

Dear investor:

Welcome to the Summer 2009 issue of the Cognex *Investor Insights* newsletter. In this issue, you will hear from Tom Nash, President of Cognex's Surface Inspection Systems Division, who provides insight into the division's business line and the opportunities we see for its long-term growth.

Cognex entered the surface inspection business in 1996 with the acquisition of Isys Controls. The Surface Inspection Systems Division reported record revenue in 2008 of \$36.1 million, representing 22% growth over 2007, and was responsible for 15% of the company's consolidated revenue.

I hope you find information in this newsletter useful and I look forward to issuing our next edition in late 2009. As always, suggestions for newsletter articles and ways to improve investor communications are appreciated.

Best regards,



Susan M. Conway

Susan Conway
 Director, Investor Relations
 Cognex Corporation
 One Vision Drive, Natick, MA 01760
 Tel: (508) 650-3353
 Email: susan.conway@cognex.com

www.cognex.com

Cognex Web and Surface Inspection: A Success Story



*Tom Nash,
 President of Cognex
 Corporation's Surface
 Inspection Systems
 Division (SISD), at
 the new SISD office
 in Shanghai, China.*

RReal-time defect detection in materials produced at high speeds in a continuous process can deliver a big return on investment. Web and surface inspection systems are used by manufacturers to remove defects in materials before they are shipped to customers, and can also provide early detection of flaws that could bring production to a halt.

In the following interview, Tom Nash, President of the company's Surface Inspection Systems Division, discusses the significant value that Cognex SmartView® brings to the production of materials made in a continuous process.

Why does web and surface inspection require a specialized vision system?

Why not sell In-Sight® or VisionPro® for this application?

Our SmartView web and surface inspection systems are application-specific products that perform a different kind of vision task than the Cognex In-Sight or VisionPro products, which are optimized for discrete manufacturing. SmartView includes sophisticated, specialized

software, optimized lighting, and cameras designed for continuous inspection. The systems are maximized to detect and classify defects in a detailed way on materials made at extremely high speeds, and to process that data in real time. Some of the production lines where our systems are installed are 20 feet wide, and run at speeds of 50 miles per hour. SmartView can inspect these fast-moving surfaces and detect and classify defects that are smaller than a human hair.

Who are the customers for your systems?

SmartView is sold into continuous process industries, including metals, paper, plastics, nonwovens and glass. SmartView helps manufacturers increase product quality and reduce scrap, and also provides defect data that can help them better manage their processes and production lines.

Paper makers and metal producers are the largest market segments for web and surface

Continued on Page 2

Continued from Page 1

inspection technology today. Approximately two thirds of the orders we receive for SmartView worldwide come from manufacturers in these industries, and the remainder come mostly from manufacturers in the nonwovens and plastics industries.

Web inspection is a “must have” in paper manufacturing due to high production speeds. It is also a “must-have” for making nonwoven fabrics, which are materials used to make items like disposable diapers, surgical masks and hospital gowns. In this industry, meeting quality standards is critical due to liability issues or government mandates.



Thomas F. Nash
President, Surface Inspection Systems Division (SISD)

As President of Cognex’s Surface Inspection Systems Division (SISD), Mr. Nash oversees all functional areas for web and surface inspection systems. Mr. Nash joined Cognex in 2008 after serving as Vice President of Operations and Marketing for BTU International, a global supplier of thermal processing and automation systems. At BTU, he was responsible for marketing, product development, and engineering for the Electronics Business Group, and managed manufacturing facilities in the U.S. and China. Prior to that he served as President of CIMCIS Ltd., a startup software company. Mr. Nash also held positions at Black and Decker as General Manager and Director of Marketing & Product Development. He has a B.S. degree from Boston College, and an MBA from Babson College.

In the metals industry, we sell SmartView primarily to producers of steel and aluminum, who invest in surface inspection in order to meet the high quality standards demanded by their customers, especially in the automotive steel and aluminum can markets. And, we have chosen to play selectively in the plastics and glass markets, in areas such as LCD panels, rigid plastic sheets as well as architectural and solar panel glass.

What is the selling price of SmartView?

The selling price for SmartView ranges from \$50,000 up to as much as several million dollars, depending on the complexity of the system. The SmartView system is modular in design, and can be configured to be as small or as large as the application demands. This means SmartView can be anything from a single camera system to a multi-view, fully integrated system of 100 cameras or more.

The largest SmartView system sold to date consisted of a five view, 110-camera system. This system was purchased by the largest paper manufacturer in Japan for making premium coated papers.

What advantages do your customers achieve by purchasing SmartView?

SmartView enables customers to improve product quality, maximize yields and reduce overall operational costs. For example, paper manufacturers are under pressure to run more efficiently, but as they increase the speed of their lines they also increase the risk of defects such as holes, edge cracks and scratches. Early defect detection can reduce the occurrence of sheet breaks and “out-of-specification” product. Using SmartView allows paper makers to reduce costs that result from poor quality product that has to be scrapped, or from passing bad material on to value-added processes further downstream.

In the metals industry, SmartView is especially important to manufacturers who must deliver high-quality material to their customers. In steel manufacturing the highest margin product sells into the automotive and appliance

industries, and surface inspection systems are considered an integral element of the manufacturing process. This also holds true for the aluminum can industry where there is a zero-defect tolerance. Surface inspection enables metals manufacturers to both guarantee the quality that their customers demand, and to command a higher price, thus generating higher profit margins.



Metal

In steel manufacturing, surface inspection ensures the quality of metal used for applications like auto manufacturing and detects defects during value-added processes like galvanizing.

Once SmartView is installed in a mill, does the sales opportunity end there?

No, there is potential for integrating multiple SmartView systems throughout a mill at many stages in the production process. For example, in the paper industry, which has been a pioneer for automated inspection, some mills include four or more SmartView systems to track and map defects at several stages, from making the paper, to coating the paper, to cutting it into sheets.

In addition to system sales, we also do a tremendous amount of upgrade business. Customers come back to us because they decide to run a different sort of product on the line, and they want to add additional views or a new type of inspection. We are also continuously developing newer, smarter software for SmartView, so many of our customers

purchase software upgrades and product enhancements that enable them to get the latest defect detection capability and other features.

Cognex's Surface Inspection Systems Division has achieved a compound annual growth rate of 8% since 2000, while the underlying industries grew at a significantly slower rate.

What accounts for your success?

Our success is largely due to the introduction of SmartView in 2000, and our strategy of creating one product that can be leveraged across all industries we serve on a truly global level. SmartView is a modular, scalable system that uses standard off-the-shelf hardware and runs on one software platform across the product family. The systems are differentiated by the customer-specific hardware requirements and the type of defect detection and classification software needed. The first SmartView system ever shipped is still running today and has the latest software installed.

Customers can start with a small installation, and over time add more cameras, and more software features and functionality. This approach has enabled us to get our foot in the door with a lot of manufacturers who were previously using a competitor's system or were not doing any inspection.

The SmartView platform is not only extremely important in helping Cognex to better manage costs through standardization, it has allowed us to focus on developing our software technology so that we could capitalize on industry trends and expand into new applications.

For example, the Surface Inspection Systems Division's record revenue in 2008 was largely due to higher revenue from the metals industry, but the overall demand for metal did not increase. Rather, we saw huge investments being made in China to build new steel mills, and an increased need for Chinese manufacturers to ensure high quality material. We aggressively went after this business, won much of it, and gained market share. Competitors are trying to copy our model but have not yet been able to do so.

What opportunities do you see for future growth?

Growth in our web and surface inspection business will come from a number of avenues. First, we are expanding into new geographic regions, such as China, where metal producers are opening new plants in order to be closer to where the material is being used, and are also upgrading existing mills in order to gain market share. We opened a new office in Shanghai last December, which we believe will enable us to continue, and perhaps accelerate, our growth in that part of the world. We are also winning business at mills in Canada and South America as these markets strive to be more competitive by investing in web and surface inspection technology.

We are entering new applications where Cognex has not previously focused. For example, we are moving aggressively into the glass industry—both float glass production as well as glass manufacturing for the solar industry.

Float glass is an industry term for glass that is produced in a continuous, flowing manner, and cut into smaller sheets at the end of the



Paper

Today's paper making machines produce almost a mile of finished paper every minute. Web inspection provides real-time detection of rips, holes or other defects that should be removed from product before it is shipped to customers, and also locates defects such as edge cracks that can rip the web and cause production downtime.



Nonwovens

For synthetic fabrics used to make medical masks and surgical gowns, web inspection helps manufacturers meet quality standards mandated by industry and government regulations.

line. Surface inspection is a critical component of float glass manufacturing which ensures that defective glass does not end up as windows or mirrors. Until recently the needs of the float glass market have been mostly served by one of our competitors. Cognex has been actively pursuing this market and we have had some good initial success with one of the world's largest global glass manufacturers. Solar glass is a newer application that is relatively small right now, but we believe it has lots of growth potential.

And, we are getting incremental revenue from our existing customer base by selling them new types of products. One example is our Advanced Winder Advisor, a software package that is an add-on to SmartView. Rather than looking for defects, it is a patented method of controlling the unrolling of a reel of paper so that it automatically stops within centimeters of a defect that needs to be removed, patched, or spliced.

What about new technology and products that might open new markets?

In June we introduced a new, lower-cost product called AutoView™. This product is targeted at smaller customers that have slower-speed applications and a need for textural analysis in a specific application process. This group

Continued on Page 4

Continued from Page 3

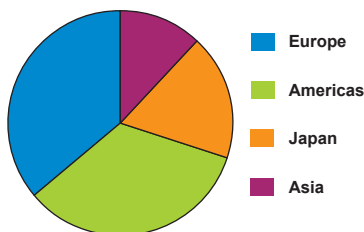
of customers could greatly benefit from automated inspection; however they are not using it right now because they don't have either the staff, the engineering expertise or the budget for the typical high-speed surface inspection system.

One of the key features of AutoView is that it has a self-teaching capability, so it doesn't require a lot of engineering experience to train it to recognize defects. It has less functionality and is slower than SmartView, but we believe

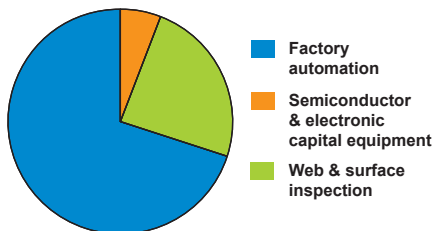
Cognex Revenue: \$41.0 Million

Three months ended July 5, 2009

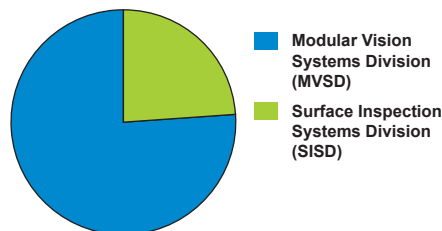
Revenue by geography



Revenue by market



Revenue by division



SISD Fact Sheet

2008 revenue:	\$36.1 million
Management:	Tom Nash, President
Headquarters:	Alameda, CA
Milestones:	
1996	Cognex enters the surface inspection business with the acquisition of Isys Controls, a supplier of ultra-high performance surface inspection systems.
1997	Cognex expands its surface inspection business by purchasing Mayan Automation, a developer of low cost surface inspection systems.
2000	Cognex introduces the SmartView family of web and surface inspection systems
2000	Cognex purchases the web inspection technology of Honeywell and becomes exclusive provider of web inspection systems to Honeywell's customers in the pulp and paper industry around the world
2008	Cognex sells its 1000th SmartView system
2008	Cognex sells the world's largest web inspection system, consisting of more than 100 cameras
2008	Cognex opens a new Surface Inspection Systems Division office in Shanghai, China in order to be closer to customers in a region of significant expected growth.

there is a solid market out there for a system of this capability and price point. So far we've made some sales into the nonwovens area, and we are also looking to sell AutoView to some specialty plastics manufacturers.

What are the advantages of purchasing surface inspection from Cognex as opposed to one of your competitors?

With over 1,200 systems sold, Cognex is clearly the worldwide market leader in the web and surface inspection industry. This leadership position comes from having the best technology, both due to our flexible, modular hardware platform and because we offer the most comprehensive and powerful algorithms for defect identification and classification. The

software is really where we differentiate—we are the best when it comes to solving very complex problems at very high speeds, and processing the data in real time.

Secondly, our development team is far and away the most experienced in the industry. Some of our senior development engineers have been designing surface inspection systems for over 20 years. This expertise, coupled with a global sales and service presence that includes fully staffed application engineering and training centers in California, Germany, Tokyo, Shanghai, and at our corporate headquarters in Massachusetts, enables us to provide excellent technology and support to customers and their plants no matter where they are located. ■

Published by Cognex Corporation, Investor Relations Department

One Vision Drive, Natick, Massachusetts 01760
 Telephone: (508) 650-3000 Fax: (508) 650-3333
www.cognex.com

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, 2008 and subsequent reports on Form 10-Q, for a discussion of the risks associated with forward-looking statements.