," appearing in the definitive Proxy Statement for the Special Meeting in Lieu of the 2003 Annual Meeting of Stockholders to be held on April 24, 2003. Such information is incorporated herein by reference. Information with respect to Executive Officers of the Company may be found in the section captioned "Executive Officers and Other Members of the Management Team of the Registrant," appearing in Part I of this Annual Report on Form 10-K.

Item 11: *Executive Compensation*

Information with respect to this item may be found in the sections captioned "Board of Directors Meetings," "Compensation/ Stock Option Committee Report on Executive Compensation," "Comparison of Five Year Cumulative Total Returns Performance Graph for Cognex Corporation," and "Executive Compensation," appearing in the definitive Proxy Statement for the Special Meeting in Lieu of the 2003 Annual Meeting of Stockholders to be held on April 24, 2003. Such information is incorporated herein by reference.

Item 12: *Security Ownership and Certain Beneficial Owners and Management*

Information with respect to this item may be found in the sections captioned "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Directors and Officers," appearing in the definitive Proxy Statement for the Special Meeting in Lieu of the 2003 Annual Meeting of Stockholders to be held on April 24, 2003. Such information 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 this item may be found in the section captioned "Certain Relationships and Related Transactions," appearing in the definitive Proxy Statement for the Special Meeting in Lieu of the 2003 Annual Meeting of Stockholders to be held on April 24, 2003. Such information is incorporated herein by reference.

Item 14: *Controls and Procedures*

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, within the 90-day period prior to the filing of this report and under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company has evaluated 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. There were no significant changes in the

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Company's internal controls for financial reporting or in other factors that could significantly affect such internal controls subsequent to the date of such evaluation. From time to time, the Company reviews the disclosure controls and procedures, including its internal accounting controls, 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.

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 report of independent accountants relating thereto are included in the Company's Annual Report to Stockholders for the year ended December 31, 2002, which is Exhibit 13 hereto, and are incorporated herein by reference:

Consolidated Statements of Operations for the years ended December 31, 2002, 2001, and 2000

Consolidated Balance Sheets at December 31, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001, and 2000

Notes to Consolidated Financial Statements

Report of Independent Accountants

(2) Financial Statement Schedule

Included at the end of this report are the following:

Report of Independent Accountants on the Financial Statement Schedule

Schedule II — Valuation and Qualifying Accounts

Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto.

(3) Exhibits

The Exhibits filed as part of this Annual Report on Form 10-K are listed in the Exhibit Index appearing on page 25, immediately preceding such Exhibits.

(b) Reports on Form 8-K

There were no Reports on Form 8-K filed during the fourth quarter of the year ended December 31, 2002.

SIGNATURES

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

COGNEX CORPORATION

/s/ ROBERT J. SHILLMAN

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

March 26, 2003

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <p>/s/ ROBERT J. SHILLMAN</p> <hr/> <p>Robert J. Shillman</p>	President, Chief Executive Officer, and Chairman of the Board of Directors (principal executive officer)	March 26, 2003
<hr/> <p>/s/ RICHARD MORIN</p> <hr/> <p>Richard Morin</p>	Senior Vice President of Finance, Chief Financial Officer, and Treasurer (principal financial and accounting officer)	March 26, 2003
<hr/> <p>/s/ PATRICK ALIAS</p> <hr/> <p>Patrick Alias</p>	Executive Vice President and Director	March 26, 2003
<hr/> <p>/s/ JERALD FISHMAN</p> <hr/> <p>Jerald Fishman</p>	Director	March 26, 2003
<hr/> <p>/s/ WILLIAM KRIVSKY</p> <hr/> <p>William Krivsky</p>	Director	March 26, 2003
<hr/> <p>/s/ ANTHONY SUN</p> <hr/> <p>Anthony Sun</p>	Director	March 26, 2003
<hr/> <p>/s/ REUBEN WASSERMAN</p> <hr/> <p>Reuben Wasserman</p>	Director	March 26, 2003

CERTIFICATION

I, Robert J. Shillman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cognex Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures 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 annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ ROBERT J. SHILLMAN

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

Date: March 26, 2003

CERTIFICATION

I, Richard A. Morin, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cognex Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures 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 annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ RICHARD A. MORIN

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

Date: March 26, 2003

CERTIFICATION

Pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, the undersigned hereby certifies that this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

COGNEX CORPORATION

/s/ ROBERT J. SHILLMAN

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

March 26, 2003

CERTIFICATION

Pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, the undersigned hereby certifies that this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

COGNEX CORPORATION

/s/ RICHARD A. MORIN

Richard A. Morin
*(Senior Vice President Of Finance,
Chief Financial Officer, and Treasurer)*
(duly authorized officer, principal financial and accounting officer)

March 26, 2003

COGNEX CORPORATION

REPORT OF INDEPENDENT ACCOUNTANTS 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 2002 Annual Report to Stockholders of Cognex Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 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		Deductions	Other	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts			
(Dollars in thousands)						
Allowance for Doubtful Accounts:						
2002	\$ 2,080	\$ 340	—	\$ (213)(b)	—	\$ 2,207
2001	2,150	190	—	(260)(b)	—	2,080
2000	2,836	275	—	(624)(b)	\$ (337)(d)	2,150
Reserve for Inventory						
Obsolescence:						
2002	\$ 19,563	\$ 1,695	\$ 1,506(a)	\$ (496)(c)	\$(1,790)(e)	\$ 20,478
2001	3,709	16,289	—	(435)(c)	—	19,563
2000	3,955	785	—	(1,031)(c)	—	3,709

- (a) Settlement of inventory purchase commitments
- (b) Specific write-offs
- (c) Specific dispositions
- (d) Collection of accounts previously reserved
- (e) 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 *
3B	By-laws of the Company, as amended March 16, 1998 *
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])
10A	Cognex Corporation 1992 Stock Option Plan for Non-Employee Directors and Clerk (incorporated by reference to Exhibit 4A to the Registration Statement on Form S-8 [Registration No. 33-72636])
10B	Cognex Corporation 1993 Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 4A to the Registration Statement on Form S-8 [Registration No. 33-81150])
10C	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])
10D	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])
10E	Amendment to the Cognex Corporation 1993 Stock Option Plan for Non-Employee Directors *
10F	Amendment to the Cognex Corporation 1993 Stock Option Plan *
10G	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])
10H	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])
10I	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])
10J	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])
10K	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])
10L	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])
10M	Transition Loan Agreement between James F. Hoffmaster and Cognex Corporation, dated May 24, 2001 *
10N	Termination Agreement between James F. Hoffmaster and Cognex Corporation dated June 4, 2001 *
13	Annual Report to Stockholders for the year ended December 31, 2002 (which is not deemed to be “filed” except to the extent that portions thereof are expressly incorporated by reference in this Annual Report on Form 10-K) *
21	Subsidiaries of the registrant *
23	Consent of PricewaterhouseCoopers LLP *

* Filed herewith

The Commonwealth of Massachusetts

FEDERAL IDENTIFICATION

Examiner

MICHAEL JOSEPH CONNOLLY
Secretary of State
ONE ASHBURTON PLACE, BOSTON, MASS: 02108 No. 04-2713778

RESTATED ARTICLES OF ORGANIZATION

GENERAL LAWS, CHAPTER 156B, SECTION 74

This certificate must be submitted to the Secretary of the Commonwealth within sixty days after the date of the vote of stockholders adopting the restated articles of organization. The fee for filing this certificate is prescribed by General Laws, Chapter 156B, Section 114. Make check payable to the Commonwealth of Massachusetts.

We, Robert J. Shillman, President/, and
Anthony J. Medaglia, Jr., Clerk/ of

COGNEX CORPORATION

(Name of Corporation)

located at 15 Crawford Street, Needham, Massachusetts 02194

do hereby certify that the following restatement of the articles of organization of the corporation was duly adopted at a meeting held on June 27, 1989, by vote of

3,699,107	shares of	Class A Common	out of	4,785,114	shares outstanding,
-----		-----		-----	
		(Class of Stock)			
21,802	shares of	Series A Preferred	out of	21,802	shares outstanding, and
-----		-----		-----	
		(Class of Stock)			
10,000	shares of	Series B Preferred	out of	10,000	shares outstanding,*
-----		-----		-----	
		(Class of Stock)			

being at least two-thirds of each class of stock outstanding and entitled to vote and of each class or series of stock adversely affected thereby:

- 1. The name by which the corporation shall be known is:

COGNEX CORPORATION

- 2. The purposes for which the corporation is formed are as follows:

C | | See Page A-1 attached hereto.

P | |

M | |

RA | | *and 78,504 shares of Series C Preferred out of 78,504 shares outstanding, and 466,668 shares of Series D Preferred out of 500,002 shares outstanding,

P.C.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on separate 8 1/2 x 11 sheets of paper leaving a left hand margin of at least 1 inch for binding. Additions to more than one article may be continued on a single sheet so long as each article requiring each such addition is clearly indicated.

3. The total number of shares and the par value, if any, of each class of stock which the corporation is authorized to issue is as follows:

CLASS OF STOCK -----	WITHOUT PAR VALUE -----		WITH PAR VALUE -----	
	NUMBER OF SHARES -----		NUMBER OF SHARES -----	PAR VALUE -----
Preferred	-		400,000	\$.01
Common	-		10,000,000	\$.002

*4. If more than one class is authorized, a description of each of the different classes of stock with, if any, the preferences, voting powers, qualifications, special or relative rights or privileges as to each class thereof and any series now established:

See Pages B-1 thru B-5 attached hereto.

*5. The restrictions, if any, imposed by the articles of organization upon the transfer of shares of stock of any class are as follows:

None.

*6. Other lawful provisions, if any, for the conduct and regulation of the business and affairs of the corporation, for its voluntary dissolution, or for limiting, defining, or regulating the powers of the corporation, or of its directors or stockholders, or of any class of stockholders:

See Pages C-1 thru C-12 attached hereto.

* If there are no such provisions, state "None".

2. The purpose for which the corporation is formed is as follows: To manufacture, invent, design, develop and to engage in research and consulting work in connection with the production of products for data processors for offices and other markets; to invent, design, discover, or acquire formulae, processes, improvements, inventions, designs, patents, licenses, copyrights,

trademarks, trade names and trade secrets applicable to the foregoing and to hold, use, sell, license and otherwise deal in or dispose of the same; to acquire by purchase, deed, mortgage, lease or by any other method and to hold, maintain, operate, improve, develop, sell, exchange, lease, mortgage, pledge, hypothecate, loan money upon and otherwise deal in real and personal property of every kind, character and description and wheresoever situated, including without limitation the stock and securities of the corporation or of any other corporation; to lend money upon, credit or security to, to guarantee or assume obligations of, and to aid in any other manner other concerns wherever and however organized, any obligations of which or any interest in which shall be held by the corporation or in the affairs or prosperity of which the corporation has a lawful interest and to do all acts and things designed to protect, improve and enhance the value of such obligations and interests; and to carry on any business permitted and enjoy all rights and powers granted by the Commonwealth of Massachusetts to a corporation organized under Chapter 156B of the General Laws, as amended.

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4. DESCRIPTION OF CAPITAL STOCK

A. AUTHORIZED SHARES. The aggregate number of shares which this Corporation shall have authority to issue is: 10,000,000 shares of common stock having a par value of \$.002 per share (the "Common Stock") and 400,000 shares of preferred stock having a par value of \$.01 per share (the "Series Preferred Stock").

B. SERIES PREFERRED STOCK. Shares of Series Preferred Stock may be issued from time to time in one or more series as may from time to time be determined by the Board of Directors, each of said series to be distinctly designated. All shares of any one series of the Series Preferred Stock shall be alike in every particular, except that there may be different dates from which dividends, if any, thereon shall be cumulative, if made cumulative. The voting powers, if any, and the designations, preferences and relative, participating, optional or other special rights or privileges of each such series, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding; and, subject to the provisions of subparagraph 1 of Paragraph D hereof, there is hereby expressly vested in the Board of Directors of the Corporation the authority to issue one or more series of the Series Preferred Stock and to fix in the resolution or resolutions providing for the issue of such stock adopted by the Board of Directors of the Corporation the voting powers, if any, and the designations, preferences and relative, participating, optional or other special rights or privileges, and the qualifications, limitations or restrictions of such series, including, but without limiting the generality of the foregoing, the following:

(1) The distinctive designation of, and the number of shares of the series Preferred Stock which shall constitute such series. The designation of a series of preferred stock need not include the words "preferred" or "preference" and may be designated "special" or other distinctive term. Unless otherwise provided in the resolution issuing such series, the number of shares of any series of the Series Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the Board of Directors in the manner prescribed by law;

(2) The rate and times at which, and the terms and, conditions upon which, dividends, if any, on the Series Preferred Stock of such series shall be paid,

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the extent of the preference or relation, if any, of such dividends to the dividends payable on any other class or classes, or series of the same or other classes of stock and whether such dividends shall be cumulative or non-cumulative and, if cumulative, the date from which such dividends shall be cumulative;

(3) Whether the series shall be convertible into, or exchangeable for, at the option of the holders of the Series Preferred Stock of such series or the Corporation or upon the happening of a specified event, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation, and the terms and conditions of such conversion or exchange, including provisions for the adjustment of any such conversion rate in such events as the Board of Directors shall determine;

(4) Whether or not the Series Preferred Stock of such series shall be subject to redemption at the option of the Corporation or the holders of such series or upon the happening of a specified event, and the redemption price or prices and the time or times at which, and the terms and conditions upon which, the Series Preferred Stock of such series may be redeemed;

(5) The rights, if any, of the holders of the Series Preferred Stock of such series upon the voluntary or involuntary liquidation, merger, consolidation, distribution or sale of assets, dissolution or winding-up, of the Corporation;

(6) The terms of the sinking fund or redemption or purchase account, if any, to be provided for the Series Preferred Stock of such series; and

(7) Subject to subparagraph 5 of Paragraph D hereof, whether such series of the Series Preferred Stock shall have full, limited or no voting powers including, without limiting the generality-of the foregoing, whether such series shall have the right, voting as a series by itself or together with other series of the Series Preferred Stock or all series of the Series Preferred Stock as a class, to elect one or more directors of the Corporation if there shall have been a default in the payment

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of dividends on any one or more series of the Series Preferred Stock or under such other circumstances and on such conditions as the Board of Directors may determine.

C. COMMON STOCK.

(1) After the Corporation has complied with the requirements, if any, fixed in accordance with the provisions of Paragraph B hereof with respect to (a) dividends on series of the Series Preferred Stock (in accordance with the relative preferences among such series) and (b) the setting aside of sums as sinking funds or redemption or purchase accounts for series of the Series Preferred Stock (in accordance with the relative preferences among such series), and subject further to any other conditions which may be fixed in accordance with the provisions of Paragraph B hereof, then, and not otherwise, the holders of Common Stock shall be entitled to receive such dividends (either in cash, stock or otherwise) as may be declared from time to time by the Board of Directors out of assets of the Corporation legally available therefor and the holders of the Series Preferred Stock shall not be entitled to participate in any such dividends.

(2) After distribution in full of the preferential amount, if any, to be distributed to the holders of series of the Series Preferred Stock (in accordance with the relative preferences among such series) in the event of voluntary or involuntary liquidation, distribution, dissolution or winding-up, of the Corporation, the holders of the Common Stock shall be entitled to receive all of the remaining assets of the Corporation, tangible and intangible, of whatever kind available for distribution to

shareholders, ratably in proportion to the number of shares of Common Stock held by them respectively.

(3) Except as may otherwise be required by law, each holder of Common Stock shall have one vote in respect of each share of Common Stock held by him on all matters voted upon by the shareholders.

D. OTHER PROVISIONS.

(1) No holder of any of the shares of any class or series of stock or of options, warrants or other rights to purchase shares of any class or series of stock or of

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other securities of the Corporation shall have any preemptive right to purchase or subscribe for any unissued stock of any class or series or any additional shares of any class or series to be issued by reason of any increase of the authorized capital stock of the Corporation of any class or series, or bonds, certificates of indebtedness, debentures or other securities convertible into or exchangeable for stock of the Corporation of any class or series, or carrying any right to purchase stock of any class or series, but any such unissued stock, additional authorized issue of shares of any class or series of stock or securities convertible into or exchangeable for stock, or carrying any right to purchase stock, may be issued and disposed of pursuant to resolution of the Board of Directors to such persons, firms, corporations or associations (including such holders or others) and upon such terms as may be deemed advisable by the Board of Directors in the exercise of its sole discretion.

(2) The relative powers, preferences and rights of each series of the Series Preferred Stock in relation to the powers, preferences and rights of each other series of the Series Preferred Stock shall, in each case, be as fixed from time to time by the Board of Directors in the resolution or resolutions adopted pursuant to authority granted in Paragraph B hereof. The consent, by class or series vote or otherwise, of the holders of such of the series of the Series Preferred Stock as are from time to time outstanding shall not be required for the issuance by the Board of Directors of any other series of the Series Preferred Stock whether or not the powers, preferences and rights of such other series shall be fixed by the Board of Directors as senior to, or on a parity with, the powers, preferences and rights of such outstanding series, or any of them; provided, however, that the Board of Directors may provide in the resolution or resolutions as to any series of the Series Preferred Stock adopted pursuant to Paragraph B hereof, the conditions if any, under which the consent of the holders of a majority (or such greater proportion as shall be fixed therein) of the outstanding shares of such series shall be required for the issuance of any or all other series of the Series Preferred Stock.

(3) Subject to the provisions of subparagraph 2 of this Paragraph D, shares of any series of the Series Preferred Stock may be issued from time to time as the Board of Directors of the Corporation shall determine and on such terms and for such consideration as shall be fixed by the Board of Directors.

(4) Shares of authorized Common Stock may be issued from time to time as the Board of Directors of the Corporation shall determine and on such terms and for such consideration as shall be fixed by the Board of Directors.

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(5) The number of authorized shares of Common Stock and of the Series

Preferred Stock, without a class or series vote, may be increased or decreased from time to time (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote thereon.

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6. Other lawful provisions for the conduct and regulation of the business and affairs of the corporation, for its voluntary dissolution or for limiting, defining or regulating the powers of the corporation, or of its directors or stockholders, or of any class of stockholders:

No Director or officer shall be disqualified by his office from dealing or contracting as vendor, purchaser or otherwise, whether in his individual capacity or through any other corporation, trust, association or firm in which he is interested as stockholder, director, trustee, partner or otherwise, with the corporation or any corporation, trust, association or firm in which the corporation shall be a stockholder or otherwise interested or which shall hold stock or be otherwise interested in the corporation, nor shall any such dealing or contract be avoided, nor shall any Director or officer so dealing or contracting be liable to account for any profit or benefit realized through any such dealing or contract to the corporation or to any stockholder or creditor thereof solely because of the fiduciary relationship established by reason of his holding such Directorship or office. Any such interest of a Director shall not disqualify him from being counted in determining the existence of a quorum at any meeting nor shall any such interest disqualify him from voting or consenting as a Director or having his vote or consent counted in connection with any such dealing or contract.

No stockholder shall be disqualified from dealing or contracting as vendor, purchaser or otherwise, either in his individual capacity or through any other corporation, trust, association or firm in which he is interested as stockholder, director, trustee, partner or otherwise, with the corporation or any corporation, trust, association or firm in which the corporation shall be a stockholder or otherwise interested or which shall hold stock or be otherwise interested in the corporation, nor shall any such dealing or contract be avoided, nor shall any stockholder so dealing or contracting be liable to account for any profit or benefit realized through any such contract or dealing to the corporation or to any stockholder or creditor thereof by reason of such stockholder holding stock in the corporation to any amount, nor shall any fiduciary relationship be deemed to be established by such stockholding.

Meetings of the stockholders of the corporation may be held at any place within the United States.

The corporation may be a partner in any business enterprise it would have power to conduct by itself.

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The directors may make, amend or repeal the by-laws in whole or in part, except with respect to any provision thereof which by law, these Restated Articles of organization or the by-laws requires action by the stockholders.

No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director notwithstanding any statutory provision or other law imposing such liability, except for liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section sixty-one or sixty-two of Chapter 156B of the Massachusetts General Laws, or (iv) for any transaction from which the director derived an improper personal benefit.

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Classified Board of Directors

(1) The Directors of the corporation shall be divided into three classes: Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the whole number of the Board of Directors. If the number of Directors is not evenly divisible by three, the Board of Directors shall determine the number of Directors to be elected initially into each class. In the election of Directors at the Special Meeting of Stockholders in Lieu of the 1989 Annual Meeting, the Class I Directors shall be elected to hold office for a term to expire at the first annual meeting of the stockholders thereafter; the Class II Directors shall be elected to hold office for a term to expire at the second annual meeting of the stockholders thereafter; and the Class III Directors shall be elected to hold office for a term to expire at the third annual meeting of the stockholders thereafter, and in the case of each class, until their respective successors are duly elected and qualified. At each annual election held after the Special Meeting of Stockholders in Lieu of the 1989 Annual Meeting, the Directors elected to succeed those whose terms expire shall be identified as being of the same class as the Directors they succeed and shall be elected to hold office for a term to expire at the third annual meeting of the stockholders after their election, and until their respective successors are duly elected and qualified: if the number of Directors changes, any increase or decrease in Directors shall be apportioned among the classes so as to maintain all classes as equal in number as possible, and any additional Director elected to any class shall hold office for a term which shall coincide with the terms of the other Directors in such class and until his successor is duly elected and qualified.

(2) Notwithstanding any other provisions of these Articles of Organization or the by-laws of the corporation or the fact that a lesser percentage may be specified by law, these Articles of Organization or the by-laws of the corporation, the affirmative vote of the holders of at least eighty (80%) percent of the combined voting power of the outstanding stock of the corporation entitled to vote generally in the election of directors ("Voting Stock"), voting together as a single class, shall be required to amend, alter, adopt any provision inconsistent with or to repeal this provision; provided however that if any such proposal receives the affirmative vote of each holder of at least 15% of the outstanding Voting Stock who also held at least 15% of the outstanding Voting Stock of the corporation on May 15, 1989, then such proposal shall require only the affirmative vote of the holders of at least a majority of the outstanding Voting Stock of the corporation.

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Vote Required for Certain Business Combinations

(A) In addition to any affirmative vote required by law or these Articles of Organization, and except as otherwise expressly provided in Paragraph (B) of this Provision:

1. any merger or consolidation of the corporation or any Subsidiary (as hereinafter defined) with (a) an Interested Stockholder (as hereinafter defined) or (b) any other corporation (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate (as such term is hereinafter defined) of an Interested Stockholder; or

2. any sale, lease, exchange, mortgage, pledge, grant of a security interest, transfer or other disposition (in one transaction or a series of transactions) to or with (a) an Interested Stockholder or (b) any other person (whether or not itself an Interested Stockholder) which is, or after such sale, lease, exchange, mortgage, pledge, grant of security interest, transfer or other disposition would be, an Affiliate of an Interested Stockholder, directly or indirectly, of substantially all of the assets of the corporation (including, without limitation, any voting securities of a Subsidiary) or any Subsidiary; or

3. the issuance or transfer by the corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the corporation or any Subsidiary, or both, to (a) an Interested Stockholder or (b) any other person (whether or not itself an Interested Stockholder) which is, or after such issuance or transfer would be, an Affiliate of an Interested Stockholder in exchange for cash, securities or other property (or a combination thereof); or

4. the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by or on behalf of an Interested Stockholder or any Affiliate of an Interested Stockholder; or

5. any reclassification of securities (including any reverse stock split), or recapitalization of the corporation, or any merger or consolidation of the corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the corporation or any Subsidiary directly or indirectly beneficially owned by (a) an Interested Stockholder or (b) any other person

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(whether or not itself an Interested Stockholder) which is, or after such reclassification, recapitalization, merger or consolidation or other transaction would be, an Affiliate of an Interested Stockholder;

shall not be consummated unless such consummation shall have been approved by the affirmative vote of the holders of at least eighty (80%) percent of the combined voting power of the then outstanding shares of Voting Stock (as hereinafter defined), voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law, in these Articles of Organization or in any agreement with any national securities exchange or otherwise.

(B) The provisions of Paragraph (A) of this Provision shall not be applicable to any particular Business Combination (as hereinafter defined) and such Business Combination shall require only such affirmative vote as is required by law and any other provision of these Articles of Organization, if the Business Combination shall have been approved by a majority of the Continuing Directors (as hereinafter defined) or all of the following conditions shall have been met.

1. The transaction constituting the Business Combination shall provide for a consideration to be received by all holders of Common Stock in exchange for all their shares of Common Stock, and the aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the higher of the following:

(a) (if applicable) the highest per-share price (including any brokerage commissions, transfer taxes and soliciting dealers, fees) paid in order to acquire any shares of Common Stock Beneficially owned by an Interested Stockholder M within the two-year period immediately prior to the Announcement Date (as hereinafter defined), (ii) within the two-year period immediately prior to the Determination Date (as hereinafter defined) or (iii) in the transaction in which it became an Interested Stockholder, whichever is highest; or

(b) the Fair Market Value per share of Common Stock on the Announcement Date or on the Determination Date, whichever is higher;

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2. If the transaction constituting the Business Combination shall provide for a consideration to be received by holders of any class or series of outstanding Voting Stock other than Common Stock, the aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of such class or series of Voting Stock shall be at least equal to the highest of the following (it being intended that the requirements of this subparagraph 2 shall be required to be met with respect to every class or series of outstanding Voting Stock, whether or not an Interested Stockholder has previously acquired any shares of a particular class of Voting Stock):

(a) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid in order to acquire any shares of such class or series of Voting Stock beneficially owned by an Interested Stockholder (i) within the two-year period immediately prior to the Announcement Date, (ii) within the two-year period immediately prior to the Determination Date, or (iii) in the transaction in which it became an Interested Stockholder, whichever is highest; or

(b) the Fair Market Value per share of such class or series of Voting Stock on the Announcement Date or the Determination Date, whichever is higher; or

(c) (if applicable) the highest preferential amount per share to which the holders of shares of such class or series of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the corporation;

3. The consideration to be received by holders of a particular class or series of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as was previously paid in order to acquire shares of such class or series of Voting Stock which are beneficially owned by an Interested Stockholder and, if an Interested Stockholder beneficially owns shares of any class or series of Voting Stock which were acquired with varying forms of consideration, the form of consideration for such class or series of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class or series of voting Stock beneficially owned by it. The price determination in accordance with subparagraphs 1 and 2 of this Paragraph (B) shall be subject to appropriate adjustment in the event of any recapitalization, stock dividend, stock split, combination of shares or similar event;

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4. After such Interested Stockholder has become an Interested Stockholder and prior to the consummation of such Business Combination:

(a) except as approved by a majority of the Continuing Directors, there shall have been no failure to declare and pay at the regular date therefor the full amount of any dividends (whether or not cumulative) payable on any outstanding preferred stock;

(b) there shall have been (i) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock) other than as approved by a majority of the Continuing Directors and (ii) an increase in such annual rate of dividends as necessary to prevent any such reduction in the event of any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate is approved by a majority of the Continuing Directors;

(c) such Interested Stockholder shall not have become the beneficial owner of any additional shares of Voting Stock at a price lower than that paid in the transaction in which it became an Interested Stockholder.

5. After such Interested Stockholder has become an Interested Stockholder, such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided the corporation, whether in anticipation of or in connection with such Business Combination or otherwise; and

6. A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent provisions replacing such act, rules or regulations) shall be mailed to the stockholders of the corporation, no later than the earlier of (a) thirty (30) days prior to any vote on the proposed Business Combination or (b) if no vote on such Business Combination is required, sixty (60) days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions). Such proxy statement shall contain at the front thereof, in a prominent place, any recommendations as to the advisability (or inadvisability) of the Business Combination which the Continuing Directors, or any of

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them, may have furnished in writing and, if deemed advisable by a majority of the Continuing Directors, an opinion of a reputable investment banking firm as to the fairness (or lack of fairness) of the terms of such Business Combination, from the point of view of the holder of Voting Stock other than an Interested Stockholder (such investment banking firm to be selected by a majority of the Continuing Directors, to be furnished with all information it reasonably requests and to be paid a reasonable fee for its services upon receipt by the corporation of such opinion)

(C) For the purposes of this Provision:

1. "Business Combination" shall mean any transaction which is referred to in any one or more of subparagraphs 1 through 5 of Paragraph (A) of this Provision.

2. "Voting Stock" shall mean stock of all classes and series of the corporation entitled to vote generally in the election of directors.

3. "Person" shall mean any individual, firm, trust, partnership, association, corporation or other entity.

4. "Interested Stockholder" shall mean any person (other than the corporation or any Subsidiary or any person who was a stockholder of the corporation on January 8, 1981) who or which:

(a) is the beneficial owner, directly or indirectly, of more than ten (10%) percent of the combined voting power of the then outstanding Voting Stock; or

(b) is an Affiliate of the corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of more than ten (10%) percent of the combined voting power of the then outstanding Voting Stock; or

(c) is an assignee of or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by an Interested Stockholder, unless such assignment or succession shall have occurred pursuant to a

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Public Transaction (as hereinafter defined) or any series of transactions involving a Public Transaction.

For the purposes of determining whether a person is an Interested Stockholder, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of subparagraph 6 below but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or option, or otherwise.

5. "Public Transaction" shall mean any (a) purchase of shares offered pursuant to an effective registration statement under the Securities Act of 1933 or (b) open-market purchase of shares on a national securities exchange if, in either such case, the price and other terms of sale are not negotiated by the purchaser and the seller of the beneficial interest in the shares.

6. A person shall be a "beneficial owner" of any Voting Stock:

(a) which such person or any of its Affiliates beneficially owns, directly or indirectly; or

(b) which such person or any of its Affiliates has (i) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise or (ii) the right to vote or to direct the voting thereof pursuant to any agreement, arrangement or understanding; or

(c) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

7. "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on June 27, 1989.

8. "Subsidiary" shall mean any corporation of which a majority of any class of equity security (as defined in Rule 3a11.1 of the General Rules and Regulations under the

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Securities Exchange Act of 1934, as in effect on June 27, 1989) is owned, directly or indirectly, by the corporation; provided, however, that for the purposes of the definition of Interested Stockholder set forth in subparagraph 4, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the corporation.

9. "Continuing Director" shall mean any member of the Board of Directors of the corporation who is unaffiliated with, and not a nominee of, an Interested Stockholder and was a member of the Board prior to the time that such Interested Stockholder became an Interested Stockholder, and any successor of a Continuing Director who is unaffiliated with, and not a nominee of, an Interested Stockholder and is recommended to succeed a Continuing Director by a majority of Continuing Directors then on the Board.

10. "Announcement Date" shall mean the date of the first public announcement of the proposed Business Combination.

11. "Determination Date" shall mean the date on which an Interested Stockholder became an Interested Stockholder.

12. "Fair Market Value" shall mean: (a) in the case of stock, the highest closing sale price during the thirty (30)-day period immediately preceding the date in question of a share of such stock on the National Market System of the National Association of Securities Dealers Automated Quotation System or any system then in use on any national securities exchange or automated quotation system, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (b) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Continuing Directors in good faith.

(D) A majority of the Continuing Directors shall have the power and duty to determine for the purposes of this Provision, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Provision, including, without limitation, (1) whether a person is an Interested Stockholder, (2) the number of shares of Voting Stock beneficially owned by any person, (3) whether a person is an Affiliate of another, (4) whether the requirements of Paragraph (B) of this Provision have been met and (5) such other matters with respect to which a determination is required under this Provision. The good faith determination of

- C-10 -

a majority of the Continuing Directors on such matters shall be conclusive and binding for all purposes of this Provision.

(E) Nothing contained in this Provision shall be construed to relieve an Interested Stockholder of any fiduciary obligation imposed by law.

(F) Notwithstanding any other provisions of these Articles of Organization or the By-laws of the corporation or the fact that a lesser percentage may be specified by law, these Articles of Organization or the By-laws of the corporation, the affirmative vote of the holders of at least eighty (80%) percent of the combined voting power of the then outstanding Voting Stock, voting together as a single class, shall be required to amend, alter, adopt any provision inconsistent with or repeal this Provision; provided however that if any such proposal receives the affirmative vote of each holder of at least 15% of the outstanding Voting Stock who also held at least 15% of the outstanding Voting Stock of the corporation on May 15, 1989, then such proposal shall require only the affirmative vote of the holders of at least a majority of the outstanding Voting Stock of the corporation.

Redemption of Shares

In accordance with Section 6 of Chapter 110D of the General Laws of the Commonwealth of Massachusetts the corporation by action of its Board of Directors is authorized, at the option of the corporation by such Board action but without requiring the agreement of the person who has made a control share acquisition (as defined in said Chapter 110D), to redeem all but not less than all shares acquired in such a control share acquisition in accordance with and subject to the limitations contained in said Chapter 110D including Section 6 thereof.

Supramajority Vote

In addition to any affirmative vote required by law or these Articles of Organization, with respect to certain Business Combinations, until December 31, 1994:

1. any merger or consolidation of the corporation or any Subsidiary with any other corporation, person, business or entity ("Subsidiary" is defined as any corporation of which a majority of any class of equity security (as defined in Rule 3a11.1 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on June 27, 1989) is owned, directly or

indirectly, by the corporation); or

- C-11 -

2. any sale, lease, exchange, transfer or other disposition (in one transaction or a series of transactions) of all or substantially all of the assets of the corporation, but specifically excluding any granting of a security interest associated with a debt transaction approved by the Board of Directors; or

3. the adoption of any plan or proposal for the liquidation or dissolution of the corporation; or

4. any amendment to or rescission of this subsection of Article 6 entitled "Supramajority Vote";

shall not be consummated unless such consummation shall have been approved by the affirmative vote of the holders of at least eighty (80%) percent of the combined voting power of the then outstanding shares of voting stock of the corporation entitled to vote thereon ("Voting Stock"), voting together as a single class; provided, however that if any such action receives the affirmative vote of each holder of at least 15% of the outstanding Voting Stock of the corporation who also held at least 15% of the outstanding Voting Stock of the corporation on May 15, 1989, then such proposal shall require only the affirmative vote of the holders of that number of the outstanding Voting Stock of the corporation as is required by applicable law, these Articles of Organization or the by-laws.

- C-12 -

Exhibit A

COGNEX CORPORATION
PLAN OF RECAPITALIZATION
June 27, 1989

1. COMMON STOCK. As of the Effective Date (as defined below), Cognex Corporation (the "Company") will complete a one-for-two reverse stock split pursuant to which (A) each holder of two (2) shares of the currently issued and outstanding Class A Common Stock, with \$.001 par value per share ("Old Class A Stock") of the Company will be entitled to receive, in exchange therefor, one (1) share of the newly authorized but unissued Class A Common Stock, with \$.002 par value per share ("New Class A Stock") of the Company and (B) each holder of two (2) shares of the currently issued and outstanding Class B Common Stock with \$.001 par value per share ("Old Class B Stock") will be entitled to receive, in exchange therefor, one (1) share of the newly authorized but unissued Class B Common Stock of the Company with \$.002 par value per share ("New Class B Stock"). Fractional shares will not be issued by the Company and, in lieu thereof, holders will receive cash in an amount equal to the fair value of that fractional share as of the Effective Date as determined by the Board of Directors of the Company. Stockholders must return for exchange all certificates representing shares of Old Class A Stock and Old Class B Stock in order to receive cash or certificates representing New Class A Stock or New Class B Stock. Accompanying the Notice of the Special Meeting is a Letter of Transmittal for each holder to complete, date, execute and return to the Company together with all certificates representing Old Class A Stock and Old Class B Stock. The Transmittal Letter and the certificates will be held by the Company until the Plan of Recapitalization is approved. Certificates representing the New Class A Stock and New Class B Stock need not be issued in the event that the Company completes the total conversion of all of its capital stock to a single series and class of Common Stock. In such event, certificates representing such single class of Common Stock will be issued. If the Plan is not approved, the

certificates and the Transmittal Letter will be returned to the holder.

2. PREFERRED STOCK. As a result of the reverse stock split approved in paragraph 1 above, the conversion rates for the Company's currently authorized Preferred Stock shall be adjusted (and Article 4 of the Articles of Organization of the Company shall be amended) as follows: (A) the applicable Conversion Rate for the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, upon the consummation of the reverse stock split, shall be five (5) such that each share of Series A, B and C Preferred Stock converts into five (5) shares of New Class A Stock and (B) the applicable Conversion Rate for the Series D Preferred Stock, upon the consummation of

the reverse stock split, shall be one-half (1/2) such that each share of Series D Preferred Stock shall convert into one-half (1/2) share of New Class A Stock.

3. AMENDMENTS TO ARTICLES OF ORGANIZATION. As a result of the reverse stock split approved in paragraph 1 above, by adoption of this Plan of Recapitalization, the Articles of Organization of the Company are amended such that the total number of shares and the par value, if any, of the Common Stock that the Company is authorized to issue shall be changed from 10,000,000 shares of Class A Common Stock with \$.001 par value per share and 2,500,000 shares of Class B Common Stock with \$.001 par value per share to 5,000,000 shares of Class A Common Stock with \$.002 par value per share and 1,250,000 shares of Class B Common Stock with \$.002 par value per share. In addition, by adoption of this Plan of Recapitalization, the Articles of Organization are hereby further amended to increase the number of shares of Class A Common Stock that the Corporation is authorized to issue from 5,000,000 shares with \$.002 par value per share to 10,000,000 shares with \$.002 par value per share (such new shares to be known as "Common Stock"). The Company need not file two separate Articles of Amendment to reflect these amendments and may make one filing with the Secretary of the Commonwealth of Massachusetts showing the ultimate effect to the Articles of Organization of this Plan of Recapitalization.

4. EFFECTIVE DATE. As used herein, the term "Effective Date" shall mean June 28, 1989.

*We further certify that the foregoing restated articles of organization effect no amendments to the articles of organization of the corporation as heretofore amended, except amendments to the following articles

Article 3, Article 4 and Article 6

(*If there are no such amendments, state "None".)

Briefly describe amendments in space below:

To Article 3

1. Adopted the Cognex Corporation Plan of Recapitalization on June 27, 1989 (see Exhibit A hereto), following which the only shares of capital stock which the Corporation shall have authority to issue shall be 10,000,000 shares of a single class of Common Stock having a par value of \$.002 per share and 400,000 shares of Preferred Stock par value \$.01 per share, all the previously issued Class A and Class B Common Stock and the Series A, B, C and D Preferred Stock having been converted into shares of a single class of Common Stock.

To Article 4

1. Amended description of each of the different classes of stock.

To Article 6

- 1. Creation of a classified Board of Directors.
- 2. Adoption of a Fair Price Amendment.
- 3. Adoption of provision regarding the redemption by the Corporation of shares acquired in a control share acquisition; and
- 4. Adoption of provision regarding supramajority voting to approve certain transactions.

IN WITNESS WHEREOF AND UNDER PENALTIES OF PERJURY, we have hereto signed our names this 27th day of June in the year 1989.

/s/ Robert J. Shillman President/

/s/ Anthony J. Medaglia, Jr. Clerk/

THE COMMONWEALTH OF MASSACHUSETTS

RESTATED ARTICLES OF ORGANIZATION
(GENERAL LAWS, CHAPTER 156B, SECTION 74)

I hereby approve the within restated articles of organization and, the filing fee in the amount of \$ _____ having been paid, said articles are deemed to have been filed with me this _____ day of _____, 1989.

/s/ Michael Joseph Connolly

MICHAEL JOSEPH CONNOLLY
Secretary of State

TO BE FILLED IN BY CORPORATION

PHOTO COPY OF RESTATED ARTICLES OF ORGANIZATION TO BE SENT TO:

Anthony J. Medaglia, Jr.

Hutchins & Wheeler

101 Federal Street, Boston, MA 02110

Telephone (617) 951-6600

Copy Mailed

EXAMINER

The Commonwealth of Massachusetts
OFFICE OF THE MASSACHUSETTS SECRETARY OF STATE
MICHAEL J. CONNOLLY, Secretary
ONE ASHBURTON PLACE, BOSTON, MASSACHUSETTS 02108
ARTICLES OF AMENDMENT FEDERAL IDENTIFICATION

NO. 04-2713778

GENERAL LAWS, CHAPTER 156B, SECTION 72

We, Robert J. Shillman, President/, and
Anthony J. Medaglia, Jr., Clerk/ of

COGNEX CORPORATION

(EXACT Name of Corporation)

located at 15 Crawford Street, Needham, Massachusetts 02194

do hereby certify that these ARTICLES OF AMENDMENT affecting Articles NUMBERED:

3

(Number those articles 1, 2, 3, 4, 5 and/or 6 being amended hereby)

of the Articles of Organization were duly adopted at a meeting held on
April 30, 1991, by vote of :

Name
Approved

2,547,604	shares of	Common Stock	out of	4,087,176	shares outstanding,
-----		-----		-----	
		type, class and series, (if any)			
-0-	shares of	Preferred Stock	out of	-0-	shares outstanding, and
-----		-----		-----	
		type, class and series, (if any)			
	shares of	-----	out of	-----	shares outstanding,
-----		-----		-----	
		type, class and series, (if any)			

CROSS OUT being at least a majority of each type, class or series
INAPPLICABLE outstanding and entitled to vote thereon: (1)

CLAUSE

C | |

P | |

M | | (1) For amendments adopted pursuant to Chapter 156B,
Section 70.

RA | | (2) For amendments adopted pursuant to Chapter 156B,
Section 71.

P.C.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on separate 8 1/2 x 11 sheets of paper leaving a left hand margin of at least 1 inch for binding. Additions to more than one article may be continued on a single sheet so long as each article requiring each such addition is clearly indicated.

To CHANGE the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:	N/A	COMMON:	10,000,000	\$.002
-----		-----		
-----		-----		
PREFERRED:	N/A	PREFERRED:	400,000	\$.01
-----		-----		
-----		-----		

CHANGE the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:	N/A	COMMON:	15,000,000	\$.002
-----		-----		
-----		-----		
PREFERRED:	N/A	PREFERRED:	400,000	\$.01
-----		-----		
-----		-----		

The foregoing amendment will become effective when these articles of amendment are filed in accordance with Chapter 156B, Section 6 of The General Laws unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

EFFECTIVE DATE: Date of Filing

IN WITNESS WHEREOF AND UNDER THE PENALTIES OF PERJURY, we have hereunto signed our names this Thirtieth day of April, in the year 1991.

/s/ Robert J. Shillman
----- President/

/s/ Anthony J. Medaglia, Jr.
----- Clerk/

THE COMMONWEALTH OF MASSACHUSETTS
ARTICLES OF AMENDMENT
GENERAL LAWS, CHAPTER 156B, SECTION 72

=====

I hereby approve the within articles of amendment and, the filing fee in the amount of \$5,000.00 having been paid, said articles are deemed to have been filed with me this 9th day of May, 1991.

/s/ Michael J. Connolly

MICHAEL J. CONNOLLY
Secretary of State

TO BE FILLED IN BY CORPORATION

PHOTOCOPY OF ARTICLES OF AMENDMENT TO BE SENT TO:

ANTHONY J. MEDAGLIA, JR.

HUTCHINS & WHEELER

101 FEDERAL STREET, BOSTON, MA 02110

TELEPHONE: (617) 951-6600

EXAMINER

The Commonwealth of Massachusetts
OFFICE OF THE MASSACHUSETTS SECRETARY OF STATE
MICHAEL J. CONNOLLY, Secretary
ONE ASHBURTON PLACE, BOSTON, MASSACHUSETTS 02108
ARTICLES OF AMENDMENT FEDERAL IDENTIFICATION

NO. 04-2713778

GENERAL LAWS, CHAPTER 156B, SECTION 72

We, Robert J. Shillman, President/, and
Anthony J. Medaglia, Jr., Clerk/ of

COGNEX CORPORATION

(EXACT Name of Corporation)

located at 15 Crawford Street, Needham, Massachusetts 02194

do hereby certify that these ARTICLES OF AMENDMENT affecting Articles NUMBERED:

3

(Number those articles 1, 2, 3, 4, 5 and/or 6 being amended hereby)

of the Articles of Organization were duly adopted at a meeting held on
April 21, 1992, by vote of :

Name
Approved

5,387,004	shares of	Common Stock	out of	8,450,806	shares outstanding,
-----		-----		-----	
		type, class and series, (if any)			
-0-	shares of	Preferred Stock	out of	-0-	shares outstanding, and
-----		-----		-----	
		type, class and series, (if any)			
-----	shares of	-----	out of	-----	shares outstanding,

		type, class and series, (if any)			

CROSS OUT INAPPLICABLE CLAUSE being at least a majority of each type, class or series outstanding and entitled to vote thereon: (1)

C | |

P | |

M | | (1) For amendments adopted pursuant to Chapter 156B, Section 70.

RA | | (2) For amendments adopted pursuant to Chapter 156B, Section 71.

P.C.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on separate 8 1/2 x 11 sheets of paper leaving a left hand margin of at least 1 inch for binding. Additions to more than one article may be continued on a single sheet so long as each article requiring each such addition is clearly indicated.

To CHANGE the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:	N/A	COMMON:	15,000,000	\$.002
PREFERRED:	N/A	PREFERRED:	400,000	\$0.01

CHANGE the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:	N/A	COMMON:	25,000,000	\$.002
PREFERRED:	N/A	PREFERRED:	400,000	\$0.01

The foregoing amendment will become effective when these articles of amendment are filed in accordance with Chapter 156B, Section 6 of The General Laws unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

EFFECTIVE DATE: Date of Filing _____

IN WITNESS WHEREOF AND UNDER THE PENALTIES OF PERJURY, we have hereunto signed our names this 21st day of April, in the year 1992.

/s/ Robert J. Shillman

President/

/s/ Anthony J. Medaglia, Jr.

Clerk/

THE COMMONWEALTH OF MASSACHUSETTS

ARTICLES OF AMENDMENT

GENERAL LAWS, CHAPTER 156B, SECTION 72

=====

I hereby approve the within articles of amendment and, the filing fee in the amount of \$10,000.00 having been paid, said articles are deemed to have been filed with me this 3rd day of August, 1992.

/s/ Michael J. Connolly

MICHAEL J. CONNOLLY
Secretary of State

TO BE FILLED IN BY CORPORATION

PHOTOCOPY OF ARTICLES OF AMENDMENT TO BE SENT TO:

ANTHONY J. MEDAGLIA, JR.

HUTCHINS & WHEELER

101 FEDERAL STREET, BOSTON, MA 02110

TELEPHONE: (617) 951-6600

EXAMINER

The Commonwealth of Massachusetts
OFFICE OF THE MASSACHUSETTS SECRETARY OF STATE
MICHAEL J. CONNOLLY, Secretary
ONE ASHBURTON PLACE, BOSTON, MASSACHUSETTS 02108
ARTICLES OF AMENDMENT FEDERAL IDENTIFICATION

NO. 04-2713778

GENERAL LAWS, CHAPTER 156B, SECTION 72

We, Robert J. Shillman, President/ , and
Anthony J. Medaglia, Jr., Clerk/ of

COGNEX CORPORATION

(EXACT Name of Corporation)

located at 15 Crawford Street, Needham, Massachusetts 02194

do hereby certify that these ARTICLES OF AMENDMENT affecting Articles NUMBERED:

3

(Number those articles 1, 2, 3, 4, 5 and/or 6 being amended hereby)

of the Articles of Organization were duly adopted at a meeting held on
April 25, 1995, by vote of :

Name
Approved

13,514,984	shares of	Common Stock	out of	18,840,535	shares outstanding,
-----		-----		-----	
	shares of	type, class and series, (if any)	out of		shares outstanding, and
-----		-----		-----	
	shares of	type, class and series, (if any)	out of		shares outstanding,
-----		-----		-----	
		type, class and series, (if any)			

CROSS OUT INAPPLICABLE CLAUSE being at least a majority of each type, class or series outstanding and entitled to vote thereon: (1)

- C []
- P []
- M [] (1) For amendments adopted pursuant to Chapter 156B, Section 70.
- RA [] (2) For amendments adopted pursuant to Chapter 156B, Section 71.

P.C.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on separate 8 1/2 x 11 sheets of paper leaving a left hand margin of at least 1 inch for binding. Additions to more than one article may be continued on a single sheet so long as each article requiring each such addition is clearly indicated.

To CHANGE the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:	N/A	COMMON:	25,000,000	\$.002
PREFERRED:	N/A	PREFERRED:	400,000	\$0.01

CHANGE the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:	N/A	COMMON:	60,000,000	\$.002
PREFERRED:	N/A	PREFERRED:	400,000	\$0.01

The foregoing amendment will become effective when these articles of amendment are filed in accordance with Chapter 156B, Section 6 of The General Laws unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

EFFECTIVE DATE: Date of Filing

IN WITNESS WHEREOF AND UNDER THE PENALTIES OF PERJURY, we have hereunto signed our names this 25th day of April, in the year 1995.

/s/ Robert J. Shillman

President/

/s/ Anthony J. Medaglia, Jr.

Clerk/

THE COMMONWEALTH OF MASSACHUSETTS
ARTICLES OF AMENDMENT
GENERAL LAWS, CHAPTER 156B, SECTION 72

=====
I hereby approve the within articles of amendment and, the filing fee in the amount of \$35,000.00 having been paid, said articles are deemed to have been filed with me this 18th day of May, 1995.

/s/ William Francis Galvin

WILLIAM FRANCIS GALVIN
Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION

PHOTOCOPY OF ARTICLES OF AMENDMENT TO BE SENT TO:

SHANNON D. WHISENART

HUTCHINS, WHEELER & DITTMAR

101 FEDERAL STREET, BOSTON, MA 02110

TELEPHONE: (617) 951-6600

FEDERAL IDENTIFICATION
NO. 04-2713778

Examiner

The Commonwealth of Massachusetts
William Francis Galvin
Secretary of the Commonwealth
One Ashburton Place, Boston, Massachusetts 02108-1512

Name
Approved

ARTICLES OF AMENDMENT
(General Laws, Chapter 156B, Section 72)

We, Robert Shillman , *President/

and Anthony J. Medaglia, Jr. *Clerk/

of COGNEX CORPORATION

(Exact name of corporation)

located at One Vision Drive, Natick, MA 01760

(Street address of corporation in Massachusetts)

certify that these Articles of Amendment affecting articles numbered:

(Number those articles 1, 2, 3, 4, 5 and/or 6 being amended)

of the Articles of Organization were duly adopted at a meeting held on April 23, 1996, by vote of:

31,729,416	shares of	Common Stock	of	39,116,359	shares outstanding
-----		-----		-----	
		(type, class & series, if any)			
	shares of		of		shares outstanding, and
-----		-----		-----	
		(type, class & series, if any)			
	shares of		of		shares outstanding, and
-----		-----		-----	
		(type, class & series, if any)			

C []

P []

M [] (1)**being at least a majority of each type, class or series outstanding and entitled to vote thereon:/or (2)**being at least two-thirds of each type, class or series outstanding and entitled to vote thereon and of each type, class or series of stock whose rights are adversely affected thereby:

R.A. []

*Delete the inapplicable words. **Delete the inapplicable clause.
 (1) For amendments adopted pursuant to Chapter 156B, Section 70.
 (2) For amendments adopted pursuant to Chapter 156B, Section 71.
 Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on one side only of separate 8 1/2 x 11 sheets of paper with a left margin of at least 1 inch. Additions to more than one article may be made on a single sheet so long as each article requiring each addition is clearly indicated.

P.C.

To CHANGE the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:		COMMON:	60,000,000	\$.002
-----	-----	-----	-----	-----
-----	-----	-----	-----	-----
PREFERRED:		PREFERRED:	400,000	\$0.01
-----	-----	-----	-----	-----
-----	-----	-----	-----	-----

CHANGE the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
COMMON:		COMMON:	120,000,000	\$.002
PREFERRED:		PREFERRED:	400,000	\$0.01

The foregoing amendment will become effective when these articles of amendment are filed in accordance with General Laws, Chapter 156B, Section 6 unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

Later effective date: _____

SIGNED UNDER THE PENALTIES OF PERJURY, this 23rd day of April, in the year 1996.

_____/s/ Robert J. Shillman President/

Robert J. Shillman

_____/s/ Anthony J. Medaglia, Jr. Clerk/

Anthony J. Medaglia, Jr.

*Delete the inapplicable words.

THE COMMONWEALTH OF MASSACHUSETTS
ARTICLES OF AMENDMENT
GENERAL LAWS, CHAPTER 156B, SECTION 72

=====
I hereby approve the within articles of amendment and, the filing fee in the amount of \$60,000.00 having been paid, said articles are deemed to have been filed with me this 10th day of May, 1996.

Effective date: _____

/s/ William Francis Galvin

WILLIAM FRANCIS GALVIN
Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION

PHOTOCOPY OF ARTICLES OF AMENDMENT TO BE SENT TO:

PATRICIA ROBICHAUD

HUTCHINS, WHEELER & DITTMAR

101 FEDERAL STREET,
BOSTON, MA 02110

TELEPHONE: (617) 951-6600

FEDERAL IDENTIFICATION
No. 04-2713778

THE COMMONWEALTH OF MASSACHUSETTS

Examiner WILLIAM FRANCIS GALVIN
Secretary of the Commonwealth
One Ashburton Place, Boston Massachusetts 02108-1512

ARTICLES OF AMENDMENT
(GENERAL LAWS, CHAPTER 156B, SECTION 72)

Name
Approved

We, Robert Shillman, *President / XXXXXXXX,

and Anthony J. Medaglia, Jr., *Clerk / XXXXXXXX

of Cognex Corporation ,

(Exact name of corporation)

location at One Vision Drive, Natick, MA 01760 ,

(Street address of corporation in Massachusetts)

certify that these Articles of Amendment affecting articles number:

3

(Number those articles 1, 2, 3, 4, 5 and/or 6 being amended)

of the Articles of Organization were duly adopted at a meeting held on

May 8 , 20 00 , by vote of: 35,885,629 shares of

Common Stock of 42,774,560 shares outstanding,

(type, class & series, if any)

shares of of

(type, class & series, if any)

shares outstanding, and shares of

of shares outstanding,

(type, class & series, if any)

C []

C [] (1)** being at least a majority of each type, class or series outstanding and entitled to vote thereon: / or (2)** being at least two-thirds of each type, class or series outstanding and entitled to vote thereon and of each type, class or series of stock whose rights R.A. [] are adversely affected thereby:

*Delete the inapplicable words. **Delete the inapplicable clause.

(1) For amendments adopted pursuant to Chapter 156B, Section 70.

(2) For amendments adopted pursuant to chapter 156B, Section 71.

P.C.

NOTE: IF THE SPACE PROVIDED UNDER ANY ARTICLE OR ITEM ON THIS FORM IS INSUFFICIENT, ADDITIONS SHALL BE SET FORTH ON ONE SIDE ONLY OF SEPARATE 8 1/2 X 11 SHEETS OF PAPER WITH A LEFT MARGIN OF AT LEAST 1 INCH. ADDITIONS TO MORE THAN ONE ARTICLE MAY BE MADE ON A SINGLE SHEET SO LONG AS EACH ARTICLE REQUIRING EACH ADDITION IS CLEARLY INDICATED.

To change the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

Table with 5 columns: WITHOUT PAR VALUE STOCKS (TYPE, NUMBER OF SHARES), WITH PAR VALUE STOCKS (TYPE, NUMBER OF SHARES, PAR VALUE). Rows for Common and Preferred.

Change the total authorized to:

Table with 5 columns: WITHOUT PAR VALUE STOCKS (TYPE, NUMBER OF SHARES), WITH PAR VALUE STOCKS (TYPE, NUMBER OF SHARES, PAR VALUE). Rows for Common and Preferred.

The foregoing amendment(s) will become effective when these Articles of Amendment are filed in accordance with General Laws, Chapter 156B, Section 6 unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing,

in which event the amendment will become effective on such later date.

Later effective date: _____

SIGNED UNDER THE PENALTIES OF PERJURY, this 8th day of May, 20 00 ,

/s/ Robert Shillman _____, *President / XXXXXXXX
Robert Shillman

/s/ Anthony J. Medaglia, Jr. _____, *Clerk / XXXXXXXX
Anthony J. Medaglia, Jr.

*Delete the inapplicable words.

THE COMMONWEALTH OF MASSACHUSETTS

ARTICLES OF AMENDMENT

(GENERAL LAWS, CHAPTER 156B, SECTION 72)

I hereby approve the within Articles of Amendment and, the filing fee in the amount of \$ 20,000 having been paid, said articles are deemed to

have been filed with me this 10th day of May 20 00.

Effective date: May 10, 2002

WILLIAM FRANCIS GALVIN

Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION
PHOTOCOPY OF DOCUMENT TO BE SENT TO:

Patricia Robichaud, Corporate Paralegal

c/o Hutchins, Wheeler & Dittmar, 101 Federal Street

Boston, MA 02110

Telephone: 617-951-6653

BY-LAWS
of
COGNEX CORPORATION

BY-LAWS
of
COGNEX CORPORATION

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BY-LAWS

of

COGNEX CORPORATION

ARTICLE 1

Articles of Organization

The name and purposes of the Corporation shall be as set forth in the Articles of Organization. These By-Laws, the powers of the Corporation and its Directors and stockholders, and all matters concerning the conduct and regulation of the business of the Corporation, shall be subject to such provisions in regard thereto, if any, as are set forth in the Articles of Organization. All references in these By-Laws to the Articles of Organization shall be construed to mean the Articles of Organization of the Corporation as from time to time amended or restated.

ARTICLE 2

Fiscal Year

Except as from time to time otherwise determined by the Directors, the fiscal year of the Corporation shall be the twelve months ending on December 31.

ARTICLE 3

Meetings of Stockholders

Section 3.1 Annual Meeting

The Annual Meeting of the Stockholders shall be held at 10:00 o'clock A.M. on the second Tuesday of April in each year. Purposes for which an annual meeting is to be held, additional to those prescribed by law and by these By-Laws, may be specified by the President or by the Directors.

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If such annual meeting has not been held on the day herein provided therefor, a special meeting of the stockholders in lieu of the annual meeting may be held, and any business transacted or elections held at such special meeting shall have the same effect as if transacted or held at the annual meeting, and in such case all references in these By-Laws, except in this Section 3.1, to the annual meeting of the stockholders shall be deemed to refer to such special meeting. Any such special meeting shall be called, and the purposes thereof shall be specified in the call, as provided in Section 3.2 of this Article III.

To be properly brought before the meeting, business must be of a nature that is appropriate for consideration at an annual meeting and must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before the annual meeting by a stockholder, the stockholder must have given timely Notice thereof in writing to the Clerk of the corporation. To be timely, each such Notice must be given either by personal delivery or by United States mail, postage prepaid, to the Clerk of the corporation not later than (1) with respect to a matter to be brought before an annual meeting of stockholders or special meeting in lieu of an annual meeting, sixty (60) days prior to the date set forth in the By-Laws for the annual meeting and (2) with respect to a matter to be brought before a special meeting of the stockholders not in lieu of an annual meeting, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to Stockholders. The Notice shall set forth (i) information concerning the stockholder, including his or her name and address;

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(ii) a representation that the stockholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to present the matter

specified in the Notice, and (iii) such other information as would be required to be included in a proxy statement soliciting proxies for the presentation of such matter to the meeting.

Notwithstanding anything in these By-Laws to the contrary, no business shall be transacted at the annual meeting except in accordance with the procedures set forth in this Section; provided, however, that nothing in this Section shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting in accordance with these By-Laws.

Section 3.2 Special Meetings

Special Meeting of the Stockholders may be called at any time by the President, or by a majority of the Directors acting by vote or a written instrument or instruments signed by them. A Special Meeting of the Stockholders shall be called by the Clerk or in the case of the death, absence, incapacity or refusal of the Clerk, by any other officer upon written application of one or more stockholders who hold at least forty (40) percent in interest of the capital stock entitled to vote thereat and, also, upon application of any holder of at least ten (10) percent of the capital stock entitled to vote at such meeting, if such ten (10) percent holder also held on May 15, 1989 at least fifteen (15) percent of the capital stock of the Corporation entitled on that date to vote generally on the election of Directors. Such call shall state the time, place and purpose of the meeting.

Section 3.3 Place of Meetings

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All meetings of the stockholders shall be held at the principal office of the Corporation in Massachusetts, unless a different place within Massachusetts or, if permitted by the Articles of Organization, elsewhere within the United States is designated by the President or by a majority of the Directors acting by vote or by written instrument or instruments signed by them. Any adjourned session of any meeting of the stockholders shall be held at such place within Massachusetts or, if permitted by the Articles of Organization, elsewhere within the United States as is designated in the vote of adjournment.

Section 3.4 Notice of Meetings

A written Notice of the place, date and hour of all meetings of stockholders stating the purposes of the meeting shall be given at least seven (7) days before the meeting to each stockholder entitled to vote thereat, by leaving such Notice with him or at his residence or usual place of business, or by mailing, postage prepaid, and addressed to such stockholder at his address as it appears in the records of the Corporation. Such Notice shall be given by the Clerk, or in the case of the death, absence, incapacity or refusal of the Clerk, by any other officer or by a person designated either by the Clerk, by the person or persons calling the meeting or by the Board of Directors. Whenever Notice of a meeting is required to be given a stockholder under any provision of law, of the Articles of Organization, or of these By-Laws, a written Waiver thereof, executed before or after the meeting by such stockholder or his attorney thereunto authorized, and filed with the records of the meeting, shall be deemed equivalent to such Notice.

Section 3.5 Quorum

At any meeting of the stockholders, a quorum for the election of any Director or for the consideration of any question shall consist of a majority in interest of all stock issued,

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outstanding and entitled to vote at such election or upon such question, respectively, except that if two or more classes of stock are entitled to vote as separate classes for the election of any Director or upon any question, then in the case of each such class a quorum for the election of any Director or for the consideration of such question shall consist of a majority in interest of all stock of that class issued, outstanding and entitled to vote thereon. Stock owned by the Corporation, if any, shall be disregarded in determining any quorum. Both abstentions and broker non-votes are to be counted as present for the purpose of determining the existence of a quorum for the transaction of

business at any meeting. Whether or not a quorum is present, any meeting may be adjourned from time to time by a majority of the votes properly cast upon the question, and the meeting may be held as adjourned without further notice.

When a quorum for an election is present at any meeting, a plurality of the votes properly cast for any office shall elect such office. When a quorum for the consideration of a question is present at any meeting, a majority of the votes properly cast upon the question shall decide the question; except that if two or more classes of stock are entitled to vote as separate classes upon such question, then in the case of each such class a majority of the votes of such class properly cast upon the question shall decide the vote of that class upon the question; and except in any case where a larger vote is required by law or by the Articles of Organization. For purposes of determining the number of shares voting on a particular proposal, abstentions and broker non-votes are not to be counted as votes cast or shares voting.

Section 3.6 Action without Meeting

Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in

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writing and the written Consents are filed with the records of the meetings of stockholders. Such Consents shall be treated for all purposes as a vote at a meeting.

Section 3.7 Proxies and Voting

Except as may otherwise be provided in the Articles of Organization, stockholders entitled to vote shall have one vote for each share of stock entitled to vote owned by them. Stockholders entitled to vote may vote in person or by proxy. No proxy dated more than six (6) months before the meeting named therein shall be valid and no proxy shall be valid after the final adjournment of such meeting. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by any one of them unless at or prior to the exercise of the proxy the Corporation receives specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on behalf of a stockholder shall be deemed valid unless challenged at or prior to its exercise and the burden of proving invalidity shall rest on the challenger. Proxies shall be filed with the Clerk, or person performing the duties of clerk, at the meeting, or any adjournment thereof, before being voted.

The Corporation shall not, directly or indirectly, vote upon any share of its own stock. Both abstentions and broker non-votes are to be counted as present for the purpose of determining the existence of a quorum for the transaction of business at any meeting. However, for purposes of determining the number of shares voting on a particular proposal, abstentions and broker non-votes are not to be counted as votes cast or shares voting.

ARTICLE 4

Directors

Section 4.1 Enumeration, Election and Term of Office

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The business and affairs of this corporation shall be managed under the direction of a Board of Directors consisting of not fewer than three (3) nor more than fifteen (15) Directors, the exact number to be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board of Directors, such Board of Directors to be divided into such classes and elected by such stockholders as have the right to vote thereon, for such terms as are provided in the Articles of Organization. Each director shall hold office until his successor shall have been elected and qualified, subject to Article VI of these By-Laws. Whenever used in these By-Laws, the phrase "entire Board of Directors" shall mean that number of Directors fixed by the most recent resolution adopted pursuant to the preceding sentence prior to the date as of which a determination of the number of Directors then constituting the entire Board of Directors shall be relevant for any purpose under these By-Laws. Subject to the foregoing limitations and the requirements of the Articles of

Organization, the Board of Directors may be enlarged by the stockholders at any meeting or by the affirmative vote of a majority of the entire Board of Directors then in office.

Nominations for the election of Directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any stockholder entitled to vote generally in the election of Directors. However, any stockholder entitled to vote generally in the election of Directors may nominate one or more persons for election as Directors at a meeting only if written Notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Clerk of the corporation not later than (1) with respect to an election to be held at an annual meeting of stockholders or special meeting in lieu of an annual meeting, sixty (60) days prior to the date for

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the annual meeting set forth in the By-Laws and (2) with respect to an election to be held at a special meeting of stockholders not in lieu of an annual meeting, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders. Each such Notice to the Clerk shall set forth (i) the name and addresses of the stockholder and his or her nominees; (ii) a representation that the stockholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the stockholder and each such nominee; (iv) such other information as would be required to be included in a proxy statement soliciting proxies or the election of the nominees of such stockholder; and (v) the consent of each nominee to serve as a director of the corporation if so elected. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. The presiding officer of the meeting may, if the facts warrant, determine that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

No director need be a stockholder. Any election of directors by the stockholders shall be by ballot if so requested by any stockholder entitled to vote thereon.

Section 4.2 Powers

The business of the Corporation shall be managed by the Board of Directors, which shall exercise all the powers of the Corporation except as otherwise required by law, by the Articles of Organization or by these By-Laws. In the event of one or more vacancies in the Board of

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Directors, the remaining Directors, if at least two (2) Directors still remain in office, may exercise the powers of the full Board until such vacancy or vacancies are filled.

Section 4.3 Meetings of Directors

Regular meetings of the Directors may be held without notice at such places and at such times as may be fixed from time to time by the Directors. A regular meeting of the Directors may be held without notice immediately following the Annual Meeting of Stockholders or any Special Meeting held in lieu thereof.

Special Meetings of Directors may be called by the Chairman of the Board, the President, the Treasurer or any two (2) or more Directors, or if there shall be less than three (3) Directors by any one (1) Director, and shall be held at such time and place as specified in the Call. Reasonable notice of each special meeting of the Directors shall be given to each Director. Such notice may be given by the Secretary or Assistant Secretary of the Board, the Clerk or any Assistant Clerk or by the officer or one of the Directors calling the meeting. Notice to a Director shall in any case be sufficient if sent by telegram at least forty-eight (48) hours or by mail at least ninety-six (96) hours before the meeting addressed to him at his usual or last known business or residence

address, or if given to him at least forty-eight (48) hours before the meeting in person or by telephone or by handing him a written Notice. Notice of a meeting need not be given to any Director if a written Waiver of Notice, executed by him, before or after the meeting, is filed with the records of the meeting, or to any Director who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him. A Notice or Waiver of Notice need not specify the purposes of the meeting.

Section 4.4 Quorum of Directors

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At any meeting of the Directors, a quorum for any election or for the consideration of any question shall consist of a majority of the Directors then in office. Whether or not a quorum is present any meeting may be adjourned from time to time by a majority of the votes properly cast upon the question, and the meeting may be held as adjourned without further Notice. When a quorum is present at any meeting, the votes of a majority of the Directors present shall be requisite and sufficient for election to any office and shall decide any question brought before such meeting, except in any case where a larger vote is required by law, by the Articles of Organization or by these By-Laws.

Section 4.5 Consent in Lieu of Meeting and Participation in Meetings by Communications Equipment

Any action required or permitted to be taken at any meeting of the Directors may be taken without a meeting if all the Directors consent to the action in writing and the written Consents are filed with the records of the meetings of the Directors. Such Consents shall be treated for all purposes as a vote of the Directors at a meeting.

Members of the Board of Directors or any Committee designated thereby may participate in a meeting of such Board or Committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute presence in person at a meeting.

Section 4.6 Committees

By vote of a majority of the Directors then in office, the Directors may elect from their own number an Executive Committee or other Committees and may by like vote delegate to any such Committee some or all of their powers except those which by law may not be delegated.

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ARTICLE 5

Officers

Section 5.1 Enumeration, Election and Term of Office

The officers of the Corporation shall include a President, a Treasurer and a Clerk, who shall be chosen by the Directors at their first meeting following the Annual Meeting of the Stockholders. Each of them shall hold his office until the next annual election to the office which he holds and until his successor is chosen and qualified or until he sooner dies, resigns, is removed or becomes disqualified.

The Directors may choose one of their number to be Chairman of the Board and determine his powers, duties and term of office. The Directors may at any time appoint such other officers, including one or more Vice Presidents, Assistant Treasurers, Assistant Clerks, a Secretary of the Board and an Assistant Secretary of the Board as they deem wise, and may determine their respective powers, duties and terms of office.

No officer need be a stockholder or a Director except that the Chairman of the Board shall be a Director. The same person may hold more than one office, except that no person shall be both President and Clerk.

The Company may also designate individuals as divisional, group, or segment vice presidents or vice presidents of a particular function, which individual shall carry such title on a non-executive basis and not as executive

officers of the Corporation. Said non-executive vice presidents may be designated by the Board of Directors or by the President pursuant to Board resolutions so-authorizing the President to appoint non-executive vice presidents on a particular

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occasion or from time to time in his discretion, said honorary vice presidents to be titled "Vice President (specific area of function)".

Section 5.2 President and Chairman of the Board

The President shall be the Chief Executive Officer of the Corporation and, subject to the control and direction of the Directors, shall have general supervision and control of the business of the Corporation. He shall preside at all meetings of the stockholders at which he is present, and, if he is a Director, at all meetings of the Directors if there shall be no Chairman of the Board or in the absence of the Chairman of the Board.

If there shall be a Chairman of the Board, he shall make his counsel available to the other officers of the Corporation, and shall have such other duties and powers as may from time to time be conferred on him by the Directors. He shall preside at all meetings of the Directors at which he is present, and, in the absence of the President, at all meetings of stockholders.

Section 5.3 Treasurer and Assistant Treasurer

The Treasurer shall have the custody of the funds and valuable books and papers of the Corporation, except such as are directed by these By-Laws to be kept by the Clerk or by the Secretary of the Board. He shall perform all other duties usually incident to his office, and shall be at all times subject to the control and direction of the Directors. If required by the Directors, he shall give bond in such form and amount and with such sureties as shall be determined by the Directors.

If the Treasurer is absent or unavailable, any Assistant Treasurer shall have the duties and powers of Treasurer and shall have such further duties and powers as the Directors shall from time to time determine.

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Section 5.4 Clerk and Assistant Clerk

If the Corporation shall not have a resident agent appointed pursuant to law, the Clerk shall be a resident of the Commonwealth of Massachusetts. The Clerk shall record all proceedings of the stockholders in a book to be kept therefor. In case a Secretary of the Board is not elected, the Clerk shall also record all proceedings of the Directors in a book to be kept therefor.

If the Corporation shall not have a transfer agent, the Clerk shall also keep or cause to be kept the stock and transfer records of the Corporation, which shall contain the names of all stockholders and the record address and the amount of stock held by each.

If the Clerk is absent or unavailable, any Assistant Clerk shall have the duties and powers of the Clerk and shall have such further duties and powers as the Directors shall from time to time determine.

Section 5.5 Secretary of the Board and Assistant Secretary

If a Secretary of the Board is elected, he shall record all proceedings of the Directors in a book to be kept therefor.

If the Secretary of the Board is absent or unavailable, any Assistant Secretary shall have the duties and powers of the Secretary and shall have such further duties and powers as the Directors shall from time to time determine.

If no Secretary or Assistant Secretary has been elected, or if, having been elected, no Secretary or Assistant Secretary is present at a meeting of the Directors, the Clerk or an Assistant Clerk shall record the proceedings of the Directors.

Section 5.6 Temporary Clerk and Temporary Secretary

If no Clerk or Assistant Clerk shall be present at any meeting of the stockholders, or if no Secretary, Assistant Secretary, Clerk or Assistant Clerk shall be present at any meeting of the Directors, the person presiding at the meeting shall designate a Temporary Clerk or Secretary to perform the duties of Clerk or Secretary.

Section 5.7 Other Powers and Duties

Each officer shall, subject to these By-Laws and to the control and direction of the Directors, have in addition to the duties and powers specifically set forth in these By-Laws, such duties and powers as are customarily incident to his office and such additional duties and powers as the Directors may from time to time determine.

ARTICLE 6

Resignations, Removals and Vacancies

Section 6.1 Resignations

Any Director or officer may resign at any time by delivering his resignation in writing to the President or the Clerk or to a meeting of the Directors. Such resignations shall take effect at such time as is specified therein, or if no such time is so specified, then upon delivery thereof to the President or the Clerk or to a meeting of the Directors.

Section 6.2 Removals

Directors, including Directors elected by the Directors to fill vacancies in the Board, may be removed from office (a) with cause by vote of the holders of a majority of the shares issued and outstanding and entitled to vote generally in the election of Directors; (b) with or without cause by vote of the holders of at least 80% of the votes entitled to be cast by the holders of all shares of the corporation entitled to vote generally in the election of Directors, voting together as

a single class; (c) with cause by vote of a majority of the Directors then in office or (d) without cause by vote of at least 80% of the Directors then in office (including the Director to be removed in calculating said percentage); provided that the Directors of a class elected by a particular class of stockholders may be removed only by vote of the holders of a majority of the shares of such class.

The Directors may terminate or modify the authority of any agent or employee. The Directors may remove any officer from office with or without assignment of cause by vote of a majority of the Directors then in office.

If cause is assigned for removal of any Director or officer, such Director or officer may be removed only after a reasonable notice and opportunity to be heard before the body proposing to remove him.

No Director or officer who resigns or is removed shall have any right to any compensation as such Director or officer for any period following his resignation or removal, or any right to damages on account of such removal whether his compensation be by the month or by the year or otherwise; provided, however, that the foregoing provision shall not prevent such Director or officer from obtaining damages for breach of any contract of employment legally binding upon the corporation.

Section 6.3 Vacancies

Any vacancy in the Board of Directors, including a vacancy resulting from an enlargement of the Board, may be filled by the Directors by vote of a majority of the remaining Directors then in office, though less than a quorum, or by the stockholders at a meeting called for the purpose provided that any vacancy created by the stockholders may be filled by the

stockholders at the same meeting. Any Director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of Directors in which the new Directorship was created or the vacancy occurred and until such Directors' successor shall have been elected and qualified or until he sooner dies, resigns, is removed or becomes disqualified.

If the office of any officer becomes vacant, the Directors may choose or appoint a successor by vote of a majority of the Directors present at the meeting at which such choice or appointment is made.

Each such successor shall hold office for the unexpired term of his predecessor and until his successor shall be chosen or appointed and qualified, or until he sooner dies, resigns, is removed or becomes disqualified.

ARTICLE 7

Indemnification of Directors and Others

Section 7.1 Definitions

For purposes of this Article 7:

(a) "Director/officer" means any person who is serving or has served as a Director, officer or employee of the Corporation appointed or elected by the Board of Directors or the stockholders of the Corporation, or any Director, officer or employee of the Corporation who is serving or has served at the request of the Corporation as a Director, officer, trustee, principal, partner, employee or other agent of any other organization.

(b) "Proceeding" means any action, suit or proceeding, civil or criminal, brought or threatened in or before any court, tribunal, administrative or legislative body or agency.

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(c) "Expense" means any fine or penalty, and any liability fixed by a judgment, order, decree or award in a Proceeding, any amount reasonably paid in settlement of a Proceeding and any professional fees and other disbursements reasonably incurred in connection with a Proceeding.

Section 7.2 Right to Indemnification

Except as limited by law or as provided in Sections 7.3 and 7.4 of this Article 7, each Director/officer (and his heirs and personal representatives) shall be indemnified by the Corporation against any Expense incurred by him in connection with each Proceeding in which he is involved as a result of his serving or having served as a Director/officer.

Section 7.3 Indemnification Not Available

No indemnification shall be provided to a Director/officer with respect to a Proceeding as to which it shall have been adjudicated that he did not act in good faith in the reasonable belief that his action was in the best interests of the Corporation.

Section 7.4 Compromise or Settlement

In the event that a Proceeding is compromised or settled so as to impose any liability or obligation on a Director/officer or upon the Corporation, no indemnification shall be provided as to said Director/officer with respect to such Proceeding if such Director/officer shall have been adjudicated not to have acted in good faith in the reasonable belief that his action was in the best interests of the Corporation.

Section 7.5 Advances

The Corporation shall pay sums on account of indemnification in advance of a final disposition of a Proceeding upon receipt of an undertaking by the Director/officer to repay such

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sums if it is subsequently established that he is not entitled to indemnification pursuant to Sections 7.3 and 7.4 hereof, which undertaking may be accepted without reference to the financial ability of such person to make repayment.

Section 7.6 Not Exclusive

Nothing in this Article 7 shall limit any lawful rights to indemnification existing independently of this Article 7.

Section 7.7 Insurance

The provisions of this Article 7 shall not limit the power of the Board of Directors to authorize the purchase and maintenance of insurance on behalf of any Director/officer against any Expense, whether or not the Corporation would have the power to indemnify him against such Expense under this Article 7.

ARTICLE 8

Stock

Section 8.1 Stock Authorized

The total number of shares and the par value, if any, of each class of stock which the Corporation is authorized to issue, and if more than one class is authorized, the descriptions, preferences, voting powers, qualifications and special and relative rights and privileges as to each class and any series thereof, shall be as stated in the Articles of Organization.

Section 8.2 Issue of Authorized Unissued Capital Stock

Any unissued capital stock from time to time authorized under the Articles of Organization and Amendments thereto may be issued, by vote of the Directors. No stock shall be issued unless the cash, so far as due, or the property, services or expenses for which it was

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authorized to be issued, has been actually received or incurred by, or conveyed or rendered to, the Corporation, or is in its possession as surplus.

Section 8.3 Certificates of Stock

Each stockholder shall be entitled to a certificate in such form as may be prescribed from time to time by the Directors, stating the number and the class and the designation of the series, if any, of the shares held by him. Such certificates shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer. Such signatures may be facsimiles if the certificate is signed by a transfer agent, or by a registrar, other than a Director, officer or employee of the Corporation. In case any officer who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the time of its issue.

Every certificate issued by the Corporation for shares of stock at a time when such shares are subject to any restriction on transfer pursuant to the Articles of Organization, the By-Laws or any agreement to which the Corporation is a party shall have the restriction noted conspicuously on the certificate and shall also set forth on the face or back of the certificate either the full text of the restriction, or a statement of the existence of such restriction and a statement that the Corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge. Every stock certificate issued by the Corporation at a time when it is authorized to issue more than one class or series of stock shall set forth upon the face or back of the certificate either the full text of the preferences, voting powers, qualifications and special and relative rights of the shares of each class and series, if any, authorized to be issued, as set forth in

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the Articles of Organization, or a statement of the existence of such

preferences, powers, qualifications and rights and a statement that the Corporation will furnish a copy thereof to the holder of such certificate upon written request and without charge.

Section 8.4 Replacement Certificate

In case of the alleged loss or destruction or the mutilation of a certificate of stock, a new certificate may be issued in place thereof, upon such conditions as the Directors may determine.

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Section 8.5 Transfers

Subject to the restrictions, if any, imposed by the Articles of Organization, the By-Laws or any agreement to which the Corporation is a party, shares of stock shall be transferred on the books of the Corporation only by the surrender to the Corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment of such shares or by a written power of attorney to sell, assign or transfer such shares, properly executed, with necessary transfer stamps affixed, and with such proof that the endorsement, assignment or power of attorney is genuine and effective as the Corporation or its transfer agent may reasonably require. Except as may otherwise be required by law, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the Corporation in accordance with the requirements of these By-Laws. It shall be the duty of each stockholder to notify the Corporation of his post office address.

Section 8.6 Record Date

The Directors may fix in advance a time, which shall be not more than sixty (60) days before the date of any meeting of stockholders or the date for the payment of any dividend or the making of any distribution to stockholders or the last day on which the consent or dissent of stockholders may be effectively expressed for any purpose, as the record date for determining the stockholders having the right to notice of and to vote at such meeting and any adjournment thereof or the right to receive such dividend or distribution or the right to give such consent or

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dissent, and in such case only stockholders of record on such date shall have such right, notwithstanding any transfer of stock on the books of the Corporation after the record date; or without fixing such record date the Directors may for any such purposes close the transfer books for all or any part of such period.

If no record date is fixed and the transfer books are not closed:

(1) The record date for determining stockholders having the right to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given.

(2) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors acts with respect thereto.

ARTICLE 9

Miscellaneous Provisions

Section 9.1 Execution of Papers

All deeds, leases, transfers, contracts, bonds, notes, releases, checks, drafts and other obligations authorized to be executed on behalf of the Corporation shall be signed by the President or the Treasurer except as the Directors may generally or in particular cases otherwise determine.

Section 9.2 Voting of Securities

Except as the Directors may generally or in particular cases otherwise determine, the President or the Treasurer may, on behalf of the Corporation (i) waive Notice of any meeting of stockholders or shareholders of any other corporation, or of any association, trust or firm, of which any securities are held by this Corporation; (ii) appoint any person or persons to act as

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proxy or attorney-in-fact for the Corporation, with or without substitution, at any such meeting; and (iii) execute instruments of Consent to stockholder or shareholder action taken without a meeting.

Section 9.3 Corporate Seal

The seal of the Corporation shall be a circular die with the name of the Corporation, the word "Massachusetts" and the year of its incorporation cut or engraved thereon, or shall be in such other form as the Board of Directors or the stockholders may from time to time determine.

Section 9.4 Corporate Records

The original, or attested copies, of the Articles of Organization, By-Laws, and the records of all meetings of incorporators and stockholders, and the stock and transfer records, which shall contain the names of all stockholders and the record address and the amount of stock held by each, shall be kept in Massachusetts for inspection by the stockholders at the principal office of the Corporation or at an office of the Clerk, or if the Corporation shall have a transfer agent or a resident agent, at an office of either of them. Said copies and records need not all be kept in the same office.

ARTICLE 10

Amendments

These By-Laws may be altered, amended or repealed or new By-Laws enacted by the affirmative vote of a majority of the entire Board of Directors (if notice of the proposed alteration or amendment is contained in the notice of the meeting at which such vote is taken or if all Directors are present) or at any regular meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by the affirmative vote of a majority of the shares

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represented and entitled to vote at such meeting (if notice of the proposed alteration or amendment is contained in the notice of such meeting).

Notwithstanding anything contained in the preceding paragraph of this Article X to the contrary, either (i) the affirmative vote of the holders of at least eighty (80%) percent of the votes entitled to be cast by the holders of all shares of the corporation entitled to vote generally in the election of Directors, voting together as a single class, or (ii) the affirmative vote of a majority of the entire Board of Directors with the concurring vote of a majority of the Continuing Directors, voting separately and as a subclass of Directors, shall be required to alter, amend or repeal or adopt any provision inconsistent with, Section 3.1 of Article III, Section 4.1 of Article IV, Section 6.1 and Section 6.2 of Article VI and this paragraph of this Article X; provided however that (notwithstanding any action by the Board of Directors) if such proposal is put to a vote of the stockholders and receives the affirmative vote of each holder of at least 15% of the votes entitled to be cast by the holders of all shares of the corporation entitled to vote generally in the election of Directors, voting together as a single class (which holders also held on May 15, 1989 at least 15% of the shares of the corporation entitled on that date to vote generally in the election of Directors), then such proposal shall require only the affirmative vote of a majority of the shares represented and entitled to vote at such meeting. For purposes of this Article X, the term "Continuing Director" shall have the meaning ascribed to it in Article 6 of the Articles of Organization of the corporation.

COGNEX CORPORATION

Amendment to 1993 Stock Option Plan for Non-Employee Directors

The Cognex Corporation 1993 Stock Option Plan for Non-Employee Directors (the "Plan") is hereby amended as follows:

1. Section 8 of the Plan is hereby deleted in its entirety and the following is substituted therefor:

"8. TRANSFERABILITY OF OPTIONS

Any Option granted pursuant to this Plan shall not be assignable or transferable other than by will or the laws of descent and distribution, except that an optionee may transfer Options granted under this Plan to the optionee's spouse or children or to a trust for the benefit of the optionee or the optionee's spouse or children."

2. Except as modified hereby, the Plan is hereby ratified and confirmed in all respects.

COGNEX CORPORATION

By: \s\ Anthony J. Medaglia, Jr.

Clerk

Adopted by the Board of Directors:
December 16, 1997

COGNEX CORPORATION

Amendment to 1993 Stock Option Plan

The Cognex Corporation 1993 Stock Option Plan (the "Plan") is hereby amended as follows:

1. Section 11 of the Plan is amended by adding the following after the last sentence of the paragraph:

"11. TRANSFERABILITY OF OPTIONS

Notwithstanding the foregoing, an optionee may transfer non-qualified Options granted under this Plan to the optionee's spouse or children or to a trust for the benefit of the optionee or the optionee's spouse or children.

2. Except as modified hereby, the Plan is hereby ratified and confirmed in all respects.

COGNEX CORPORATION

By: \s\ Anthony J. Medaglia, Jr.

Clerk

Adopted by the Board of Directors:
December 16, 1997

TRANSITION LOAN AGREEMENT

On this the 24th day of May, 2001, James Hoffmaster, an individual with a residence at Deerpath Road, Dedham, MA 02026, ("Hoffmaster") and Cognex Corporation, a Massachusetts corporation with an address at One Vision Drive, Natick, MA 01760 ("Cognex"), hereby enter into this Transition Loan Agreement ("TLA") pursuant to the following terms:

1. Cognex agrees to provide Hoffmaster an interest free loan in the amount of Two Hundred Thousand Dollars (\$200 000.00) ("Loan Amount") payable by Cognex within ten (10) business days of the later of: a) Hoffmaster's signing of all the agreements required by Cognex as a condition of his becoming an employee as defined in Cognex's Offer Letter dated May 22nd, 2001, or b) Hoffmaster's first day of full time, paid employment at Cognex.
2. Hoffmaster shall repay the loan by means of applying Hoffmaster's Net Bonus earned at Cognex in future years of his employment toward reduction of the Loan Amount until Hoffmaster has repaid the entire Loan Amount. The term "Net Bonus as used herein shall mean the cash amount awarded in the future to Hoffmaster pursuant to Cognex's standard Executive Bonus Plan, less all applicable taxes and deductions. Cognex shall automatically deduct the loan repayments from Hoffmaster's Net Bonus and shall then pay the remaining bonus amount, if any, to Hoffmaster.
3. If either (a) Hoffmaster terminates his employment with Cognex for any reason before he has repaid the entire Loan Amount, or (b) Cognex terminates Hoffmaster's employment for Cause (as defined in the Termination Agreement attached to the Offer Letter, whether said agreement has been executed by both parties or not), then the remaining balance of the Loan Amount shall immediately become due and payable in full.
4. Hoffmaster hereby authorizes Cognex to deduct from Hoffmaster's wages and/or from any other amounts that may be due to Hoffmaster, any and all amounts that become due and payable pursuant to this Section 3.
5. If Cognex terminates Hoffmaster's employment with Cognex for any reason other than for Cause, then Cognex shall forgive the unpaid balance of the Loan Amount and Hoffmaster shall not be responsible for any further payments.

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6. Hoffmaster hereby waives presentment, demand, notice, protest, dishonor and all other demands and notices in connection with the delivery, acceptance performance, default or enforcement of the obligations of Hoffmaster under this TLA, and the exercise of and enforcement of any rights hereunder by Cognex, and assents without notice to any extension or postponement of the time of payment, to the addition or release of any party or person in any way liable hereunder, and to the compromise or settlement of the liability of any such party or person hereunder which may from time to time be agreed to by Cognex.
7. All of the provisions of this TLA shall be binding upon and inure to the benefit of Hoffmaster and Cognex and their respective successors, assigns and legal representatives. This TLA shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts without regard to any conflict of laws.
8. Hoffmaster shall pay all costs and expenses, including legal expenses and reasonable attorneys' fees incurred by Cognex in connection with the enforcement of Hoffmaster's obligations under this TLA. No delay or omission on the part of Cognex in exercising any right hereunder shall operate as a waiver of such right or of any other right hereunder, and no single or partial exercise of any right hereunder shall preclude other or future exercise thereof.

9. Hoffmaster acknowledges that the providing by Cognex to him of the Loan Amount and that the waiving by Cognex of any interest on the loan constitute additional consideration for Hoffmaster's agreement to abide by Section 4.0 of his Employee Invention, Non-Disclosure and Non-Competition Agreement, and the post-termination obligations imposed therein.

The above terms and conditions are hereby agreed and accepted as of the date first written above by:

Employee:

COGNEX CORPORATION:

/s/ James Hoffmaster

/s/ Robert J. Shillman

James Hoffmaster

Robert J. Shillman, President and C.E.O.

5/24/01

5/24/01

Date

Date

TERMINATION AGREEMENT

This Termination Agreement ("Agreement" or "Termination Agreement") is entered into this 4th day of June, 2001 between James F. Hoffmaster ("Hoffmaster" or "Employee") and Cognex Corporation, a company which on 5/17/01 was a Massachusetts corporation with a principal place of business at One Vision Drive, Natick, Massachusetts 01760-2059 and any of its affiliates, subsidiaries, successors and assigns as presently constituted and as may be established in the future ("Cognex"), regarding the termination of Hoffmaster's employment with Cognex.

In consideration of and in exchange for the consideration fully set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1.0 DEFINITIONS

When used in this Agreement, the terms listed in this Section 1.0 shall have the meaning as set forth below.

CAUSE:

Any one or more of the following acts which leads to the involuntary termination of the Employee by Cognex ("Termination for Cause"):

- 1) The commission by the Employee of any act of fraud or embezzlement or other deliberate and premeditated act of dishonesty, or the conviction or guilty plea by the Employee to a felony, or the pleading by Hoffmaster of nolo contendere (or any legal equivalent) to a felony
- 2) Any intentional misconduct on the part of the Employee which adversely affects the business or the business reputation of Cognex in a material manner
- 3) The Employees breach of any agreement signed by the Employee with Cognex
- 4) The neglect by the Employee of the duties and responsibilities assigned to the employee
- 5) The failure by the Employee to comply with Cognex policies establishing standards of conduct applicable to all employees
- 6) Any intentional act of insubordination on the part of the Employee
- 7) Excessive absenteeism or tardiness on the part of the Employee

Notwithstanding the foregoing, items 4, 5, 6 and 7 above shall constitute Cause only in the event that Cognex has provided to the Employee written notice with respect to such act or acts and Employee has not cured such act(s) within 30 days from receipt of notice. After curing such act(s), any repeated violation of such act shall constitute Cause and shall not require that additional written notice be given.

EMPLOYEE AGREEMENT:

The Employee Invention, Non-Disclosure and Non-Competition Agreement together with any written modifications thereto entered into between the Employee and Cognex.

TERMINATION DATE:

The last day of the Employee's employment at Cognex or at the Surviving Entity.

SURVIVING ENTITY:

The entity that exists following either the acquisition of Cognex or the merger of an entity with Cognex, either of which results in the dissolution of Cognex's Board of Directors.

2.0 EMPLOYMENT STATUS AND CONDITIONS OF EMPLOYMENT

During the entire term of his employment at Cognex, the Employee shall be an "employee at will." The Employee shall be free to terminate his employment at Cognex at any time without any continuing obligation to Cognex, other than as stated herein, and Cognex shall be free to terminate Employee's employment at any time, with or without Cause, without any continuing obligation to the Employee, other than as stated herein.

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3.0 NORMAL SEVERANCE PAYMENT AND BENEFITS

1. Upon termination, Employee will be paid all salary due to him through his Termination Date and for all accrued, but unused, PTO days (paid time-off days) up to the maximum number of days as defined by Cognex's PTO Policy. Notwithstanding the foregoing, Cognex shall have the right to deduct from any such amounts which may be due Hoffmaster, any amounts owed to Cognex by Hoffmaster as described in the Transition Loan Agreement and in the Relocation Assistance Agreement entered into between Hoffmaster and Cognex.
2. Hoffmaster shall have the right to exercise all his vested and unexercised stock options to the extent allowed under the terms of his Stock Option Agreement(s).
3. If Hoffmaster so elects, Cognex shall provide Hoffmaster a continuation of his existing medical and dental insurance pursuant to Cobra requirements under the condition that Hoffmaster pays to Cognex, by the first day of each month, the total cost of premiums for any medical and dental insurance which he elects to receive for that month. Failure to pay Cognex as specified will result in the immediate termination of Hoffmaster's insurance coverage.
4. Hoffmaster understands and agrees that his employment at Cognex was "at will", and that Cognex has no legal obligation to provide any severance payments or benefits of any kind to Hoffmaster other than those described in this Section 3.0.

4.0 ADDITIONAL CONSIDERATION

In further consideration for Hoffmaster entering into this Agreement and for the promises and general release of claims contained herein, and for Hoffmaster's compliance with the terms of Section 4.0 of the Employee Agreement after the Termination Date, Cognex will pay to Hoffmaster post-termination severance and provide to him other benefits as described in this Section 4 ("Additional Consideration"). Notwithstanding anything to the contrary in this Agreement, in the event that either a) Hoffmaster voluntarily terminates his employment with Cognex at any time, or b) Cognex terminates his employment with Cognex for Cause, then Cognex shall not owe, and shall not be required to pay, to Hoffmaster any Additional Consideration for (a) his entering into this Agreement, or for (b) the promises and general release of claims contained herein, or for (c) Hoffmaster's continued compliance with the terms of Section 4.0 of the Employee Agreement.

Additional Definitions

Last Day = The last date on which anyone of Hoffmaster's stock options can be exercised as described in Section 4 of Hoffmaster's Stock Option Agreement(s).

\$G = the pre-tax gain, in dollars, realized or realizable by Hoffmaster at any time following the first date of his employment at Cognex as a result of a) the exercise by him during the terms of his stock option agreements of any portion of his Cognex stock options plus b) all gains realized by him during the terms of his stock option agreements which resulted from the sale of any shares acquired by him through the exercise of any portion of such options, plus c) all gains that could have been realized by him if he had sold on the Last Day all of the Cognex shares that he obtained through the exercise of any portion of such options but which shares

he continued to hold as of the Last Day.

P = the number of months (rounded up to the next whole month) that remain in Hoffmaster's Non-Compete Period (as defined in Section 4 of the Employee Agreement) following the Termination Date.

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1. This Section 4. shall apply only in the event that during the term of Hoffmaster employment at Cognex none of the following events occur: a) Cognex is acquired, and Cognex is not the Surviving Entity, or b) Cognex is merged with another entity, and Cognex is not the Surviving Entity.

In the event that Hoffmaster employment at Cognex is terminated by Cognex for any reason other than Cause, and in the event that \$G is less than \$240,000, then Cognex shall pay to Hoffmaster an amount up to a maximum of \$240,000 by making P monthly payments, each of amount \$B, where the value of \$B is given by the formula:

$$\$B = (\$10,000 \times P) - \$G / P.$$

If, however, \$G is greater than or equal to \$240,000, then \$B = \$0.00, and Hoffmaster agrees that he has been sufficiently compensated for his entering into this Agreement and for the promises and general release of claims contained herein, and for his continued compliance with the terms of Section 4 of the Employee Agreement, and that Cognex shall not owe, and shall not be required to pay, to Hoffmaster any Additional Consideration.

Any payments to be made to Hoffmaster per this Section 4. 1 shall immediately cease upon any breach by him of Section 4 of the Employee Agreement.

2. This Section 4.2 shall apply only in the event that one or more of the following events occurs: a) Cognex is acquired and is not the Surviving Entity, or b) Cognex is merged with another entity and Cognex is not the Surviving Entity.

In the event that either 1) Hoffmaster's employment with Cognex is terminated by the Surviving Entity for any reason other than "Cause" in the 12 month period following said acquisition or merger, or 2) Hoffmaster's base salary and/or bonus target are revised downward at any time after the acquisition or merger and Hoffmaster voluntarily terminates as a result thereof, or 3) Hoffmaster is assigned to a business location that is more than fifty (50) miles from Natick, or 4) Hoffmaster's scope of responsibility or reporting relationship is materially changed at any time after the acquisition or merger and Hoffmaster voluntarily terminates as a result thereof, then the surviving entity shall provide the following additional consideration to Hoffmaster:

1. The cumulative number of option shares available to Hoffmaster for exercise on the Termination Date shall be increased from the amount(s) indicated in Hoffmaster stock Option Agreement(s) by an amount equal to the number of additional shares that would have become available to Hoffmaster per his Stock Option Agreement(s) if the termination of his employment occurred (12 + N) months after the Termination Date, where N is equal to the total number of full calendar months that Hoffmaster was an employee of Cognex plus the number of full calendar months that Hoffmaster was an employee of the Surviving Entity, and
2. The Surviving Entity shall pay to Hoffmaster a cash amount, CP Cash Parachute as shown in the formula below, up to a maximum of \$240,000:

$$CP = \$120,000 + (N \times \$10,000), \text{ and where } N \text{ is defined in subsection 4. above, up to a maximum of 12.}$$

The Cash Parachute shall be payable in 24 equal monthly installments at the end of each month of the 24 month period commencing on the Termination Date, and shall be conditional only

on Hoffmaster's continued compliance with Section 4 of the Employee Agreement.

3. Cognex hereby waives the six-month holding period, which is stated in Hoffmaster's stock option agreement(s).
4. Cognex agrees to provide administrative assistance to Hoffmaster in performing a cashless exercise of his stock options.

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5.0 RELEASE OF CLAIMS

Other than as specifically described in Sections 3.0 and 4.0 above, Hoffmaster hereby waives, releases and discharges Cognex its officers, directors, shareholders, agents, employees, administrators representatives, successors, assigns and attorneys, from any and all rights and claims arising out of his employment with Cognex and the termination of that employment, including, but not limited to, claims for salary, commissions, bonuses, profit sharing, stock, or stock options. Such releases and discharges further include without limitation, any claims, liens, demands, or liabilities in connection with Hoffmaster employment with Cognex and the termination of that employment, pursuant to any federal, state, or local employment laws, and regulations including but not limited to: the Massachusetts Fair Employment Practices Act (which includes claims for age and sex discrimination); the Federal Civil Rights Act of 1964 as amended; the Age Discrimination in Employment Act; and the Massachusetts wrongful discharge law. Hoffmaster acknowledges that Cognex has advised him to consult an attorney prior to entering into this Agreement.

6.0 MISCELLANEOUS

1. Hoffmaster agrees to abide by all the terms of the Employee Agreement.
2. This Agreement supersedes all prior agreements, either written or verbal, between the parties with respect to the subject matter herein, and no modification of this Agreement, either verbal or written, shall be valid unless signed in writing by both parties. The parties further agree that there is no other agreement or understanding between Hoffmaster and Cognex pertaining to the termination of Hoffmaster's employment with Cognex, except what is set forth in this Agreement and in the Employee Agreement and in the Stock Option Agreement(s) and in the Transition Loan Agreement and in the Relocation Assistance Agreement and in the Arbitration Agreement. In the event of any conflicting terms in said agreements, the wording in this Termination Agreement shall prevail.
3. Hoffmaster hereby agrees that he will keep the terms of this Agreement confidential and that he will not make any public statement concerning the termination of his employment at Cognex. Cognex hereby agrees that all its officers, employees, directors, agents, administrators or representatives will, unless required by law, keep the terms of this Agreement confidential.
4. Hoffmaster hereby states that he has had sufficient time to carefully read this Agreement and that he enters into this Agreement freely and voluntarily and without coercion or duress of any kind.
5. The validity, interpretation and performance of this Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts excluding said state's choice of law rules. The parties hereto voluntarily submit themselves to the jurisdiction of the Courts of the Commonwealth of Massachusetts with respect to any action to remedy any breach or to otherwise enforce the terms and conditions of this Agreement.
6. Effective date: This Agreement shall become effective upon the Termination Date.

/s/ James F. Hoffmaster

James F. Hoffmaster

Date of execution of Agreement: June 4, 2001

/s/ Robert J. Shillman

Robert J. Shillman, President
Cognex Corporation

Date of execution of Agreement: June 4, 2001

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ACKNOWLEDGMENT OF RECEIPT OF TERMINATION AGREEMENT

Hoffmaster acknowledges receipt of this Agreement on the date shown below.

Hoffmaster has twenty-one (21) days to consider this Termination Agreement, though he may sign and return this Agreement prior to the expiration of the twenty-one (21) day period if he voluntarily desires to do so. In addition, Hoffmaster may revoke this Termination Agreement within seven (7) days following his signing of this Agreement by providing written notice to Cognex prior to the expiration of the seven-day period.

Date of Receipt of Agreement:

James F. Hoffmaster

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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 expectations and estimates as to prospective events and circumstances, which may or may not be in the Company's control and as to which there can be no firm assurances given. These forward-looking statements, like any other forward-looking statements, involve known and unknown risks and uncertainties that could cause actual results to differ materially from those projected or implied by the forward-looking statements. Such risks and uncertainties include: (1) the effects of the general economic slowdown, including the worldwide slowdown in capital spending; (2) the cyclicity of the semiconductor and electronics industries; (3) the Company's continued ability to achieve significant international revenue; (4) the loss of, or a significant curtailment of purchases by, any one or more principal customers; (5) the reliance upon certain sole source suppliers to manufacture or deliver critical components for the Company's products; (6) the inability to design and manufacture high-quality products; (7) the inability to attract or retain skilled employees; (8) the inability to forecast customer demand accurately; (9) the technological obsolescence of current products and the inability to develop new products; (10) the inability to protect the Company's proprietary technology and intellectual property; (11) the Company's involvement in time-consuming and costly litigation; (12) the inability to respond to competitive technology and pricing pressures; and (13) 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 discussion of risk factors included in Part I - Item 1 of the 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 events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to investments, accounts receivable, inventories, income taxes, derivative instruments, long-lived assets, warranty obligations, litigation, and other contingencies. 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.

INVESTMENTS

At December 31, 2002, the Company's cash equivalent and investment balances totaled \$217,561,000, of which \$209,634,000 consisted of municipal obligations. The remaining balance represented 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 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

partnership's performance is monitored by the Company to determine if the carrying value of the investment has been impaired.

The Company has committed to a total investment in the limited partnership of up to \$25,000,000, of which \$10,375,000 had been contributed as of December 31, 2002. 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.

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

During 2002, the Company reduced the carrying value of its investment in the limited partnership by \$680,000, representing losses on the fund's investments and fund expenses that were not offset by 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. At December 31, 2002, the carrying value of this investment had been reduced to \$7,927,000.

The Company will continue to monitor the partnership's performance. 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 task of identifying attractive venture capital investments and valuing them on an ongoing basis is difficult and involves many uncertainties. Valuations are performed by the General Partner and the Company relies primarily on this information to make its determination as to whether an other-than-temporary impairment in its interest in the partnership has occurred. 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 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 doubtful 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, 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 inventories to their estimated 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.

INCOME TAXES

As part of the process of preparing consolidated financial statements, the Company is required to estimate income taxes in each of the jurisdictions in which it 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.

At December 31, 2002, the Company had net deferred tax assets of \$26,577,000, primarily resulting from temporary differences between the financial statement and tax bases of assets and liabilities. 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, 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.

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

DERIVATIVE INSTRUMENTS

In certain instances, the Company enters into forward exchange contracts to hedge against foreign currency fluctuations. These contracts are used to reduce the Company's risk associated with exchange rate movements, as the gains or losses on these contracts are intended to offset the exchange rate losses or gains on the underlying exposures. The Company does not engage in foreign currency speculation. As the terms of the forward exchange contract and underlying exposure are matched generally at inception, hedging effectiveness is calculated by comparing the change in fair value of the contract to the change in fair value of the underlying exposure. Ineffectiveness would be recognized immediately in current operations and may have a material impact on the Company's results of operations.

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 their fair values 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 values, 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. 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.

SUMMARY

The Company's results in 2002 continued to be impacted by a slowdown in capital spending by manufacturers worldwide, resulting in a 19% decrease in revenue from

2001. Sales to original equipment manufacturer (OEM) customers, who incorporate Cognex machine vision systems into the capital equipment they manufacture and sell to their customers, primarily in the semiconductor and electronics industries, decreased 39% from 2001. Likewise, sales to end-user customers, who purchase Cognex machine vision systems and install them directly on their production lines, decreased 3% from the prior year.

The Company continued to reduce its cost structure during 2002 to more closely align expenses to the lower level of customer demand. These actions, together with the sequential quarterly revenue growth in 2002, resulted in the Company reporting an operating profit in the fourth quarter. The Company's financial position remained strong at December 31, 2002, with \$386 million in total assets, \$355 million in stockholders' equity, and \$276 million in cash, cash equivalents, and investments.

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

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

Year ended December 31, -----	2002 ----	2001 ----	2000 ----
Revenue	100%	100%	100%
Cost of revenue	35	44	25
	----	----	----
Gross margin	65	56	75
Research, development, and engineering expenses	22	21	13
Selling, general, and administrative expenses	51	44	25
Amortization of goodwill	--	2	1
Charge for intangible asset impairment	--	8	--
	----	----	----
Operating income (loss)	(8)	(19)	36
Nonoperating income	1	8	4
	----	----	----
Income (loss) before taxes	(7)	(11)	40
Income tax provision (benefit)	(2)	(3)	13
	----	----	----
Net income (loss)	(5)%	(8)%	27%
	=====	=====	=====

RESULTS OF OPERATIONS

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

The Company operates in two reportable segments: the Modular Vision Systems Division (MVSD) and the Surface Inspection 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.

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 also 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.

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

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. Excluding these items, gross margin as a percentage of revenue was 63% for 2002 compared to 68% for 2001. The decrease in gross margin, adjusted for these charges and credits, was primarily due to 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.

Product gross margin as a percentage of revenue, excluding the unusual items described above, was 68% for 2002 compared to 72% for 2001. The decrease in product margin was primarily due to 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 for the past two years has resulted in lower service revenue derived from these maintenance and support programs. Although the Company has reduced its cost structure over the past two years 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, excluding the unusual items described above, was 67% for 2002 compared to 73% for 2001. The decrease in MVSD margin was primarily due to 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 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 expenses for the year ended December 31, 2002 decreased 6% to \$58,026,000 from \$61,590,000 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 were relatively flat with 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.

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 income for the year ended December 31, 2002 decreased 21% to \$8,693,000 from \$10,980,000 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 losses on the fund's investments and fund expenses that were not offset by 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.

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

Other income for the year ended December 31, 2002 decreased 33% to \$463,000 from \$689,000 for the year ended December 31, 2001. Other income consists primarily of rental income, net of related expenses, from leasing the building adjacent to the Company's corporate headquarters. A greater portion of the Company's space available for lease was unoccupied in 2002.

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.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

INVENTORY AND INTANGIBLE ASSET IMPAIRMENT CHARGES

Throughout 2001, the Company's results were negatively impacted by a worldwide slowdown in capital equipment spending by manufacturers in the semiconductor and electronics industries, as well as a weakened global economy. During the fourth quarter of 2001, a number of factors indicated that the business slowdown would be both longer and more severe than the Company had previously anticipated, and the Company's revenue plan for 2002 was lowered accordingly. Most notable among these factors were the continued decline in order rates across a variety of industries and product lines, as well as information obtained during the fourth quarter of 2001 from the Company's OEM customers regarding their high inventory positions and low consumption rates of Cognex products. These factors indicated that the Company's OEM revenue would be significantly lower than expected for the next several quarters. Additionally, when a business recovery did occur,

these customers would most likely transition from their current inventory of Cognex legacy products to newer Cognex platforms, as they leverage their engineering resources during the business slowdown to develop next-generation capital equipment. These OEM product transitions, as well as the lower level of demand principally from OEM customers, resulted in a \$16,300,000 charge for excess inventories and purchase commitments in the fourth quarter of 2001 that is included in "Cost of product revenue."

Also as a result of the significant adverse change in the business climate determined in the fourth quarter of 2001 described above, 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." These analyses resulted in impairment charges 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 resulting analyses yielded 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. The analyses also resulted in a \$315,000 charge, included in "Cost of product revenue," related to the impairment of complete technology acquired primarily from Komatsu Ltd. These charges impacted both the MVSD and SISD segments.

REVENUE

Revenue for the year ended December 31, 2001 decreased 44% to \$140,729,000 from \$250,726,000 for the year ended December 31, 2000. During 2001, the Company's results were negatively impacted by a worldwide slowdown in capital spending 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 \$95,439,000, or 61%, from the prior year. Sales to end-user customers also decreased from the prior year by \$14,558,000, or 16%, primarily due to lower demand from customers who make electronic products. Although end-user sales decreased in total from 2000, revenue from customers outside the semiconductor and electronics industries, such as the automotive and paper industries, increased \$10,219,000, or 20%, from the prior year due principally to higher sales of the Company's In-Sight and SmartView products. Both product lines were introduced in early 2000 and are targeted to the end-user market. Sales to end-user customers represented 56% of total revenue in 2001 compared to 37% in 2000. Geographically, revenue decreased from the prior year in all of the Company's worldwide regions, but most significantly in Japan where many of the Company's OEM customers are located.

Product revenue for the year ended December 31, 2001 decreased 47% to \$119,288,000 from \$227,079,000 for the year ended December 31, 2000. The decrease in product revenue was primarily due to a lower volume of machine vision systems sold to customers in the semiconductor

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

and electronics industries. Service revenue, which is derived from the sale of maintenance and support, education, consulting, and installation services, decreased 9% to \$21,441,000 from \$23,647,000 due principally to lower demand for consulting services. Many of the Company's products that were sold during 2000 included bundled maintenance and support programs for which a portion of the revenue was recognized in 2001 over the program period. As a result, service revenue did not decrease as dramatically as product revenue and it increased as a percentage of total revenue. Service revenue accounted for 15% of total revenue in 2001 compared to 9% in 2000.

MVSD revenue for the year ended December 31, 2001 decreased 49% to \$117,074,000 from \$231,471,000 for the year ended December 31, 2000. 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 increased 23% to \$23,655,000 from \$19,255,000 due principally to a higher volume of SmartView systems sold to customers in the paper and metals industries. SISD revenue represented 17% of total revenue in 2001 compared to 8% in 2000.

GROSS MARGIN

Gross margin as a percentage of revenue was 56% for 2001 compared to 75% for 2000. The inventory and intangible asset impairment charges recorded in "Cost of product revenue" of \$16,615,000 accounted for twelve percentage points of the decrease in the gross margin from 2000. The remaining seven percentage-point decrease was primarily due to the impact of the lower sales volume over a base of fixed manufacturing costs, as well as a greater percentage of total revenue from the sale of services and surface inspection systems, both of which have lower margins than modular vision systems.

Product gross margin as a percentage of revenue, excluding the inventory and intangible asset impairment charges, was 72% for 2001 compared to 78% for 2000. The decrease in product margin was primarily due to unfavorable absorption of manufacturing overhead due to a decreased volume of sales and the shift in product mix to lower-margin surface inspection systems. Service gross margin as a percentage of revenue was 43% for 2001 compared to 40% for 2000. The increase in service margin was due principally to lower service costs resulting from the cost-containment measures implemented in 2001. These measures included salary freezes and reductions, the elimination of all company bonuses, mandatory shutdowns, a reduction in discretionary spending, and a reduction in workforce.

MVSD gross margin as a percentage of revenue, excluding the inventory and intangible asset impairment charges, was 73% for 2001 compared to 77% for 2000. The decrease in MVSD margin was primarily due to the impact of the lower sales volume over a base of fixed manufacturing costs. SISD gross margin as a percentage of revenue was 42% for 2001 compared to 44% for 2000. The decrease in SISD margin was due principally to higher service costs required to grow the worldwide support organization.

OPERATING EXPENSES

Research, development, and engineering expenses for the year ended December 31, 2001 decreased 10% to \$30,094,000 from \$33,341,000 for the year ended December 31, 2000. MVSD R,D&E expenses decreased \$3,163,000, or 10%, from the prior year and SISD R,D&E expenses decreased \$84,000, or 3%, from 2000. The decrease in MVSD and SISD expenses was primarily due to the cost-containment measures implemented in 2001, as previously discussed.

Selling, general, and administrative expenses for the year ended December 31, 2001 decreased 1% to \$61,590,000 from \$61,915,000 for the year ended December 31, 2000. MVSD S,G&A expenses decreased \$2,500,000, or 5%, from the prior year, while SISD S,G&A expenses increased \$406,000, or 7%, from 2000. Corporate expenses that are not allocated to a division increased \$1,769,000, or 21%, from the prior year. The decrease in MVSD expenses was primarily due to the cost-containment measures implemented in 2001, as previously discussed. The increase in SISD expenses was due principally to higher sales and marketing costs required to grow the worldwide sales organization and market the Company's SmartView product line, which was introduced in 2000. The increase in unallocated corporate expenses was primarily due to higher legal costs associated with patent infringement lawsuits initiated by the Company to protect its intellectual property.

Amortization of goodwill for the year ended December 31, 2001 totaled \$3,108,000 compared to \$1,964,000 for the year ended December 31, 2000, representing an increase of \$1,144,000. Goodwill amortization at MVSD increased \$499,000 due to the full impact in 2001 of the goodwill arising from the Komatsu Ltd. and Image Industries Ltd. acquisitions in early 2000. Goodwill amortization at SISD increased \$645,000 due to the full impact in 2001 of the goodwill arising from the Honeywell International Inc. acquisition in late 2000.

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

NONOPERATING INCOME

Investment income for the year ended December 31, 2001 increased 16% to \$10,980,000 from \$9,494,000 for the year ended December 31, 2000. The increase in investment income was due primarily to a higher average invested balance in 2001.

Other income for the year ended December 31, 2001 decreased 34% to \$689,000 from

\$1,038,000 for the year ended December 31, 2000. Other income consists primarily of rental income, net of related expenses, from leasing the building adjacent to the Company's corporate headquarters. A portion of the Company's space available for lease was unoccupied in 2001.

INCOME TAXES

The Company's effective tax rate for 2001 was a benefit of 29% compared to a provision of 32% in 2000. The benefit reflects the Company's significant tax-exempt investment income, future reductions in taxes payable relating to net operating loss carryforwards in various jurisdictions, continued investments in the Company's foreign operations, and certain of the goodwill impairment charges recognized during the year, which are not deductible for tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, the Company's cash, cash equivalent, and investment balances totaled \$275,985,000, representing 78% 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, 2002 were met with positive cash flow from operations, as well as the proceeds from the maturity and sale of investments and the issuance of common stock under stock option and stock purchase plans. Cash requirements consisted of operating activities, capital expenditures, and the repurchase of common stock at a cost of \$26,425,000. Capital expenditures in 2002 totaled \$2,227,000 and consisted principally of expenditures for computer hardware and software.

On March 31, 2000, the Company acquired selected assets of the machine vision business of Komatsu Ltd. for \$11,200,000 in cash, with the potential for an additional cash payment in 2002 of up to \$8,000,000 depending upon certain performance criteria. The measurement period for the performance criteria ended March 31, 2002, and the Company did not make any additional payments.

On April 20, 2000, the Company acquired all of the outstanding shares of Image Industries, Ltd. for \$2,706,000. The purchase price included \$1,754,000 in cash payments. During 2002, the Company made a final cash payment of \$349,000.

On September 30, 2000, the Company acquired selected assets of the web inspection business of Honeywell International Inc. for \$8,400,000 in cash. The Company paid an additional \$1,600,000 at the closing that was contingent upon the achievement of certain performance criteria in 2001. The measurement period for the performance criteria ended December 31, 2001, resulting in a refund of \$996,000 from Honeywell. The remaining \$604,000 was expensed during 2002.

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 \$10,375,000 had been contributed as of December 31, 2002, including \$3,250,000 during 2002. 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.

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 2001, 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. 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.

The Company believes that its existing cash, cash equivalents, and investments balances will be sufficient to meet its planned operating, investing, and financing activities in 2003, which consist primarily of working capital and capital expenditure requirements, as well as any strategic initiatives in 2003, including its stock repurchase program and potential business or asset acquisitions.

NEW PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also requires that liabilities recorded in connection with exit plans be initially measured at fair value. The Company does not expect that the adoption of SFAS No. 146 will have a material impact on its financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies the disclosure, recognition, and measurement requirements related to certain guarantees. The provisions related to recognizing a liability at the inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivative instruments. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company does not expect the adoption of Interpretation No. 45 to have a material impact on its financial position or results of operations.

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This issue addresses how revenue arrangements with multiple deliverables should be divided into separate units of accounting and how the arrangement consideration should be allocated to the identified separate accounting units. Issue No. 00-21 is effective for fiscal periods beginning after June 15, 2003. The Company has not yet determined the impact of adopting Issue No. 00-21 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 U.S. Dollar, primarily the Japanese Yen and Euro Dollar. 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 exchange contracts to hedge against foreign currency fluctuations. These contracts are used to reduce the Company's risk associated with exchange rate movements, as the gains or losses on these contracts are intended to offset the exchange rate 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.

The Company enters into forward exchange contracts to hedge the foreign currency exposure of its net investments in certain of its European subsidiaries. Forward exchange contracts to exchange a total of 51,244,300 Euro Dollars for U.S. Dollars at a weighted-average settlement price of 1.0150 Euro/USD, with terms ranging from two to five years, were outstanding at December 31, 2002. The Company also enters into forward exchange contracts to hedge the foreign currency exposure of a portion of its intercompany transactions between the United States parent and its foreign subsidiaries. Forward exchange contracts to exchange 430,000 Japanese Yen for U.S. Dollars at a settlement price of 119.20 Yen/USD, contracts to exchange 230,000 Japanese Yen for Euro Dollars at a settlement price of 123.10 Yen/Euro, and contracts to exchange 5,800,000 Euro Dollars for U.S. Dollars at a settlement price of 1.0316 Euro/USD, all with terms ranging from three to six months, were outstanding at December 31, 2002.

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 forward exchange contract and underlying exposure are matched generally at inception, movements in foreign currency exchange rates would not expose the Company to significant losses in earnings or cash flows.

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

INTEREST RATE RISK

The Company's investment portfolio includes municipal obligations of state and local government entities. Municipal obligations with original maturities greater than three months are stated at amortized cost, which approximates fair value, and are categorized as available-for-sale. At December 31, 2002, the amortized cost basis of the Company's municipal obligations amounted to \$209,634,000, with principal amounts totaling \$205,910,000, maturities that do not exceed three years, and a yield to maturity of 3.34%.

Given the relatively short maturities and investment-grade quality of the Company's portfolio of municipal obligations at December 31, 2002, 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 portfolio of municipal obligations at December 31, 2002 arising from selected potential changes in interest rates. Fair value represents the market value of the principal plus accrued interest.

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 obligations	\$229,124	\$227,819	\$226,518	\$225,244	\$223,972

A 50 basis point (BP) movement in the Federal Funds Rate has occurred in 13 of the last 48 quarters. There has not been a 100 BP movement in the Federal Funds Rate in any of the last 48 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 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 partnership's performance is monitored by the Company to determine if the carrying value of the investment has been impaired.

The Company has committed to a total investment in the limited partnership of up to \$25,000,000, of which \$10,375,000 had been contributed as of December 31, 2002. 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.

During 2002, the Company reduced the carrying value of its investment in the limited partnership by \$680,000, representing losses on the fund's investments and fund expenses that were not offset by 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. At December 31, 2002, the carrying value of this investment had been reduced to \$7,927,000.

The Company will continue to monitor the partnership's performance. The majority of the partnership's portfolio consists of investments in early state, private companies characterized by a high degree of risk, volatility, and illiquidity. The task of identifying attractive venture capital investments and valuing them on an ongoing basis is difficult and involves many uncertainties. Valuations are performed by the General Partner and the Company relies primarily on this information to make its determination as to whether an other-than-temporary impairment in its interest in the partnership has occurred. 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 partnership and future impairment charges may be required.

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COGNEX CORPORATION: CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

Year Ended December 31,	2002	2001	2000
Revenue			
Product	\$ 96,202	\$ 119,288	\$ 227,079
Service	17,905	21,441	23,647
	114,107	140,729	250,726
Cost of revenue			
Product	28,499	50,170	49,509
Service	11,360	12,175	14,311
	39,859	62,345	63,820
Gross margin			
Product	67,703	69,118	177,570
Service	6,545	9,266	9,336
	74,248	78,384	186,906
Research, development, and engineering expenses	25,630	30,094	33,341
Selling, general, and administrative expenses	58,026	61,590	61,915
Amortization of goodwill	--	3,108	1,964
Charge for intangible asset impairment	--	10,932	--
	(9,408)	(27,340)	89,686
Operating income (loss)	(9,408)	(27,340)	89,686
Investment income	8,693	10,980	9,494
Loss on sale of equity securities and impairment of investment in limited partnership	(7,952)	--	--
Other income	463	689	1,038
	(8,204)	(15,671)	100,218
Income (loss) before taxes	(8,204)	(15,671)	100,218
Income tax provision (benefit)	(2,177)	(4,544)	32,070
	\$ (6,027)	\$ (11,127)	\$ 68,148
Net income (loss)	\$ (6,027)	\$ (11,127)	\$ 68,148
Net income (loss) per common and common equivalent share:			
Basic	\$ (0.14)	\$ (0.25)	\$ 1.58
Diluted	\$ (0.14)	\$ (0.25)	\$ 1.49
Weighted-average common and common equivalent shares outstanding:			
Basic	43,503	43,639	43,043
Diluted	43,503	43,639	45,698

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

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COGNEX CORPORATION: CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

December 31, -----	2002 -----	2001 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 60,864	\$ 31,660
Short-term investments	75,769	78,513
Accounts receivable, less reserves of \$2,207 and \$2,080 in 2002 and 2001, respectively	18,981	17,064
Inventories, net	18,952	23,078
Deferred income taxes	9,969	12,175
Prepaid expenses and other current assets	9,256	10,082
	-----	-----
Total current assets	193,791	172,572
Long-term investments	139,352	182,542
Property, plant, and equipment, net	27,405	31,213
Deferred income taxes	16,608	12,001
Intangible assets, net	919	1,654
Goodwill, net	3,742	3,268
Other assets	3,686	3,654
	-----	-----
	\$ 385,503	\$ 406,904
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,910	\$ 4,356
Accrued expenses	16,558	18,486
Customer deposits	3,659	2,943
Deferred revenue	3,856	3,075
	-----	-----
Total current liabilities	30,983	28,860
Commitments (Notes 4, 9, and 10)		
Stockholders' equity:		
Common stock, \$.002 par value -		
Authorized: 140,000 shares, issued: 46,877 and 46,289 shares in 2002 and 2001, respectively	94	93
Additional paid-in capital	184,595	173,675
Treasury stock, at cost, 4,249 and 2,390 shares in 2002 and 2001, respectively	(72,311)	(43,419)
Retained earnings	248,010	254,037
Accumulated other comprehensive loss	(5,868)	(6,342)
	-----	-----
Total stockholders' equity	354,520	378,044
	-----	-----
	\$ 385,503	\$ 406,904
	=====	=====

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

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COGNEX CORPORATION: CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

Year Ended December 31, -----	2002 -----	2001 -----	2000 -----
Cash flows from operating activities:			
Net income (loss)	\$ (6,027)	\$ (11,127)	\$ 68,148

Adjustments to reconcile net income (loss)			
to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	6,534	6,953	6,991
Amortization of intangible assets	543	4,161	2,883
Amortization of investments	2,447	2,430	2,119
Tax benefit from exercise of stock options	3,450	3,745	23,300
Deferred income tax benefit	(2,196)	(7,843)	(533)
Loss on sale of equity securities	6,184	--	--
Impairment and net losses on investment in limited partnership	2,448	--	--
Charge for excess inventory	--	16,300	--
Charge for intangible asset impairment	--	11,247	--
Changes in current assets and current liabilities:			
Accounts receivable	(348)	27,824	(18,811)
Inventories	5,010	(12,893)	(17,902)
Accounts payable	395	(5,487)	5,850
Accrued expenses	(4,375)	(11,565)	5,039
Other current assets and current liabilities	1,979	(3,118)	(305)
Other operating activities	402	243	(355)
Net cash provided by operating activities	16,446	20,870	76,424
Cash flows from investing activities:			
Purchase of investments	(97,723)	(139,863)	(134,838)
Maturity and sale of investments	139,353	106,310	67,119
Purchase of property, plant, and equipment	(2,227)	(4,455)	(7,755)
Long-term deposit	--	--	(1,700)
Cash paid for business and technology acquisitions, net of cash acquired	(349)	(361)	(22,240)
Net cash provided by (used in) investing activities	39,054	(38,369)	(99,414)
Cash flows from financing activities:			
Issuance of common stock under stock option and stock purchase plans	5,004	4,637	17,920
Repurchase of common stock	(26,425)	--	--
Net cash provided by (used in) financing activities	(21,421)	4,637	17,920
Effect of exchange rate changes on cash	(4,875)	1,597	(670)
Net increase (decrease) in cash and cash equivalents	29,204	(11,265)	(5,740)
Cash and cash equivalents at beginning of year	31,660	42,925	48,665
Cash and cash equivalents at end of year	\$ 60,864	\$ 31,660	\$ 42,925

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

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COGNEX CORPORATION - CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock	
	Shares	Par Value
Balance at December 31, 1999	44,220	\$ 88
Issuance of common stock under stock option and stock purchase plans	1,568	4
Tax benefit from exercise of stock options	--	--
Common stock received for payment of stock option exercises	--	--
Acquisition of Image Industries, Ltd.	--	--
Comprehensive income:		
Net income	--	--
Unrealized loss on investments, net of tax of \$978	--	--
Gains on foreign intercompany loans, net of losses on forward exchange contracts, net of tax of \$53	--	--
Foreign currency translation adjustment	--	--
Comprehensive income		
Balance at December 31, 2000	45,788	\$ 92
Issuance of common stock under stock option and stock purchase 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 forward exchange contracts, 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 and stock purchase 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 foreign intercompany loans, net of gains on forward exchange contracts, net of tax of \$21	--	--
Foreign currency translation adjustment	--	--
Comprehensive loss		

Balance at December 31, 2002	46,877	\$ 94
	=====	=====

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

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Additional Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Cost				
\$ 122,522	2,381	\$ (43,550)	\$ 197,016	\$ 548		\$ 276,624
17,993	--	--	--	--	--	17,997
23,300	--	--	--	--	--	23,300
--	2	(77)	--	--	--	(77)
--	(18)	952	--	--	--	952
--	--	--	68,148	--	\$ 68,148	68,148
--	--	--	--	(1,664)	(1,664)	(1,664)
--	--	--	--	90	90	90
--	--	--	--	(1,421)	(1,421)	(1,421)
					\$ 65,153	
\$ 163,815	2,365	\$ (42,675)	\$ 265,164	\$ (2,447)		\$ 383,949
6,115	--	--	--	--	--	6,116
3,745	--	--	--	--	--	3,745
--	25	(744)	--	--	--	(744)
--	--	--	(11,127)	--	\$ (11,127)	(11,127)
--	--	--	--	(3,076)	(3,076)	(3,076)
--	--	--	--	109	109	109
--	--	--	--	(928)	(928)	(928)
					\$ (15,022)	
\$ 173,675	2,390	\$ (43,419)	\$ 254,037	\$ (6,342)		\$ 378,044
7,470	--	--	--	--	--	7,471
3,450	--	--	--	--	--	3,450
--	1,768	(26,425)	--	--	--	(26,425)
--	91	(2,467)	--	--	--	(2,467)
--	--	--	(6,027)	--	\$ (6,027)	(6,027)
--	--	--	--	4,269	4,269	4,269
--	--	--	--	(35)	(35)	(35)
--	--	--	--	(3,760)	(3,760)	(3,760)
					\$ (5,553)	
\$ 184,595	4,249	\$ (72,311)	\$ 248,010	\$ (5,868)		\$ 354,520

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the application of 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 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. 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 equity securities and an investment in a limited partnership, are classified as long-term investments.

Debt securities with original maturities greater than three months are stated at amortized cost, which approximates fair value, and are categorized as available-for-sale. It is the Company's policy to invest in debt securities with maturities that do not exceed three years. Equity securities are stated at fair value based upon prices quoted on public stock exchanges and are also categorized as available-for-sale. Temporary changes in unrealized gains or losses on equity securities, net of tax, are recorded as other comprehensive income (loss). The Company's investment in a limited partnership 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. Fair value of the Company's limited partnership interest is estimated based upon valuations of the partnership's investments performed by the General Partner. The Company evaluates its investments for potential impairment when an investment has experienced a decline in fair value. 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 the receivables are outstanding, as well as various other criteria. 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 inventories to their net realizable value.

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 measures 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 measures 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's contract. Estimated warranty obligations are evaluated and recorded at the time of sale based upon historical costs to fulfill warranty obligations.

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, and (2) service revenue derived principally from providing maintenance and support, education, consulting, and installation services to both OEM and end-user customers.

The Company recognizes revenue from product sales upon shipment if a signed customer contract or purchase order exists, the fee is fixed or determinable, and collection of the resulting receivable is probable. If a contract or purchase order contains customer-specified acceptance criteria, then revenue is deferred until the Company can demonstrate that the customer's criteria have been met. Revenue from maintenance and support programs is deferred and recognized ratably over the program period. Revenue from education, consulting, and installation services is recognized as the related services are performed.

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

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 equity securities, and gains and losses on foreign intercompany loans and their associated forward exchange contracts.

CONCENTRATIONS OF CREDIT 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.

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 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.

In certain instances, the Company enters into forward exchange contracts to hedge against foreign currency fluctuations. These contracts are used to reduce the Company's risk associated with exchange rate movements, as the gains or losses on these contracts are intended to offset the exchange rate losses or gains on the underlying exposures. The Company does not engage in foreign currency speculation. Hedges of underlying exposures are designated and documented at the inception of the hedge and are evaluated for effectiveness monthly. As the terms of the forward exchange contract and underlying exposure are matched generally at inception, hedging effectiveness is calculated by comparing the change in fair value of the contract to the change in fair value of the underlying exposure. Based upon year-end exchange rates, the Company estimates the aggregate contract value of the forward exchange contracts to be representative of the fair value of these instruments.

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 2002, 2001, and 2000.

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 (in thousands, except per share amounts):

Year Ended December 31, -----	2002 -----	2001 -----	2000 -----
Net income (loss), as reported	\$ (6,027)	\$ (11,127)	\$ 68,148
Less: Total stock-based compensation costs determined under fair value based method, net of tax	(17,235)	(17,698)	(9,557)
Net income (loss), pro forma	\$ (23,262)	\$ (28,825)	\$ 58,591
Basic net income (loss) per share, as reported	\$ (0.14)	\$ (0.25)	\$ 1.58
Basic net income (loss) per share, pro forma	\$ (0.53)	\$ (0.66)	\$ 1.36
Diluted net income (loss) per share, as reported	\$ (0.14)	\$ (0.25)	\$ 1.49
Diluted net income (loss) per share, pro forma	\$ (0.53)	\$ (0.66)	\$ 1.34

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 in 2002, 2001, and 2000, respectively: a risk-free interest rate of 3.5%, 4.5%, and 6.1%; an expected life of 2.9, 2.7, and 3.1 years; an expected volatility of 57%, 62%, and 60%; and no expected dividends.

NOTE 2: NEW PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also requires that liabilities recorded in connection with exit plans be initially measured at fair value. The Company does not expect that the adoption of SFAS No. 146 will have a material impact on its financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies the disclosure, recognition, and measurement requirements related to certain guarantees. The provisions related to recognizing a liability at the inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivative instruments. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company does not expect the adoption of Interpretation No. 45 to have a material impact on its

financial position or results of operations.

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This issue addresses how revenue arrangements with multiple deliverables should be divided into separate units of accounting and how the arrangement consideration should be allocated to the identified separate accounting units. Issue No. 00-21 is effective for fiscal periods beginning after June 15, 2003. The Company has not yet determined the impact of adopting Issue No. 00-21 on its consolidated financial statements.

NOTE 3: FOREIGN CURRENCY RISK MANAGEMENT

The Company enters into forward exchange contracts 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 a term of two to five years. Forward exchange contracts 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 forward exchange contracts that qualify for hedge accounting are recognized as other comprehensive income (loss), along with the associated losses and gains on the net investments. For the year ended December 31, 2002, the Company recorded a net exchange rate loss of \$35,000 in other comprehensive income (loss) on the net investments and associated forward exchange contracts, compared to net exchange rate gains of \$109,000 and \$90,000 for the years ended December 31, 2001 and 2000, respectively.

The Company enters into forward exchange contracts to hedge the foreign currency exposure of a portion of its intercompany transactions between the United States parent and its foreign subsidiaries. These contracts, which relate primarily to the Japanese Yen and Euro Dollar, generally have a term of three to six months. Gains and losses on forward exchange contracts that do not qualify for hedge accounting are recognized in current operations, along with the associated losses and gains on the intercompany transactions. For the year ended December 31, 2002, the Company recorded a net exchange rate gain of \$433,000 in current operations on the intercompany transactions and associated forward exchange contracts, compared to a net exchange rate loss of \$154,000 and a net exchange rate gain of \$3,000 for the years ended December 31, 2001 and 2000, respectively.

In addition to the intercompany transactions and associated forward exchange contracts 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 a net exchange rate gain of \$350,000 in 2002, a net exchange rate loss of \$328,000 in 2001, and a net exchange rate gain of \$99,000 in 2000, representing the total net exchange rate gains or losses that are recognized in current operations.

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

December 31, -----	2002 -----	2001 -----
Cash	\$ 58,424	\$ 19,808
Municipal obligations	2,440	11,852
	-----	-----
Total cash and cash equivalents	60,864	31,660
	=====	=====
Municipal obligations	75,769	78,513
	-----	-----

Total short-term investments	75,769	78,513
	=====	=====
Municipal obligations	131,425	169,730
Equity securities	--	5,687
Investment in limited partnership	7,927	7,125
	-----	-----
Total long-term investments	139,352	182,542
	=====	=====
	\$ 275,985	\$ 292,715
	=====	=====

The Company recorded gross realized gains on the sale of municipal obligations totaling \$1,112,000 in 2002, \$521,000 in 2001, and \$149,000 in 2000. The Company recorded gross realized losses on the sale of municipal obligations totaling \$25,000 in 2002 and \$50,000 in 2001. There were no gross realized losses from the sale of municipal obligations recorded in 2000. During 2002, the Company sold equity securities with a cost basis of \$12,461,000 and recorded realized losses of \$6,184,000 on these transactions. The Company no longer holds any equity investments.

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 \$10,375,000 and \$7,125,000 had been contributed as of December 31, 2002 and 2001, 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.

During 2002, the Company reduced the carrying value of its investment in the limited partnership by \$680,000, representing losses on the fund's investments and fund expenses that were not offset by 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. At December 31, 2002, the carrying value of this investment had been reduced to \$7,927,000.

NOTE 5: INVENTORIES

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

December 31,	2002	2001
-----	-----	-----
Raw materials	\$ 12,530	\$ 16,108
Work-in-process	4,068	4,162
Finished goods	2,354	2,808
	-----	-----
	\$ 18,952	\$ 23,078
	=====	=====

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 Sheet 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 Sheet at December 31, 2001.

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

	Balance Sheet		Statement of
	Inventories	Accrued Expenses	Operations
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

The Company is in the process of negotiating with vendors for the settlement of the remaining purchase commitments, which may result in a recovery of a portion of the remaining \$1,400,000 accrued at December 31, 2002.

NOTE 6: PROPERTY, PLANT, AND EQUIPMENT

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

December 31,	2002	2001
Land	\$ 3,051	\$ 3,051
Buildings	17,571	17,571
Building improvements	4,079	4,130
Computer hardware and software	31,116	33,868
Furniture and fixtures	3,672	3,509
Leasehold improvements	2,056	1,967
	61,545	64,096
Less: accumulated depreciation	(34,140)	(32,883)
	\$ 27,405	\$ 31,213

Buildings include property held for lease with a cost basis of \$4,950,000 at December 31, 2002 and 2001 and accumulated depreciation of \$952,000 and \$825,000 at December 31, 2002 and 2001, respectively.

NOTE 7: INTANGIBLE ASSETS

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. In accordance with this statement, the Company reassessed the classification of its goodwill and other intangible assets. This analysis, which was completed during the first

quarter of 2002, resulted in the reclassification of \$133,000 of workforce to goodwill. Also in accordance with this statement, the Company reassessed the useful lives of its amortized intangible assets and determined the lives were appropriate.

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

	Gross Carrying Value -----	Accumulated Amortization -----	Net Carrying Value -----
DECEMBER 31, 2002			
Complete technology	\$ 4,708	\$ 3,789	\$ 919
Noncompete agreements	793	793	--
	-----	-----	-----
	\$ 5,501	\$ 4,582	\$ 919
	=====	=====	=====
December 31, 2001			
Complete technology	\$ 4,708	\$ 3,331	\$ 1,377
Noncompete agreements	852	708	144
Workforce	200	67	133
	-----	-----	-----
	\$ 5,760	\$ 4,106	\$ 1,654
	=====	=====	=====

Aggregate amortization expense for the years ended December 31, 2002, 2001, and 2000 was \$543,000, \$1,053,000, and \$919,000, respectively. Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

Year ended December 31, -----	Amount -----
2003	\$ 409
2004	409
2005	101
2006	-
2007	-

	\$ 919
	=====

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 SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." These analyses 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.

NOTE 8: GOODWILL

In accordance with the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002, 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.

COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
	=====	=====	=====

As of January 1, 2002, the Company ceased the amortization of goodwill in accordance with SFAS No. 142. During the first quarter of 2002, the Company performed the transitional goodwill impairment test for each reporting unit and during the fourth quarter of 2002, the Company performed the annual goodwill impairment test for each reporting unit. Both analyses resulted in a fair value of each reporting unit that exceeded its carrying value, 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 income (loss) and net income (loss) per basic and diluted share adjusted to exclude amortization of goodwill for the years ended December 31, 2001 and 2000 are as follows (in thousands, except per share amounts):

	Net Income (Loss) -----	Net Income (Loss) per Basic Share -----	Net Income (Loss) per Diluted Share -----
Year ended December 31, 2001			
Reported results	\$(11,127)	\$ (.25)	\$ (.25)
Goodwill amortization, net of tax	2,274	.05	.05
	-----	-----	-----
Adjusted results	\$ (8,853)	\$ (.20)	\$ (.20)
	=====	=====	=====
Year ended December 31, 2000			
Reported results	\$ 68,148	\$ 1.58	\$ 1.49
Goodwill amortization, net of tax	1,310	.03	.03
	-----	-----	-----
Adjusted results	\$ 69,458	\$ 1.61	\$ 1.52
	=====	=====	=====

NOTE 9: ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

December 31, -----	2002 -----	2001 -----
Salaries, commissions, and payroll taxes	\$ 3,097	\$ 2,564
Professional fees	2,737	2,440
Income taxes	1,738	2,099
Vacation	1,586	1,845
Warranty obligation	1,523	2,007
Purchase commitments	1,400	3,800
Other	4,477	3,731
	-----	-----
	\$ 16,558	\$ 18,486
	=====	=====

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Balance at December 31, 2001	\$ 2,007
Provisions for warranties issued	943
Fulfillment of warranty obligations	(1,565)
Foreign exchange rate changes	138

Balance at December 31, 2002	\$ 1,523
	=====

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 \$4,536,000 in 2002, \$4,673,000 in 2001, and \$3,717,000 in 2000. Future minimum rental payments under these agreements are as follows at December 31, 2002 (in thousands):

Year ended December 31, -----	Amount -----
2003	\$ 3,759
2004	2,255
2005	1,560
2006	216
2007	191
Thereafter	462

	\$ 8,443
	=====

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 2004. Annual rental income totaled \$1,224,000 in 2002, \$1,426,000 in 2001, and \$1,755,000 in 2000. Rental income and related expenses are included in "Other income" on the Consolidated

Statements of Operations. Future minimum rental receipts under non-cancelable lease agreements are \$1,137,000 in 2003 and \$218,000 in 2004.

NOTE 11: STOCKHOLDERS' EQUITY

PREFERRED STOCK

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

STOCK REPURCHASE PROGRAMS

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 2001, 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.

STOCK OPTION PLANS

At December 31, 2002, the Company had 8,789,699 shares available for grant under the following stock option plans: the 1998 Director Plan, 74,000; the 1998 Stock Incentive Plan, 815,699; the 2001 Interim General Stock Incentive Plan, 400,000; 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 issued under the 2001 General Stock Option Plan.

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 issued 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 to an amount equal to 4.5% of the total number of issued shares of common stock, including shares held in treasury, as of the close of business on December 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, 2002, 2001, and 2000, and changes during the years then ended (in thousands, except per share amounts):

	2002		2001		2000	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	9,529	\$22.31	8,014	\$21.04	8,047	\$16.09
Granted at fair market value	2,211	21.38	2,630	25.28	2,985	35.65
Granted above fair market value	--	--	--	--	60	59.10
Exercised	(550)	12.56	(467)	10.10	(1,622)	10.78
Forfeited	(809)	25.26	(648)	27.54	(1,456)	36.58
Outstanding at end of year	10,381	22.40	9,529	22.31	8,014	21.04
Options exercisable at year-end	4,156	19.01	2,842	15.93	1,913	13.05
Weighted-average grant-date fair value of options granted during the year at fair market value	\$ 8.39		\$10.34		\$15.60	
Weighted-average grant-date fair value of options granted during the year above fair market value	--		--		\$20.39	

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about stock options outstanding at December 31, 2002 (in thousands, except per share amounts):

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	
\$ 1.00 - 15.72	2,099	5.3	\$ 11.12	1,590	\$ 10.28	
15.88 - 18.13	1,850	7.8	17.20	797	16.52	
18.19 - 25.60	3,577	8.7	22.71	818	23.61	
25.70 - 30.81	1,930	8.3	28.93	678	28.70	
30.86 - 44.44	435	7.4	35.86	210	36.09	
45.41 - 59.69	490	11.3	50.38	63	49.78	
	10,381	7.9	22.40	4,156	19.01	

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 38,105 in 2002, 34,004 in 2001, and 22,638 in 2000. The weighted-average fair value of shares purchased under the ESPP was \$5.73 in 2002, \$7.73 in 2001, and \$17.22 in 2000.

For the purpose of providing pro forma disclosures, the fair values of shares purchased were estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for purchases in 2002, 2001, and 2000, respectively: a weighted-average risk-free interest rate of 1.5%, 2.9%,

and 5.9%; an expected life of six months; an expected volatility of 57%, 62%, and 60%; and no expected dividends.

NOTE 12: 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 \$869,000 in 2002, \$1,004,000 in 2001, and \$844,000 in 2000. Cognex stock is not an investment alternative, nor are Company contributions made in the form of Cognex stock.

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13: INCOME TAXES

Domestic income before taxes was \$3,422,000 and \$3,068,000 and foreign loss before taxes was \$11,626,000 and \$18,739,000 for the years ended December 31, 2002 and 2001, respectively. Foreign income (loss) before taxes was not significant for the year ended December 31, 2000.

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

Year Ended December 31,	2002	2001	2000
-----	-----	-----	-----
Current:			
Federal	\$ (1,930)	\$ 3,742	\$ 29,335
State	48	(319)	1,467
Foreign	1,040	536	3,793
	-----	-----	-----
	(842)	3,959	34,595
Deferred:			
Federal	524	(7,093)	(2,301)
State	(51)	822	1,279
Foreign	(1,808)	(2,232)	(1,503)
	-----	-----	-----
	(1,335)	(8,503)	(2,525)
	-----	-----	-----
	\$ (2,177)	\$ (4,544)	\$ 32,070
	=====	=====	=====

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,	2002	2001	2000
-----	-----	-----	-----
Income tax provision (benefit) at federal statutory rate	\$ (2,871)	\$ (5,485)	\$ 35,076
State income taxes, net of federal benefit	67	38	1,782
Tax-exempt investment income	(2,992)	(3,656)	(3,241)

Federal export incentive	(385)	--	(4,447)
Foreign tax rate differential	2,934	1,933	2,088
Goodwill amortization and impairment charges	846	2,382	161
Other	224	244	651
	-----	-----	-----
Provision (benefit) for income taxes	\$ (2,177)	\$ (4,544)	\$ 32,070
	=====	=====	=====

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31,	2002	2001
-----	-----	-----
Current deferred tax assets:		
Inventory and revenue related	\$ 7,929	\$ 9,453
Bonus, commission, and other compensation	334	429
Other	1,706	2,293
	-----	-----
Total net current deferred tax asset	\$ 9,969	\$ 12,175
	=====	=====
Noncurrent deferred tax assets (liabilities):		
Federal and state tax credit carryforwards	\$ 4,473	\$ 5,389
Foreign net operating loss carryforwards	4,523	3,420
Acquired complete technology and other intangibles	3,528	3,645
Federal and state capital loss carryforwards	1,979	--
Acquired in-process technology	1,135	1,250
Depreciation	435	477
Unrealized investment gains (losses)	95	(2,362)
Other	440	182
	-----	-----
Total net noncurrent deferred tax asset	\$ 16,608	\$ 12,001
	=====	=====

At December 31, 2002, the Company had federal research and experimentation tax credit carryforwards of approximately \$2,251,000, which may be available to offset future federal income tax liabilities and will expire in 2021. The Company also had approximately \$989,000 of alternative minimum tax credits and approximately \$400,000 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 expire in 2007. In addition, the Company had approximately \$833,000 of state research and experimentation tax credit and investment tax credit carryforwards, which will begin to expire in 2005.

At December 31, 2002, the Company's foreign subsidiaries had net operating loss carryforwards of approximately \$29,700,000, of which \$2,700,000, representing a tax benefit of \$1,149,000, will expire in 2006. The remaining balance of \$27,000,000, representing a tax benefit of \$3,374,000, has an unlimited life.

For the year ended December 31, 2002, the Company had a federal net operating loss of approximately \$10,300,000, which will be carried back against \$3,605,000 of taxes previously paid. This amount is included in "Accrued expenses" on the Consolidated Balance Sheet at December 31, 2002.

The Company did not establish valuation allowances against its deferred tax assets at December 31, 2002 and 2001. 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.

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14: NET INCOME (LOSS) PER SHARE

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

Year Ended December 31, -----	2002 -----	2001 -----	2000 -----
Net income (loss)	\$ (6,027) =====	\$ (11,127) =====	\$ 68,148 =====
Basic:			
Weighted-average common shares outstanding	43,503 =====	43,639 =====	43,043 =====
Net income (loss) per common share	\$ (0.14) =====	\$ (0.25) =====	\$ 1.58 =====
Diluted:			
Weighted-average common shares outstanding	43,503	43,639	43,043
Effect of dilutive stock options	--	--	2,655
Weighted-average common and common equivalent shares outstanding	43,503 =====	43,639 =====	45,698 =====
Net income (loss) per common and common equivalent share	\$ (0.14) =====	\$ (0.25) =====	\$ 1.49 =====

Stock options to purchase 6,347,233, 3,066,622, and 877,342 shares of common stock were outstanding during the years ended December 31, 2002, 2001, and 2000, 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. Although these stock options were antidilutive in 2002, 2001, and 2000, they may be dilutive in future years' calculations.

NOTE 15: 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.

COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	MVSD	SISD	Reconciling Items	Consolidated
	-----	-----	-----	-----
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	(7,596)	(9,408)
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	(37,667)	(27,340)
Year Ended December 31, 2000				
Product revenue	\$ 212,610	\$ 14,469	--	\$ 227,079
Service revenue	18,861	4,786	--	23,647
Depreciation and amortization	8,243	1,324	\$ 307	9,874
Operating income (loss)	98,352	(315)	(8,351)	89,686

Reconciling items consist of inventory and intangible asset impairment charges, \$21,892,000 of which related to the MVSD segment and \$5,655,000 of which related to the SISD segment in 2001, as well as the benefit from the sale of previously reserved inventory and the favorable resolution of inventory purchase commitments, which relate to the MVSD segment in 2002. These items are not included in the segment's operating income (loss) for the purpose of making operating decisions and assessing performance. Reconciling items also consist of unallocated corporate expenses, which primarily include corporate headquarters costs and patent infringement litigation. Asset information by segment is not produced internally, and therefore is not presented.

One customer accounted for \$25,805,000, or 10%, of revenue in 2000. No customer accounted for greater than 10% of revenue in 2002 or 2001.

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

	United States	Japan	Ireland	Other	Consolidated
	-----	-----	-----	-----	-----
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
Year Ended December 31, 2000					
Product revenue	\$187,628	\$ 39,451	--	--	\$227,079
Service revenue	20,637	3,010	--	--	23,647
Long-lived assets	43,754	4,513	\$ 10,463	\$ 1,382	60,112

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.

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COGNEX CORPORATION: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: ACQUISITIONS

ACQUISITION OF KOMATSU LTD. MACHINE VISION BUSINESS

On March 31, 2000, the Company acquired selected assets of the machine vision business of Komatsu Ltd. for \$11,200,000 in cash, with the potential for an additional cash payment in 2002 of up to \$8,000,000 depending upon certain performance criteria. The measurement period for the performance criteria ended March 31, 2002, and the Company did not make any additional payments.

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 (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." These analyses resulted in impairment charges based upon the difference between the carrying value and the estimated fair value of the intangible assets associated with the acquisition of the machine vision business of Komatsu Ltd. 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 resulting analyses yielded a \$5,550,000 impairment charge, of which \$5,227,000 was allocated to the carrying value of goodwill and \$50,000 was allocated to the carrying value of workforce, which reduced the carrying values of these assets to zero. The remaining \$273,000 reduced the carrying value of complete technology.

ACQUISITION OF IMAGE INDUSTRIES, LTD.

On April 20, 2000, the Company acquired all of the outstanding shares of Image Industries Ltd., a privately-held manufacturer of low-cost machine vision systems located in the United Kingdom. The purchase price of \$2,706,000 included \$876,000 in cash at closing, \$878,000 in cash to be paid through 2002, and 17,619 shares of Cognex common stock, issued from treasury, with a fair value of \$952,000. During 2002, the Company made a final cash payment of \$349,000.

ACQUISITION OF HONEYWELL INTERNATIONAL INC. WEB INSPECTION BUSINESS

On September 30, 2000, the Company acquired selected assets of the web inspection business of Honeywell International Inc. for \$8,400,000 in cash. The Company paid an additional \$1,600,000 at the closing that was contingent upon the achievement of certain performance criteria in 2001. The measurement period for the performance criteria ended December 31, 2001, resulting in a refund of \$996,000 from Honeywell. The remaining \$604,000 was expensed during 2002.

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 (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." These analyses resulted in impairment charges based upon the difference between the carrying value and the estimated fair value of the intangible assets associated with the acquisition of the web inspection business of Honeywell. 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 resulting analyses yielded a \$5,512,000 impairment charge that reduced the carrying value of goodwill.

NOTE 17: SUPPLEMENTAL STATEMENT OF CASH FLOWS DISCLOSURE

Cash paid for income taxes totaled \$1,180,000 in 2002, \$6,741,000 in 2001, and \$8,386,000 in 2000.

Common stock received as payment for stock option exercises totaled \$2,467,000 in 2002, \$744,000 in 2001, and \$77,000 in 2000.

In 2000, the Company issued 17,619 shares of Cognex treasury stock, with a fair value of \$952,000, in connection with the acquisition of Image Industries, Ltd.

The Company retired certain fully-depreciated property, plant, and equipment totaling \$5,407,000 in 2002, \$282,000 in 2001, and \$4,664,000 in 2000.

COGNEX CORPORATION: REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF COGNEX CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of 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 2001, and the results of their operations and their cash flows for each of the three years in the period 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.

Boston, Massachusetts
January 24, 2003

COGNEX CORPORATION: FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA
(In thousands, except per share amounts)

Year Ended December 31,	2002	2001	2000	1999	1998
-----	-----	-----	-----	-----	-----
STATEMENT OF OPERATIONS DATA:					
Revenue	\$ 114,107	\$ 140,729	\$ 250,726	\$ 152,125	\$ 121,844
Cost of revenue	39,859	62,345	63,820	45,221	37,296
	-----	-----	-----	-----	-----
Gross margin	74,248	78,384	186,906	106,904	84,548
Research, development, and engineering expenses	25,630	30,094	33,341	27,536	24,535
Selling, general, and administrative expenses	58,026	61,590	61,915	43,523	37,973
Amortization of goodwill	--	3,108	1,964	265	127
Charge for acquired in-process technology	--	--	--	--	2,100
Charge for intangible asset impairment	--	10,932	--	--	--
	-----	-----	-----	-----	-----
Operating income (loss)	(9,408)	(27,340)	89,686	35,580	19,813
Nonoperating income	1,204	11,669	10,532	7,300	7,489
	-----	-----	-----	-----	-----
Income (loss) before taxes	(8,204)	(15,671)	100,218	42,880	27,302

Income tax provision (benefit)	(2,177)	(4,544)	32,070	12,435	7,099
Net income (loss)	\$ (6,027)	\$ (11,127)	\$ 68,148	\$ 30,445	\$ 20,203
Basic net income (loss) per share	\$ (0.14)	\$ (0.25)	\$ 1.58	\$ 0.74	\$ 0.49
Diluted net income (loss) per share	\$ (0.14)	\$ (0.25)	\$ 1.49	\$ 0.69	\$ 0.47
Basic weighted-average common shares outstanding	43,503	43,639	43,043	40,932	40,978
Diluted weighted-average common shares outstanding	43,503	43,639	45,698	43,986	43,203

December 31,	2002	2001	2000	1999	1998
BALANCE SHEET DATA:					
Working capital	\$ 162,808	\$ 143,712	\$ 167,913	\$ 126,298	\$ 101,971
Total assets	385,503	406,904	436,141	314,822	247,928
Long-term debt	--	--	--	--	--
Stockholders' equity	354,520	378,044	383,949	276,624	222,875

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COGNEX CORPORATION: SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)
(In thousands, except per share amounts)

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)	(6,162)	(3,288)	(1,394)	1,436
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
Common stock prices:				
High	30.00	29.68	21.10	23.30
Low	21.20	18.55	13.75	13.01

2001 Quarter Ended	April 1	July 1	September 30	December 31
Revenue	\$ 44,206	\$ 37,379	\$ 33,974	\$ 25,170
Gross margin	31,414	25,128	22,904	(1,062)
Operating income (loss)	4,017	254	380	(31,991)
Net income (loss)	4,761	2,155	2,292	(20,335)
Basic net income (loss) per share	0.11	0.05	0.05	(0.46)
Diluted net income (loss) per share	0.11	0.05	0.05	(0.46)
Common stock prices:				
High	28.19	34.40	34.20	27.14
Low	18.81	21.31	19.60	17.60

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COGNEX CORPORATION: COMPANY INFORMATION

TRANSFER AGENT

National City Bank
Corporate Trust Operations
3rd Floor, North Annex
4100 West 150th Street
Cleveland, OH 44135-1385
Telephone: (216) 257-8663
Toll free: (800) 622-6757

GENERAL COUNSEL

Goodwin Procter LLP
Boston, Massachusetts

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Boston, Massachusetts

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:

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

BOARD OF DIRECTORS

Robert J. Shillman
President, Chief Executive Officer,
and Chairman
Cognex Corporation

Patrick A. Alias
Executive Vice President
Cognex Corporation

Jerald G. Fishman
President and Chief Executive Officer
Analog Devices, Inc.

William A. Krivsky
Principal
Kellogg, Krivsky & Buttler, Inc.

Anthony Sun
Managing General Partner
Venrock Associates

Reuben Wasserman
Business Consultant

OFFICERS

Robert J. Shillman
President, Chief Executive Officer,
and Chairman

Patrick A. Alias
Executive Vice President

James F. Hoffmaster
Chief Operating Officer and
President, MVSD

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

John McGarry
Senior Vice President and General Manager,
Portland Operations

William Silver
Senior Vice President and
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 21, 2003, there were approximately 15,000 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 has never declared or paid cash dividends on its common stock. 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.

COGNEX CORPORATION
SUBSIDIARIES OF THE REGISTRANT

At December 31, 2002, 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 China, Inc.	Delaware	100%

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-72636, 33-81150, 333-04621, 333-02151, 333-60807, 33-32815, 333-44824, 333-68158, 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 26, 2003