

March 5, 2008

Dear Shareholders:

2007 was a challenging year at Cognex; compared to our 2006 results, our revenue was down by 5% and net profit was down by 33%. These declines resulted from our inability to overcome four different problems that we faced, simultaneously...like a "perfect storm"...in the first three quarters of the year:

1. A cyclical slowdown in the semiconductor and electronics industries hit our top line hard in 2007. We recorded nearly \$20 million less revenue in this segment than we did in 2006. In addition, the business is changing in those two industries. First, our customers are facing significant price pressure for their products, and they, in turn, require all of their vendors to lower their prices. Next, more of these customers want to buy just vision software from us rather than a complete system including hardware. While this does have the positive effect of increasing our margins in percentage terms, it has the negative effect of lowering the revenue and margin in dollar terms.
2. A slowdown in spending on new production lines by the North American automotive industry resulted in lower purchases by them of automation gear, including machine vision. For example, we were booking at a rate of \$4 million per quarter in prior years in this market segment as compared to less than \$2 million in Q4 of 2007.
3. We continued to have low market share for our factory automation products in Japan. Orders for these products there were under \$3 million per quarter in 2007 versus nearly \$15 million in each of the North American and European regions.
4. Our Modular Vision Systems Division's factory-floor business in North America was hurt by organizational problems in our sales channel. As a result, our factory floor business in North America...which is our largest market...stalled in 2007; we recorded \$57 million in North American revenue in 2007 which is about the same as we recorded in 2006.

Those were the problems that we faced in 2007, and I'm happy to report that we made considerable progress getting Cognex back onto a growth track. We focused more of our marketing, engineering and sales resources onto parts of the world where manufacturing is growing...particularly in China. We brought in new senior leadership for our Japanese subsidiary, and their first mission is to increase our factory-floor business in Japan by partnering Cognex with a large industrial Japanese manufacturer. And, we reorganized our North American direct sales and distribution channels to make them much more efficient.

Due to our engineering efforts in 2007, we expect to introduce a number of new products in the coming months, including a new vision system that we believe will be far superior to the current offerings of our Japanese competitors, an expanded line of ID products designed specifically for reading codes, and our first software-only product, which we intend to promote aggressively to both OEMs and machine builders.

You can see and hear more details about our efforts in 2007 and our outlook for 2008 by viewing the dynamic video located at <http://investor.cognex.com/2007>.

Our entire team worked hard in 2007 to turn the ship around, and they entered 2008 highly energized and optimistic about the future. Now that the storm is behind us, I am confident that we will have smooth sailing ahead and that 2008 will be a year of growth...both top and bottom line...for Cognex.

Sincerely yours,



Robert J. Shillman ("Doctor Bob")
President and Chief Executive Officer