

COGNEX CORP
Form DEF 14A
March 16, 2005

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

COGNEX CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
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COGNEX CORPORATION
NOTICE OF SPECIAL MEETING IN LIEU OF
THE 2005 ANNUAL MEETING OF SHAREHOLDERS
April 21, 2005

To the Shareholders:

A Special Meeting of the Shareholders of COGNEX CORPORATION in lieu of the 2005 Annual Meeting of Shareholders will be held on Thursday, April 21, 2005, at 10:00 a.m., local time, at the offices of Goodwin Procter LLP, 53 State Street, Boston, Massachusetts, for the following purposes:

1. To elect two directors, both to serve for terms of three years, all as more fully described in the accompanying Proxy Statement.
2. To consider and act upon any other business which may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on March 4, 2005 as the record date for the meeting. All shareholders of record on that date are entitled to receive notice of and to vote at the meeting.

YOUR VOTE IS IMPORTANT. PLEASE COMPLETE AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING IN PERSON. IF YOU ATTEND THE MEETING, YOU MAY CONTINUE TO HAVE YOUR SHARES VOTED AS INSTRUCTED IN THE PROXY OR YOU MAY WITHDRAW YOUR PROXY AT THE MEETING AND VOTE YOUR SHARES IN PERSON.

By Order of the Board of Directors

Anthony J. Medaglia, Jr., *Secretary*

Natick, Massachusetts
March 16, 2005

Important

Please note that due to security procedures, you will be required to show a form of picture identification to gain access to the offices of Goodwin Procter LLP. Please contact the Department of Investor Relations of the Corporation at (508) 650-3000 if you plan to attend the meeting.

COGNEX CORPORATION
One Vision Drive
Natick, Massachusetts 01760
PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Cognex Corporation (the Corporation) for use at the Special Meeting in Lieu of the 2005 Annual Meeting of Shareholders to be held on Thursday, April 21, 2005, at the time and place set forth in the accompanying notice of the meeting, and at any adjournments or postponements thereof. This Proxy Statement is first being sent to shareholders on or about March 16, 2005.

If the enclosed proxy is properly executed and returned, it will be voted in the manner directed by the shareholder. If no instructions are specified with respect to any particular matter to be acted upon, proxies will be voted in favor thereof. Any person giving the enclosed form of proxy has the power to revoke it by voting in person at the meeting, by giving written notice of revocation to the Secretary of the Corporation at any time before the proxy is exercised, or by filing a duly executed proxy bearing a later date. Any shareholder of record as of the record date attending the meeting may vote in person whether or not a proxy has been previously given, but the presence (without further action) of a shareholder at the meeting will not constitute revocation of a previously given proxy.

The Corporation's principal executive offices are located at One Vision Drive, Natick, Massachusetts 01760, telephone number (508) 650-3000.

VOTING AND QUORUM

The holders of a majority in interest of all common stock, par value \$.002 per share (Common Stock), issued, outstanding and entitled to vote are required to be present in person or be represented by proxy at the meeting in order to constitute a quorum for the transaction of business. The election of a nominee for Director will be decided by a plurality of the votes cast. Votes may be cast for or withheld from each nominee. Both abstentions and broker non-votes (that is, shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter) are counted as present for the purposes of determining the existence of a quorum for the transaction of business. However, for purposes of determining the number of shares voting on a particular proposal, abstentions and broker non-votes are not counted as votes cast or shares voting.

RECORD DATE AND VOTING SECURITIES

Only shareholders of record at the close of business on March 4, 2005 (the Record Date), are entitled to receive notice of and to vote at the meeting. As of the close of business on the Record Date, there were 46,279,609 shares of Common Stock outstanding and entitled to vote. Each outstanding share of the Corporation's Common Stock entitles the record holder to one vote.

ELECTION OF DIRECTORS

The Board of Directors currently consists of six directors. The Board of Directors is divided into three classes, with one class being elected each year for a term of three years. It is proposed that Robert J. Shillman and Jerald Fishman, whose terms expire at this meeting, be elected to serve terms of three years and in each case until their successors are duly elected and qualified or until they sooner die, resign or are removed.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF ROBERT J. SHILLMAN AND JERALD FISHMAN.

The persons named in the accompanying proxy will vote, unless authority is withheld, for the election of the nominees named above. The Board of Directors anticipates that each of the nominees, if elected, will serve as a director. If any nominee is unable to accept election, the persons named in the accompanying proxy will vote for such substitute as the Board of Directors may recommend. Should the Board of Directors not recommend a substitute for any nominee, the proxy will be voted for the election of the remaining nominee. There are no family relationships between any Director and executive officer of the Corporation or its subsidiaries.

INFORMATION REGARDING DIRECTORS

Set forth below is certain information furnished to the Corporation by the Director nominees and by each of the incumbent Directors whose terms will continue after the meeting. The Board of Directors has determined that all of the Director nominees and incumbent Directors listed below are independent as such term is defined in the applicable listing standards of the National Association of Securities Dealers, except for Mr. Alias and Dr. Shillman who are also executive officers of the Corporation. The Board has established the role of Lead Independent Director, and Mr. Fishman currently serves in that role, which includes chairing the executive sessions of the independent directors. Independent directors of the Corporation regularly meet in executive sessions outside the presence of management.

Name	Age	Year First Elected a Director	Position With the Corporation or Principal Occupation During the Past Five Years
Nominated for a term ending in 2008:			
Robert J. Shillman	58	1981	Since 1981, Chief Executive Officer and Chairman of the Board of Directors of the Corporation. From 1981 through August 2004, President of the Corporation.
Jerald Fishman	59	1998	Since 1971, held various management positions at Analog Devices, Inc., and has been since 1996, President and Chief Executive Officer of Analog Devices, Inc. Mr. Fishman also serves as a member of the Boards of Directors of Analog Devices, Inc. and Xilinx, Inc.

Name	Age	Year First Elected a Director	Position With the Corporation or Principal Occupation During the Past Five Years
Serving a term ending in 2007:			
William Krivsky	75	1985	Since 2004, Chairman and CEO of Keyson Airways Corporation. Since 1994, Principal of Kellogg, Krivsky & Buttler, Inc. and Chairman and CEO of Keyson Enterprises Inc. and The Keyson Company, Inc. From 1986 to 1994, Executive Vice President of Bird Corporation, a manufacturer and distributor of building materials and products and a provider of environmental services. Previously, Mr. Krivsky had served as CEO of Velcro Industries, N.V. Mr. Krivsky also serves as a member of the Board of Directors of Hitchiner Manufacturing.
Anthony Sun	52	1982	Since 1979, a general partner, and since 1997 managing partner, of Venrock Associates, a venture capital partnership. Mr. Sun also serves as a member of the Board of Directors of Phoenix Technologies Ltd., and several private companies.
Serving a term ending in 2006:			
Patrick Alias	59	2001	Since 1991, Executive Vice President of the Corporation.
Reuben Wasserman	75	1990	Since 1985, an independent consultant serving high tech corporations, venture capital firms, and serving on numerous Boards. Prior to 1985, he was Vice President of Strategic Planning for Gould, Inc. Mr. Wasserman also serves as a member of the Board of Directors of AMR, Inc., and as a member of the Board of Overseers of Lahey Clinic.

During fiscal 2004, there were six meetings of the Board of Directors of the Corporation. All of the Directors attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by committees of the Board of Directors on which they served. Members of the Corporation's Board of Directors are strongly encouraged to attend the Annual Meeting, or Special Meeting in lieu thereof, of Shareholders of the Corporation; however, the Corporation does not have a formal policy with respect to attendance at the Annual or Special Meeting. All of the Directors attended the Special Meeting in lieu of the 2004 Annual Meeting of Shareholders held on April 22, 2004.

Each non-employee Director received compensation in the amount of \$7,500 for the 2004 fiscal year plus an additional \$2,000 for each meeting attended. All non-employee directors who served on the Compensation/ Stock Option Committee of the Board of Directors in 2004 received an annual fee of \$2,000 for the fiscal year.

Each Director who served on the Audit Committee of the Board of Directors in 2004 received an annual fee of \$3,000 for the fiscal year. The Chairman of the Audit Committee received an additional fee of \$2,000 for the fiscal year. Each Audit Committee member received an additional \$1,000 for any meeting attended and an additional \$500 for any telephonic meeting attended. In addition, each non-employee Director was granted options to purchase 7,500 shares of Common Stock at \$31.94 per share on February 25, 2004. These options have a ten-year term and vest in four equal annual installments commencing on January 1, 2005.

Shareholders who wish to communicate with the Board of Directors or with a particular Director may send a letter to the Secretary of Cognex Corporation at One Vision Drive, Natick, Massachusetts 01760. The mailing envelope should contain a clear notation indicating that the enclosed letter is a Shareholder-Board Communication or

Shareholder-Director Communication. All such letters should clearly state whether the intended recipients are all members of the Board or certain specified individual Directors. The Secretary will make copies of all such letters and circulate them to the appropriate Director or Directors.

COMMITTEES OF THE BOARD OF DIRECTORS

Compensation/Stock Option Committee

The Board of Directors has a Compensation/ Stock Option Committee whose members are Reuben Wasserman and Jerald Fishman, Chairman. Each member of the Compensation/ Stock Option Committee is independent as such term is defined in the applicable listing standards of the National Association of Securities Dealers. The Compensation/ Stock Option Committee determines the compensation to be paid to key officers of the Corporation and administers the Corporation's stock option plans. The Compensation/ Stock Option Committee met five times in fiscal 2004.

Audit Committee

The Corporation also has an Audit Committee whose members are Reuben Wasserman, Jerald Fishman and William Krivsky, Chairman. For fiscal 2004, among other functions, the Audit Committee reviewed with the Corporation's independent auditors the scope of the audit for the year, the results of the audit when completed and the independent auditors' fees for services performed. The Audit Committee also appointed the independent auditors and reviewed with management various matters related to the Corporation's internal controls. Under the written charter of the Audit Committee, which was attached as Appendix A to the Corporation's Proxy Statement filed with the Securities and Exchange Commission (the Commission) on March 17, 2004, and is available on the Corporation's website at www.cognex.com, the Audit Committee also determined funding for the independent auditors and pre-approved all audit and permitted non-audit services. During fiscal 2004, the Audit Committee held eight meetings. Each member of the Audit Committee is independent as such term is defined in the applicable listing standards of the National Association of Securities Dealers and the rules of the Commission. The Board of Directors has also determined that William Krivsky qualifies as an audit committee financial expert under the rules of the Commission.

Nominating Committee

The Corporation also has a Nominating Committee whose members are William Krivsky, Reuben Wasserman and Jerald Fishman, Chairman. Each member of the Nominating Committee is independent as such term is defined in the applicable listing standards of the National Association of Securities Dealers. Under the written charter of the Nominating Committee, which was attached as Appendix B to the Corporation's Proxy Statement filed with the Commission on March 17, 2004, and is available on the Corporation's website at www.cognex.com, the Nominating Committee is responsible for identifying individu-

als qualified to serve as members of the Board and recommending to the Board nominees for election at each annual meeting of shareholders and when vacancies in the Board occur for any reason. During fiscal 2004, there was one meeting of the Nominating Committee.

When considering a potential candidate for membership on the Board of Directors, the Nominating Committee will consider any criteria it deems appropriate, including, among other things, the experience and qualifications of any particular candidate as well as such candidate's past or anticipated contributions to the Board and its committees. At a minimum, each nominee is expected to have high personal and professional integrity and demonstrated ability and judgment, and to be effective, with the other Directors, in collectively serving the long-term interests of the shareholders. In addition to the minimum qualifications set forth for each nominee above, when considering potential candidates for the Board of Directors, the Nominating Committee seeks to ensure that the Board of Directors is comprised of a majority of independent directors and that the committees of the Board of Directors are comprised entirely of independent directors. The Nominating Committee may also consider any other standards that it deems appropriate, including whether a potential candidate has direct experience in the industry or markets in which the Corporation operates and whether such candidate, if elected, would assist in achieving a mix of directors that represents a diversity of background and experience. In practice, the Nominating Committee generally will evaluate and consider all candidates recommended by the Directors, officers and shareholders of the Corporation. The Nominating Committee intends to consider shareholder recommendations for Directors using the same criteria as potential nominees recommended by the members of the Nominating Committee or others.

In February 2005, the Nominating Committee met and recommended Robert J. Shillman and Jerald Fishman as nominees for election at this year's meeting. The Nominating Committee did not receive any shareholder nominees for election as Director with respect to the meeting.

Shareholders who wish to submit Director candidates for consideration should send such recommendations to the Secretary of the Corporation at the Corporation's executive offices not less than 120 calendar days prior to the date on which the Corporation's proxy statement for the prior year was released. Such recommendations must include: (i) the name and address of record of the shareholder, (ii) a representation that the shareholder is a record holder of the Corporation's Common Stock, or if the shareholder is not a record holder, evidence of ownership in accordance with Rule 14a-8(b)(2) of the Securities Exchange Act of 1934, as amended (the Exchange Act), (iii) the name, age, business and residential address, educational background, current principal occupation or employment, and principal occupation or employment for the preceding five full fiscal years of the proposed Director candidate, (iv) a description of the qualifications of the proposed Director candidate which addresses the minimum qualifications described above, (v) a description of all arrangements or understandings between the shareholder and the proposed Director candidate, and (vi) the consent of the proposed Director candidate to be named in the proxy statement and to serve as a Director if elected at such meeting. Shareholders must also submit any other information regarding the proposed Director candidate that is required to be included in a proxy statement filed pursuant to the rules of the Commission. See also the information under Deadlines for Submission of Shareholder Proposals.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table shows as of February 25, 2005, any person who is known by the Corporation to be the beneficial owner of more than five percent of the Corporation's Common Stock. For purposes of this Proxy Statement, beneficial ownership is defined in accordance with Rule 13d-3 under the Exchange Act. Accordingly, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, agreement, understanding, relationship or otherwise has or shares the power to vote such security or to dispose of such security.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Robert J. Shillman Cognex Corporation One Vision Drive Natick, MA 01760	4,374,306(2)	9.4%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	4,018,200(3)	8.7%
The Hartford Series Fund, Inc. 200 Hopmeadow Street Simsbury, CT 06089	2,503,500(4)	5.4%

- (1) Percentages are calculated on the basis of 46,269,923 shares of Common Stock outstanding as of February 25, 2005. The total number of shares outstanding used in calculating the percentages also assumes that only the currently exercisable options or options which become exercisable within 60 days of February 25, 2005, held by the person to acquire shares of Common Stock are exercised, but does not include the number of shares of Common Stock underlying options held by any other person.
- (2) Includes 90,000 shares owned by the Shillman Foundation and 242,100 shares which Dr. Shillman has the right to acquire upon the exercise of outstanding options exercisable currently or within 60 days of February 25, 2005. Also includes 700 shares held by Dr. Shillman's wife, and an aggregate of 7,000 shares held by Dr. Shillman's children, which Dr. Shillman may be deemed to beneficially own, but as to which he disclaims beneficial ownership.
- (3) Information regarding Wellington Management Company, LLP (Wellington) is based solely upon a Schedule 13G filed by Wellington with the Commission on February 14, 2005, which indicates that Wellington held shared voting and dispositive power over 4,018,200 shares.
- (4) Information regarding The Hartford Series Fund, Inc. (Hartford) is based solely upon a Schedule 13G filed with the Commission by Hartford on behalf of The Hartford Capital Appreciation HLS Fund on February 9, 2005, which indicates that Hartford held shared voting and dispositive power over 2,503,500 shares.

SECURITY OWNERSHIP OF DIRECTORS AND OFFICERS

The following information is furnished as of February 25, 2005, with respect to Common Stock of the Corporation beneficially owned within the meaning of Rule 13d-3 of the Exchange Act by each Director of the Corporation, each Director nominee, each of the Named Executive Officers (as defined herein) and by all Directors and executive officers of the Corporation as a group. Unless otherwise indicated, the individuals named held sole voting and investment power over the shares listed below. The address for each individual is c/o Cognex Corporation, One Vision Drive, Natick, Massachusetts 01760.

Name	Amount and Nature of Beneficial Ownership(1)	Percent of Class(2)
Robert J. Shillman	4,374,306(3)	9.4%
Anthony Sun	194,163	*
James Hoffmaster	170,874	*
Richard Morin	119,357	*
Patrick Alias	51,362	*
Jerald Fishman	44,875	*
Reuben Wasserman	21,875	*
William Krivsky	17,174	*
All Directors and Executive Officers as a group (8 persons)	4,993,986(4)	10.6%

* Less than 1%

- (1) Includes the following shares which the specified individual has the right to acquire upon the exercise of outstanding options, exercisable currently or within 60 days of February 25, 2005: Dr. Shillman, 242,100 shares; Mr. Sun, 51,875 shares; Mr. Hoffmaster, 170,874 shares; Mr. Morin, 116,375 shares; Mr. Alias, 47,433 shares; Mr. Fishman, 44,875 shares; Mr. Wasserman, 21,875 shares; and Mr. Krivsky, 16,875 shares.
- (2) Percentages are calculated on the basis of 46,269,923 shares of Common Stock outstanding as of February 25, 2005. The total number of shares outstanding used in calculating the percentages also assumes that only the currently exercisable options or options which become exercisable within 60 days of February 25, 2005, held by the person to acquire shares of Common Stock are exercised, but does not include the number of shares of Common Stock underlying options held by any other person.
- (3) See Footnote (2) under Security Ownership of Certain Beneficial Owners .
- (4) Includes 712,282 shares which certain Directors and executive officers have the right to acquire upon the exercise of outstanding options, exercisable currently or within 60 days of February 25, 2005.

The material in the following Compensation/ Stock Option Committee Report on Executive Compensation, the performance graph on page 10 and the Audit Committee Report on page 16 are not soliciting material, are not deemed filed with the Commission and are not to be incorporated by reference in any filing of the Corporation under the Securities Act of 1933, as amended, or the Exchange Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**COMPENSATION/ STOCK OPTION COMMITTEE REPORT
ON EXECUTIVE COMPENSATION**

The Corporation's executive compensation program is administered by the Compensation/ Stock Option Committee (the Committee), which determines executive officer compensation annually. The Committee is composed of independent directors who are not employees of the Corporation and its determinations with respect to compensation for a fiscal year are generally made at the beginning of the fiscal year.

In its deliberations, the Committee considers (i) the levels of responsibility associated with each executive's position, (ii) the past performance of the individual executive, (iii) the extent to which any individual, departmental or Corporation-wide goals have been met, (iv) the overall competitive environment and the level of compensation necessary to attract and retain talented and motivated individuals in key positions, and (v) the recommendations of appropriate officers of the Corporation.

The Corporation's compensation program utilizes a combination of base salaries, annual bonuses and stock option awards.

In determining the base salaries paid to the Corporation's executive officers for the year ended December 31, 2004, the Committee considered, in particular, their levels of responsibility, salary increases awarded in the past, and the executive's experience and potential.

The Committee views annual bonuses as a vehicle for rewarding executives for meeting performance objectives. The Committee establishes individual and corporate performance targets each year. Executive officers are eligible to receive annual cash bonuses upon achievement of such predetermined performance targets. The annual bonuses for the fiscal year ended December 31, 2004, reflect the achievement of predetermined targets related to the Corporation's operating income, other company metrics and individual goals. The annual bonuses were paid in February 2005.

The Corporation's stock option program is intended to reward the participating executives for their efforts in building shareholder value and improving corporate performance over the long term. The stock option program also promotes the retention of talented executives. In determining the number of options granted to executive officers, the Committee takes into consideration options granted to such executives in previous years and the potential value which may be realized upon exercise of the options as a result of appreciation of the Corporation's stock during the option term.

The Internal Revenue Code limits the deduction a public company is permitted for compensation paid to the chief executive officer and to the four most highly compensated executive officers, other than the chief executive officer. Generally, amounts paid in excess of \$1 million to a covered executive, other than performance-based compensation, cannot be deducted. In order to qualify as performance-based compensation under the tax law, certain requirements must be met, including approval of the performance measures by shareholders. In its deliberations, the Committee considers ways to maximize deductibility of executive compensation, while retaining the discretion the Committee considers appropriate to compensate executive officers at levels commensurate with their responsibilities and achievements.

Compensation of Robert J. Shillman, Chief Executive Officer and Chairman

The Committee established the compensation of Robert J. Shillman, the Chief Executive Officer and Chairman of the Board of Directors of the Corporation, for the fiscal year ended December 31, 2004, using the same criteria that were used to determine the compensation of other executive officers as described above. In establishing Dr. Shillman's compensation for the fiscal year ended December 31, 2004, the Committee considered his level of responsibility, salary increases awarded in the past, and the significant role that Dr. Shillman has played in setting the strategic direction of the Corporation. Dr. Shillman elected to forgo

both his base compensation for 2004 of \$350,000, which represented an increase of approximately 7.7% over 2003, as well as his annual bonus of \$336,000. Dr. Shillman was granted options to purchase 115,000 shares of Common Stock at \$31.94 per share on February 25, 2004, and options to purchase 5,000 shares of Common Stock at \$29.35 per share on July 22, 2004.

The foregoing report has been approved by all members of the Committee.

COMPENSATION/ STOCK OPTION
COMMITTEE

Jerald Fishman, *Chairman*
Reuben Wasserman

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**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURNS
PERFORMANCE GRAPH FOR COGNEX CORPORATION**

Set forth below is a line graph comparing the annual percentage change in the cumulative total shareholder return on the Corporation's Common Stock, based on the market price of the Corporation's Common Stock, with the total return on companies within the Nasdaq Stock Market-US Companies Index (the Nasdaq-US Index) and the Center for Research in Security Prices (CRSP) Nasdaq Lab Apparatus & Analytical, Optical, Measuring & Controlling Instrument (SIC 3820-3829 US Companies) Index (the Nasdaq Lab Apparatus Index). The performance graph assumes an investment of \$100 in each of the Corporation and the two indices, and the reinvestment of any dividends. The historical information set forth below is not necessarily indicative of future performance. Data for the Nasdaq-US Index and the Nasdaq Lab Apparatus Index was provided to the Corporation by CRSP.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURNS
PERFORMANCE GRAPH FOR COGNEX CORPORATION**

Produced on 01/20/2005 including data to 12/31/2004

Notes:

- A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
- B. The indexes are reweighted daily, using the market capitalization on the previous trading day.
- C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
- D. The index level for all series was set to \$100.0 on 12/31/1999.

**COMPENSATION COMMITTEE INTERLOCKS
AND INSIDER PARTICIPATION**

The members of the Compensation/ Stock Option Committee during fiscal 2004 were Mr. Fishman and Mr. Wasserman. Neither of them has served as an officer or employee of the Corporation or any of its subsidiaries, nor had any other business relationship or affiliation with the Corporation or any of its subsidiaries (other than his service as a Director).

**CERTAIN RELATIONSHIPS AND RELATED
TRANSACTIONS**

On June 30, 2000, the Corporation became a Limited Partner in Venrock Associates III L.P. (Venrock), a venture capital fund. In the original agreement with Venrock, the Corporation committed to a total investment in the limited partnership of up to \$25,000,000, with the commitment period expiring on January 1, 2005. In January 2005, the Company signed an amendment to the original agreement with Venrock, which reduced its commitment to \$22,500,000 and extended the commitment period through December 31, 2010. The Corporation does not have the right to withdraw from the partnership prior to December 31, 2010. As of December 31, 2004, the Corporation had contributed \$15,875,000 to the limited partnership. Mr. Sun, a Director of the Corporation, is a managing general partner of Venrock Associates. In the opinion of the Board, the Corporation's relationship with Venrock Associates will not interfere with Mr. Sun's exercise of independent judgment in carrying out his responsibilities as a Director of the Corporation.

In May 2001, Mr. Hoffmaster, President and Chief Operating Officer of the Corporation, received a personal, non-interest bearing loan from the Corporation in the principal amount of \$200,000 in conjunction with his hiring. The Corporation automatically applies any cash bonus payments (less applicable taxes and deductions) earned by Mr. Hoffmaster to the repayment of the loan balance. The loan must be repaid upon the termination of Mr. Hoffmaster's employment, unless the Corporation terminates Mr. Hoffmaster's employment for any reason other than cause, in which case the unpaid balance shall be forgiven. The largest aggregate amount outstanding under the loan during fiscal 2004 was \$192,788. The amount outstanding as of February 27, 2005, was \$17,725.

EXECUTIVE COMPENSATION

The following table sets forth the compensation awarded to, earned by or paid to (i) the Corporation's Chief Executive Officer and (ii) three other executive officers whose total annual salary and bonus exceeded \$100,000 for all services rendered in all capacities to the Corporation and its subsidiaries in 2004 (collectively, the Named Executive Officers).

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards	All Other Compensation(2)
		Salary(1)	Bonus(1)	Securities Underlying Options (Shares)	
Robert J. Shillman(3) Chief Executive Officer	2004	\$ 0	\$ 0	120,000	\$ 6,142
	2003	\$ 0	\$ 21,450	55,000	\$ 6,206
	2002	\$ 0	\$ 17,638	176,000	\$ 5,726
James Hoffmaster President and Chief Operating Officer	2004	\$ 305,000	\$ 260,000	55,000	\$ 7,298
	2003	\$ 281,077	\$ 15,400	50,000	\$ 3,868
	2002	\$ 280,000	\$ 12,663	23,123	\$ 6,735
Patrick Alias Executive Vice President	2004	\$ 94,376	\$ 83,342	3,333	\$ 8,397
	2003	\$ 233,896	\$ 12,815	25,000	\$ 8,229
	2002	\$ 222,246	\$ 10,537	0	\$ 10,447
Richard Morin Chief Financial Officer, Senior Vice President, and Treasurer	2004	\$ 207,081	\$ 135,680	32,500	\$ 11,103
	2003	\$ 197,730	\$ 8,752	35,000	\$ 10,097
	2002	\$ 195,827	\$ 7,055	35,000	\$ 8,683

- (1) Salary and bonus amounts are presented in the year earned. The payment of such amounts may have occurred in other years.
- (2) Includes the following amounts paid by the Corporation for insurance premiums for the benefit of the Named Executive Officer: (i) in 2004: for Dr. Shillman \$2,322, for Mr. Hoffmaster \$1,242, for Mr. Alias \$2,147, and for Mr. Morin \$1,852; (ii) in 2003: for Dr. Shillman \$2,322, for Mr. Hoffmaster \$1,290, for Mr. Alias \$2,229, and for Mr. Morin \$984; and (iii) in 2002: for Dr. Shillman \$2,322, for Mr. Hoffmaster \$1,235, for Mr. Alias \$2,147, and for Mr. Morin \$929. Includes the following contributions made by the Corporation under its 401k Plan: (i) in 2004: for Dr. Shillman \$322, for Mr. Hoffmaster \$6,056, for Mr. Alias \$6,250, and for Mr. Morin \$6,150; (ii) in 2003: for Dr. Shillman \$276, for Mr. Hoffmaster \$2,578, for Mr. Alias \$6,000, and for Mr. Morin \$6,000; and (iii) in 2002: for Dr. Shillman \$0, for Mr. Hoffmaster \$5,500, for Mr. Alias \$5,000, and for Mr. Morin \$5,000. In addition, includes miscellaneous fringe benefits: (i) in 2004: for Dr. Shillman \$3,498, and for Mr. Morin \$3,101; (ii) in 2003: for Dr. Shillman \$3,608, and for Mr. Morin \$3,113; and (iii) in 2002: for Dr. Shillman \$3,404, for Mr. Alias \$3,300, and for Mr. Morin \$2,754.
- (3) Dr. Shillman elected to forgo his base salary of \$350,000 in 2004, \$325,000 in 2003, and \$325,000 in 2002, as well as his 2004 annual bonus of \$336,000.

Termination Agreement

On June 4, 2001, the Corporation and Mr. Hoffmaster entered into a termination agreement, which provides for severance benefits to Mr. Hoffmaster in the event his employment is terminated under certain circumstances. In the event the Corporation terminates Mr. Hoffmaster's employment for any reason other

than cause and not in connection with a change in control, the Corporation will pay Mr. Hoffmaster an aggregate amount, in no event exceeding \$240,000, in accordance with a formula that takes into account his remaining non-compete period and any pre-tax gain realized or realizable in connection with his stock options. If, however, (i) within 12 months following a change of control, Mr. Hoffmaster's employment is terminated by the surviving entity for reasons other than cause or (ii) Mr. Hoffmaster voluntarily terminates his employment following a change of control upon the occurrence of certain events, the surviving entity will pay Mr. Hoffmaster an aggregate amount, in no event exceeding \$240,000, in accordance with a formula that takes into account the number of months that he was an employee of the Corporation and the surviving entity. In addition, a number of stock options held by Mr. Hoffmaster, which number shall be determined based on his number of full months of employment, will accelerate and become exercisable.

Option Grants in Last Fiscal Year

The following table provides information on option grants in fiscal 2004 to the Named Executive Officers. Pursuant to applicable regulations of the Commission, the following table also sets forth the hypothetical value which might be realized with respect to such options based on assumed rates of stock appreciation of 5% and 10% compounded annually from date of grant to the end of the option terms.

Name and Principal Position	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(5)	
	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in Fiscal 2004(4)	Exercise or Base Price (per share)	Expiration Date	5%	10%
					Price Appreciation for Option Term(5)	
Robert J. Shillman Chief Executive Officer	65,000(1)	2.91%	\$ 31.940	2/25/14	\$ 1,305,648	\$ 3,308,769
	50,000(2)	2.24%	\$ 31.940	2/25/14	\$ 1,004,345	\$ 2,545,207
	5,000(3)	0.22%	\$ 29.350	7/22/14	\$ 92,290	\$ 233,882
James Hoffmaster President and Chief Operating Officer	55,000(2)	2.47%	\$ 31.940	2/25/14	\$ 1,104,779	\$ 2,799,727
Patrick Alias Executive Vice President	3,333(1)	0.15%	\$ 32.975	4/22/14	\$ 69,119	\$ 175,161
Richard Morin Chief Financial Officer, Senior Vice President, and Treasurer	32,500(2)	1.46%	\$ 31.940	2/25/14	\$ 652,824	\$ 1,654,384

- (1) These options have a ten-year term and became exercisable in full on January 1, 2005.
- (2) These options have a ten-year term and became exercisable in four equal annual installments commencing on January 1, 2005.
- (3) These options have a ten-year term and become exercisable in full on July 22, 2005.
- (4) A total of 2,230,407 options were granted to employees of the Corporation for recognition of services rendered in fiscal year 2004.
- (5) These values are based on assumed compound rates of appreciation specified by the Commission. Actual gains, if any, on shares acquired on option exercises are dependent on the future performance of the Corporation's Common Stock. There can be no assurance that the values reflected in this table will be achieved.

Aggregated Option Exercises in Last Fiscal Year and 12/31/04 Option Values

The following table sets forth the aggregated number of options to purchase shares of Common Stock exercised by the Named Executive Officers in 2004 and the value of the Named Executive Officers unexercised options at December 31, 2004.

Name and Principal Position	Shares Acquired On Exercise	Value Realized(1)	Number of Securities Underlying Unexercised Options at 12/31/04		Value of Unexercised In-The-Money Options at 12/31/04(2)	
			Exercisable / Unexercisable	Exercisable / Unexercisable	Exercisable / Unexercisable	Exercisable / Unexercisable
Robert J. Shillman Chief Executive Officer	169,950	\$ 2,188,901	138,850	245,250	\$ 138,742	\$ 1,010,921
James Hoffmaster President and Chief Operating Officer	36,375	\$ 423,579	140,000	251,748	\$ 453,600	\$ 794,405