

COGNEX CORP
Form 10-Q
July 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

- Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 29, 2014 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 001-34218

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)

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 whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 29, 2014, there were 86,739,203 shares of Common Stock, \$.002 par value per share, of the registrant outstanding.

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

	Three-months Ended		Six-months Ended	
	June 29, 2014 (unaudited)	June 30, 2013	June 29, 2014 (unaudited)	June 30, 2013
Revenue				
Product	\$ 102,942	\$ 79,698	\$ 186,511	\$ 154,370
Service	5,860	6,812	13,220	13,032
	108,802	86,510	199,731	167,402
Cost of revenue				
Product	22,578	17,910	39,864	34,374
Service	3,212	3,240	7,010	6,199
	25,790	21,150	46,874	40,573
Gross margin				
Product	80,364	61,788	146,647	119,996
Service	2,648	3,572	6,210	6,833
	83,012	65,360	152,857	126,829
Research, development, and engineering expenses	13,622	11,887	26,124	23,208
Selling, general, and administrative expenses	38,668	33,300	73,568	65,467
Operating income	30,722	20,173	53,165	38,154
Foreign currency gain (loss)	(96	) 76	(206	) 139
Investment income	801	774	1,588	1,166
Other expense	(75	) (257	) (348	) (140
Income before income tax expense	31,352	20,766	54,199	39,319
Income tax expense	5,404	3,946	9,745	6,916
Net income	\$ 25,948	\$ 16,820	\$ 44,454	\$ 32,403
Earnings per weighted-average common and common-equivalent share (1):				
Basic	\$ 0.30	\$ 0.19	\$ 0.51	\$ 0.37
Diluted	\$ 0.29	\$ 0.19	\$ 0.50	\$ 0.37
Weighted-average common and common-equivalent shares outstanding (1):				
Basic	86,782	87,044	86,830	86,784
Diluted	88,965	88,714	89,112	88,502

(1) Prior period results have been adjusted to reflect the two-for-one stock split effected in the form of a stock dividend which occurred in the third quarter of 2013.

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

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COGNEX CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands)

	Three-months Ended		Six-months Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(unaudited)		(unaudited)	
Net income	\$25,948	\$16,820	\$44,454	\$32,403
Other comprehensive income (loss), net of tax:				
Cash flow hedges:				
Change in net unrealized gain (loss), net of tax of \$10 and \$0 in the three-month periods and net of tax of (\$6) and \$0 in the six-month periods, respectively	(36	) —	(235) —
Reclassification adjustments for loss (gain) included in net income	24	—	57	—
Net change related to cash flow hedges	(12	) —	(178) —
Available-for-sale investments:				
Change in net unrealized gain (loss), net of tax of \$69 and (\$318) in the three-month periods and net of tax of \$182 and (\$276) in the six-month periods, respectively	542	(1,279	) 1,561	(1,106
Reclassification adjustments for loss (gain) included in net income	(105	) (52	) (606	) (83
Net change related to available-for-sale investments	437	(1,331	) 955	(1,189
Currency translation adjustments:				
Change in currency translation adjustments, net of tax of \$53 and \$46 in the three-month periods and net of tax of \$60 and (\$181) in the six-month periods, respectively	(544	) 687	(99	) (1,807
Net change related to currency translation adjustments	(544	) 687	(99	) (1,807
Other comprehensive income (loss), net of tax	(119	) (644	) 678	(2,996
Total comprehensive income	\$25,829	\$16,176	\$45,132	\$29,407

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

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COGNEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 29, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$40,172	\$40,644
Short-term investments	83,677	184,822
Accounts receivable, less reserves of \$1,214 and \$1,354 in 2014 and 2013, respectively	69,780	53,015
Inventories	30,737	25,694
Deferred income taxes	7,829	7,611
Deferred costs	20,877	4,688
Prepaid expenses and other current assets	15,184	15,577
Total current assets	268,256	332,051
Long-term investments	343,725	229,655
Property, plant, and equipment, net	38,321	37,136
Deferred income taxes	13,535	12,307
Intangible assets, net	12,892	14,723
Goodwill	81,689	81,689
Other assets	2,038	2,138
	\$760,456	\$709,699
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$15,329	\$9,487
Accrued expenses	32,921	34,331
Accrued income taxes	569	1,263
Deferred revenue	25,327	15,941
Total current liabilities	74,146	61,022
Reserve for income taxes	3,803	4,765
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, \$.002 par value –		
Authorized: 140,000 shares, issued and outstanding: 86,739 and 86,831 shares in 2014 and 2013, respectively	174	174
Additional paid-in capital	231,907	211,440
Retained earnings	479,581	462,131
Accumulated other comprehensive loss, net of tax	(29,155	) (29,833)
Total shareholders' equity	682,507	643,912
	\$760,456	\$709,699

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

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

	Six-months Ended	
	June 29, 2014	June 30, 2013
	(unaudited)	
Cash flows from operating activities:		
Net income	\$44,454	\$32,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	7,960	6,079
Depreciation of property, plant, and equipment	4,051	3,596
Amortization of intangible assets	1,830	1,921
Amortization of discounts or premiums on investments	1,284	1,443
Realized gain on sale of investments	(606)	(83)
Net unrealized loss on trading securities	—	462
Tax effect of stock option exercises	(3,481)	(2,773)
Change in deferred income taxes	(1,507)	(1,748)
Change in operating assets and liabilities:		
Accounts receivable	(16,952)	(3,897)
Inventories	(5,150)	(821)
Deferred costs	(16,189)	(384)
Deferred revenue	10,516	(96)
Other	5,498	2,873
Net cash provided by operating activities	31,708	38,975
Cash flows from investing activities:		
Purchases of investments	(189,746)	(167,652)
Maturities and sales of investments	177,280	129,329
Purchases of property, plant, and equipment	(5,341)	(4,310)
Net cash used in investing activities	(17,807)	(42,633)
Cash flows from financing activities:		
Issuance of common stock under stock option plans	9,026	16,242
Repurchase of common stock	(27,004)	(11,891)
Tax effect of stock option exercises	3,481	2,773
Net cash provided by (used in) financing activities	(14,497)	7,124
Effect of foreign exchange rate changes on cash and cash equivalents	124	(752)
Net change in cash and cash equivalents	(472)	2,714
Cash and cash equivalents at beginning of period	40,644	45,160
Cash and cash equivalents at end of period	\$40,172	\$47,874

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

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COGNEX CORPORATION
 CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
 (In thousands)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Par Value	Paid-in	Earnings	Other	Shareholders'
			Capital		Comprehensive	Equity
					Loss	
Balance as of December 31, 2013	86,831	\$174	\$211,440	\$462,131	\$(29,833)	\$643,912
Issuance of common stock under stock plans	648	—	9,026	—	—	9,026
Repurchase of common stock	(740)	—	—	(27,004)	—	(27,004)
Stock-based compensation expense	—	—	7,960	—	—	7,960
Excess tax benefit from stock option exercises	—	—	3,481	—	—	3,481
Net income	—	—	—	44,454	—	44,454
Net unrealized loss on cash flow hedges, net of tax of \$6	—	—	—	—	(235)	(235)
Reclassification of net realized loss on cash flow hedges	—	—	—	—	57	57
Net unrealized gain on available-for-sale investments, net of tax of \$182	—	—	—	—	1,561	1,561
Reclassification of net realized gain on the sale of available-for-sale investments	—	—	—	—	(606)	(606)
Foreign currency translation adjustment, net of tax of \$60	—	—	—	—	(99)	(99)
Balance as of June 29, 2014 (unaudited)	86,739	\$174	\$231,907	\$479,581	\$(29,155)	\$682,507

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

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COGNEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: Summary of Significant Accounting Policies

As permitted by the rules of the Securities and Exchange Commission applicable to Quarterly Reports on Form 10-Q, these notes are condensed and do not contain all disclosures required by generally accepted accounting principles (GAAP). Reference should be made to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

In the opinion of the management of Cognex Corporation (the "Company"), the accompanying consolidated unaudited financial statements contain all adjustments, consisting of normal, recurring adjustments and financial statement reclassifications, necessary to present fairly the Company's financial position as of June 29, 2014, and the results of its operations for the three-month and six-month periods ended June 29, 2014 and June 30, 2013, and changes in shareholders' equity, comprehensive income, and cash flows for the periods presented.

The results disclosed in the Consolidated Statements of Operations for the three-month and six-month periods ended June 29, 2014 are not necessarily indicative of the results to be expected for the full year.

NOTE 2: New Pronouncements

Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers"

The amendments in ASU 2014-09 will supersede and replace all currently existing U.S. GAAP, including industry-specific revenue recognition guidance, with a single, principle-based revenue recognition framework. The concept guiding this new model is that revenue recognition will depict transfer of control to the customer in an amount that reflects consideration to which an entity expects to be entitled. The core principles supporting this framework include 1) identifying the contract with a customer, 2) identifying separate performance obligations within the contract, 3) determining the transaction price, 4) allocating the transaction price to the performance obligations, and 5) recognizing revenue. This new framework will require entities to apply significantly more judgment. This increase in management judgment will require expanded disclosure on estimation methods, inputs, and assumptions for revenue recognition. The guidance in ASU 2014-09 is effective for public companies for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. Management is in the process of evaluating the impact of this update.

NOTE 3: Fair Value Measurements

Financial Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following table summarizes the financial assets and liabilities required to be measured at fair value on a recurring basis as of June 29, 2014 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:		
Money market instruments	\$1,358	\$—
Corporate bonds	—	235,780
Treasury bills	—	87,967
Asset-backed securities	—	70,692
Sovereign bonds	—	18,915
Municipal bonds	—	10,592
Agency bonds	—	1,500
Cash flow hedge forward contracts	—	45
Economic hedge forward contracts	—	6
Liabilities:		
Cash flow hedge forward contracts	—	127
Economic hedge forward contracts	—	27

The Company's money market instruments are reported at fair value based upon the daily market price for identical assets in active markets, and are therefore classified as Level 1.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company's debt securities and forward contracts are reported at fair value based upon model-driven valuations in which all significant inputs are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset or liability, and are therefore classified as Level 2. Management is responsible for estimating the fair value of these financial assets and liabilities, and in doing so, considers valuations provided by a large, third-party pricing service. For debt securities, this service maintains regular contact with market makers, brokers, dealers, and analysts to gather information on market movement, direction, trends, and other specific data. They use this information to structure yield curves for various types of debt securities and arrive at the daily valuations. The Company's forward contracts are typically traded or executed in over-the-counter markets with a high degree of pricing transparency. The market participants are generally large commercial banks.

The Company did not record an other-than-temporary impairment of these financial assets or liabilities during the six-month period ended June 29, 2014.

Financial Assets that are Measured at Fair Value on a Non-recurring Basis

The Company has an interest in a limited partnership, which is accounted for using the cost method and is required to be measured at fair value on a non-recurring basis. Management is responsible for estimating the fair value of this investment, and in doing so, considers valuations of the partnership's investments as determined by the General Partner. Publicly-traded investments in active markets are reported at the market closing price less a discount, as appropriate, to reflect restricted marketability. Fair value for private investments for which observable market prices in active markets do not exist is based upon the best information available including the value of a recent financing, reference to observable valuation measures for comparable companies (such as revenue multiples), public or private transactions (such as the sale of a comparable company), and valuations for publicly-traded comparable companies. The valuations also incorporate the General Partner's own judgment and close familiarity with the business activities of each portfolio company. Significant increases or decreases in any of these inputs in isolation may result in a significantly lower or higher fair value measurement. The portfolio consists of securities of public and private companies, and consequently, inputs used in the fair value calculation are classified as Level 3. The Company did not record an other-than-temporary impairment of this asset during the six-month period ended June 29, 2014.

Non-financial Assets that are Measured at Fair Value on a Non-recurring Basis

Non-financial assets such as goodwill, intangible assets, and property, plant, and equipment are required to be measured at fair value only when an impairment loss is recognized. The Company did not record an impairment charge related to these assets during the six-month period ended June 29, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4: Cash, Cash Equivalents, and Investments

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

	June 29, 2014	December 31, 2013
Cash	\$38,814	\$40,124
Money market instruments	1,358	520
Cash and cash equivalents	40,172	40,644
Asset-backed securities	33,733	53,559
Corporate bonds	28,013	109,040
Treasury bills	12,996	—
Municipal bonds	5,707	9,276
Sovereign bonds	3,228	11,448
Agency bonds	—	1,499
Short-term investments	83,677	184,822
Corporate bonds		