

**Dear investor:**

Welcome to the Summer 2011 issue of the Cognex *Investor Insights* newsletter. In this issue Carl Gerst, Business Unit Manager for Cognex ID Products, gives readers his view on the opportunities represented by the DataMan 500, an exciting new product introduced by Cognex in 2011.

DataMan 500 is our first product for the barcode reading segment of the logistics market—a market Cognex has not served in the past. Powered by our proprietary “Vision System-on-a-Chip,” the DataMan 500 enables warehouses and distribution centers that struggle with the low read-rates of laser scanners to upgrade to a new generation of image-based readers that can accurately read poor quality or damaged codes even under the most difficult conditions.

I hope you find the information in this newsletter useful and I look forward to issuing our next edition in late 2011. As always, suggestions for newsletter articles and ways to improve investor communications are appreciated.

Best regards,



*Susan M. Conway*

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## The Laser Killer™



### DataMan 500: A Better Barcode Reader for the Logistics Industry

**C**arl Gerst, Business Unit Manager for Cognex ID Products, explains what makes the DataMan® 500 such a powerful tool for improving productivity in the logistics industry, and discusses what this new market opportunity means for Cognex.

**What makes the new DataMan 500 a breakthrough product for barcode reading?**

The DataMan 500 offers several significant advantages over laser scanners, the technology most commonly used for logistic barcode reading today.

First, our Cognex IDMax® code reading algorithm provides more reliable reading of poor quality or damaged barcodes. If a barcode is poorly printed, or if it is scratched or smudged, a laser-based scanner will have difficulty reading it...or not be able to read it at all. No-reads are a leading cause of productivity losses, since an unread code requires diverting the package to an operator who either directs

the package to its destination, or replaces the defective barcode and then sends the package back through the sorting system.

The DataMan 500 can also read barcodes from any angle. Laser scanners must be positioned in a certain way in relation to the barcode for the code to be read. Users can circumvent this problem by manually adjusting packages or by using multiple laser scanners at each station—but these solutions add complexity, increase costs, and decrease productivity.

The DataMan 500 also has a longer shelf life. Unlike laser scanners, which use motors and other mechanical components that can break down over time, the DataMan 500 has no moving parts to wear out or require replacement.

And, the DataMan 500 can collect and archive images, providing users with important data for monitoring and improving the line's performance. For example, consider a distribution facility that consistently achieves read rates of 98%. Reviewing the images of unread

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## Reading you, loud and clear...

*Scratches like the ones pictured in this shipping label would normally result in a lower read rate by a typical laser scanner. The DataMan 500's ability to consistently read damaged, poorly printed and hard to read codes reduces manual handling and can help warehouses and distribution centers process hundreds or even thousands of extra packages each day.*



**Carl Gerst**  
Vice President and  
Business Unit Manager,  
ID Products

Mr. Gerst oversees the development and marketing of Cognex ID products, which are specialized vision systems that read 1-D and 2-D codes used to automatically identify and track items. Mr. Gerst joined Cognex in 1999 from Hand Held Products (now Honeywell Imaging and Mobility), a leading supplier of AIDC (Automatic Identification and Data Collection) equipment, where he was Product Marketing Manager for Imaging Products and helped establish the company's 2-D code reading business. Mr. Gerst holds a B.S. Degree in Electrical Engineering from Clarkson University and an M.B.A. from the Simon School of Business at the University of Rochester.

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packages might reveal that half of the no-reads were caused by package handling problems. With this information, supervisors can modify the operators' procedures for loading packages onto the sorting conveyor and thereby improve the read rates. Even an improvement of 1% can reduce the number of packages that require manual sorting by hundreds or even thousands per day—a significant gain in productivity and throughput.

### **There are a lot of applications for Cognex products. Why are you targeting barcode reading in the logistics market?**

Logistics—which refers to the movement of goods at warehouses and distribution centers on their way to their final destinations—is an adjacent market to our core business in manufacturing, where Cognex products are already well known for helping customers reduce costs, improve quality and track products during production. We believe logistics provides us with an exciting opportunity to leverage our key competencies and expand our addressable market.

And, the logistics industry can clearly benefit from this technology. Warehouses and distribution centers are under pressure to improve productivity in order to handle a higher volume

of packages moving through their facilities, and to deal with growing variety in package sources, destinations and mix. Retail distributors everywhere require meticulous stock control, which includes careful management of the logistics of purchasing, shipping, and warehouse inventory.

Right now, most packages are tracked and sorted using laser scanners. While lasers work well in certain logistics applications, there is an entire range of applications that is being poorly served. Between the low-end of the market where codes on slow-moving or stationary objects can be easily read using lasers, and the high-end applications typically handled by expensive line-scan systems that are difficult to set up and maintain, lies a \$150 million opportunity for Cognex. This segment is currently getting by with a combination of laser scanners and manual handling, at a high cost in lost time and efficiency to the customer.

The DataMan 500 is a perfect solution for this segment of the market—it is priced like a laser scanner, it is easy to use like a laser scanner, but it can process hundreds more packages each day than a laser scanner.

## Why aren't image-based readers already being used in logistics?

Conventional image-based readers cannot keep pace with many high-speed package conveyors and cannot easily handle package size variations. However, an important new innovation by Cognex has overcome these limitations.

The DataMan 500 is powered by the new Cognex VSoC™, or "Vision System-on-a-Chip." VSoC includes both an imager and a vision-optimized microprocessor on a single piece of silicon. Having both of these components residing on one chip provides a very tight feedback loop that, when combined with the unique system architecture of VSoC, enables the DataMan 500 to read up to 90 codes per second. This is more than twice the speed of conventional image-based readers.

The depth of field of the DataMan 500 is also enhanced by VSoC. Its imager has double the number of pixels typically available in an image-based reader. When VSoC is integrated with a variable focus liquid lens, it enables the DataMan 500 to have a depth of field that

**"Right now, there is no other company offering an image-based barcode reader comparable to the DataMan 500."**

is double that of conventional image-based readers. As a result, users do not have to ensure that each object is aligned at a particular distance from the DataMan 500 in order to achieve high read rates.

Right now, there is no other company offering an image-based barcode reader comparable to the DataMan 500.

## What kinds of customers and applications will benefit from the DataMan 500?

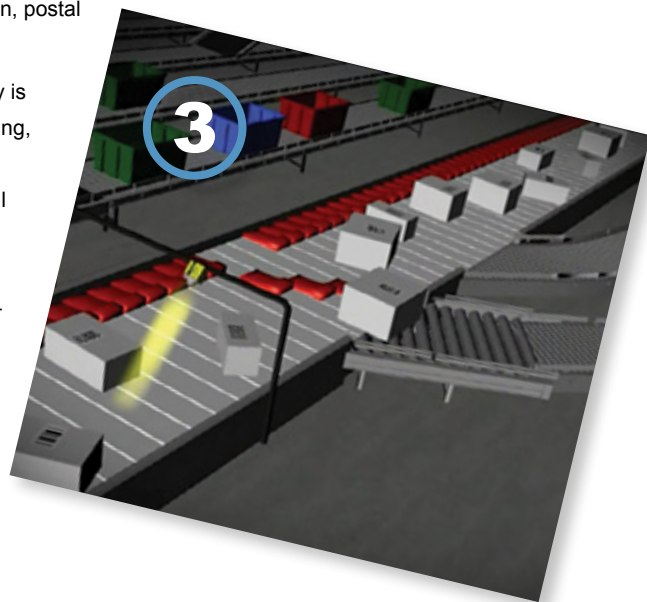
We are targeting specific applications in retail distribution, factory automation, postal sorting, and parcel handling.

The largest opportunity for us today is in retail distribution...the warehousing, processing, shipping, and tracking of thousands of items by large retail chains like Wal-Mart, Amazon, and others. As shipping volumes grow along with online sales, more distri-

bution centers are choosing to upgrade their conveyor barcode scanners to the DataMan 500 in order to increase package sorter efficiency and throughput.

An ideal application for DataMan 500 is the fulfillment of orders received over the Internet. These orders typically consist of multiple small items and goods that are stored in flexible packages or are wrapped in cellophane. Unlike laser scanners, which have difficulty reading barcodes that do not lie flat or are distorted by plastic covering, the DataMan 500 is well suited for reading barcodes on media products such as books, DVDs, and magazines, or on packaged clothing, sportswear, hats and gloves.

Our traditional factory automation customer base also represents an important opportunity for us. Manufacturers are adding the DataMan 500 in their warehouses to track and sort incoming product before it gets to the production area. And, we have had

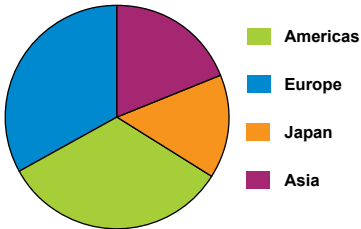


*Some of the applications for the DataMan 500 within warehouses and distribution centers include ① scanning incoming boxes and monitoring their movements, ② scanning individual items being packaged together in an order for inventory control and to confirm that selected items match the order sheet, and ③ sorting and diverting packages to different destinations based on label information.*

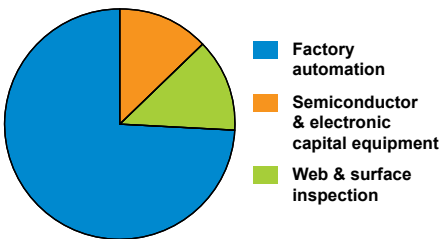
## Cognex Revenue: \$83.4 Million

Three months ended July 3, 2011

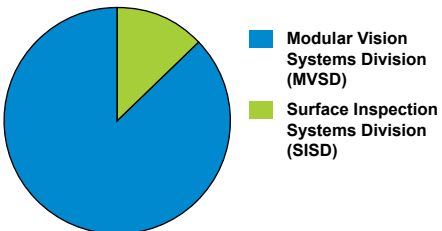
### Revenue by geography



### Revenue by market



### Revenue by division



“Our goal is for the DataMan 500 to be at a \$10 million annualized run rate as we exit the year, and I am happy to say that we are tracking ahead of plan.”

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several wins at current customers’ plants for factory-floor applications that require a very high speed 1-D or 2-D code reader.

DataMan 500 is also opening the door to other business for Cognex. We’ve had a number of situations where a new customer has invited Cognex to demo the DataMan 500 for a logistics application, and the meeting has ended with discussions of other projects within the customer’s operations.

#### What sort of response have you been getting to the DataMan 500?

We have met with many of the world’s largest retailers to demo the DataMan 500, and we have received great feedback from all of them.

In fact, we received our first purchase order for 140 units within days of launching the DataMan 500. The customer is a logistics integrator that designs distribution systems for large retail companies.

Customers are not waiting for the laser scanners on their conveyors to wear out before they invest in the DataMan 500. Rather they are focused on the productivity gains they can achieve from moving to a more capable technology. For example, Purolator, Inc., the largest courier service in Canada, replaced the laser scanners used at weigh stations within their sorting and distribution centers with the DataMan 500 because it significantly improved both operator satisfaction and overall productivity.

In an environment where companies are struggling to increase productivity and reduce costs, the DataMan 500’s superior performance represents a considerable advantage.

The prospects for the DataMan 500 are very exciting. We know the need is real; the applications exist today and we know that they are being inadequately served by laser scanners.

#### How will you grow your business in logistics?

The first step is selling into one application at a customer’s site—and that’s a lot of what we are doing today. Winning that first application is typically the most difficult part. Once the customer experiences the value of the DataMan 500, they will find additional uses for it throughout their facility. From there our business can expand to include more applications over time.

We have had great success selling the DataMan 500 through our existing sales channel to both manufacturing and non-manufacturing applications. Our team of sales engineers and distributors, all of whom are experts in selling machine vision products, are augmented by a group of ID specialists who have extensive industry experience and contacts in the logistics sector.

Our goal is for the DataMan 500 to be at a \$10 million annualized run rate as we exit the year, and I am happy to say that we are tracking ahead of plan. ■

**Published by Cognex Corporation, Investor Relations Department**

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This newsletter contains “forward-looking statements” within the meaning of the federal securities laws. Please see Cognex’s reports filed with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2010 and subsequent reports on Form 10-Q, for a discussion of the risks associated with forward-looking statements.