COGNEX CORP
Form 10-Q
April 30, 2018

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

[X]	Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 1, 2018 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	04-2713778
(State or other jurisdiction of incorporation or organization)	(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 X 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 X No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	X	Accelerated filer
Non-accelerated filer		(Do not check if a smaller reporting company)
		Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X
As of April 1, 2018, there were 172,948,442 shares of Common Stock, $.002 par value per share, of the registrant outstanding.

INDEX

PART I: FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS

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

	Three-months Ended	
	April 1, 2018	April 2, 2017
	(unaudited)	
Revenue	$169,567	$139,039
Cost of revenue	40,198	32,532
Gross margin	129,369	106,507
Research, development, and engineering expenses	31,076	22,770
Selling, general, and administrative expenses	63,697	46,521
Operating income	34,596	37,216
Foreign currency gain (loss)	(134)	(263)
Investment income	3,240	2,012
Other income (expense)	277	270
Income before income tax expense	37,979	39,235
Income tax expense (benefit)	762	(6,236)
Net income	37,217	45,471
Net income per weighted-average common and common-equivalent share:		
Basic	$0.21	$0.26
Diluted	$0.21	$0.25
Weighted-average common and common-equivalent shares outstanding:		
Basic	173,280	172,646
Diluted	179,641	178,354
Cash dividends per common share	$0.0450	$0.0375

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

COGNEX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three-months Ended	
	April 1, 2018	April 2, 2017
	(unaudited)	
Net income	$37,217	$45,471
Other comprehensive income (loss), net of tax:		
Cash flow hedges:		
Net unrealized gain (loss), net of tax of $0 and ($4) in 2018 and 2017, respectively	—	(71)
Reclassification of net realized (gain) loss into current operations	—	44
Net change related to cash flow hedges	—	(27)
Available-for-sale investments:		
Net unrealized gain (loss), net of tax of ($114) and $92 in 2018 and 2017, respectively	(1,192)	511
Reclassification of net realized (gain) loss into current operations	(22)	(65)
Net change related to available-for-sale investments	(1,214)	446
Foreign currency translation adjustments:		
Foreign currency translation adjustments	4,056	2,481
Net change related to foreign currency translation adjustments	4,056	2,481
Other comprehensive income (loss), net of tax	2,842	2,900
Total comprehensive income	$40,059	$48,371

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

COGNEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	April 1, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$109,572	$106,582
Short-term investments	337,629	297,961
Accounts receivable, less reserves of $1,664 and $1,568 in 2018 and 2017, respectively	96,649	119,388
Unbilled revenue	4,232	7,454
Inventories	96,399	67,923
Prepaid expenses and other current assets	26,068	30,683
Total current assets	670,549	629,991
Long-term investments	356,181	423,441
Property, plant, and equipment, net	85,205	78,048
Goodwill	113,208	113,208
Intangible assets, net	12,420	13,189
Deferred income taxes	29,135	27,385
Other assets	2,217	2,491
Total assets	$1,268,915	$1,287,753
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$29,136	$23,463
Accrued expenses	56,463	68,249
Accrued income taxes	11,915	11,503
Deferred revenue and customer deposits	15,504	9,420
Total current liabilities	113,018	112,635
Deferred income taxes	319	312
Reserve for income taxes	6,958	6,488
Accrued income taxes	66,741	66,741
Other non-current liabilities	4,780	5,904
Total liabilities	191,816	192,080
Shareholders' equity:		
Common stock, $.002 par value – Authorized: 200,000 shares in 2018 and 2017, respectively, issued and outstanding: 172,948 and 173,507 shares in 2018 and 2017, respectively	346	347
Additional paid-in capital	485,654	461,338
Retained earnings	622,856	668,587
Accumulated other comprehensive loss, net of tax	(31,757)	(34,599)
Total shareholders' equity	1,077,099	1,095,673
	$1,268,915	$1,287,753

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

5

COGNEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three-months Ended April 1, 2018 (unaudited)			April 2, 2017		
Cash flows from operating activities:						
Net income	$	37,217		$	45,471	
Adjustments to reconcile net income to net cash provided by operating activities:						
Stock-based compensation expense	13,194			7,483		
Depreciation of property, plant, and equipment	4,430			3,083		
Amortization of intangible assets	769			872		
Amortization of discounts or premiums on investments	56			86		
Realized (gain) loss on sale of investments	(22		)	(65		)
Revaluation of contingent consideration	(442		)	(275		)
Change in deferred income taxes	(1,469		)	921		
Change in operating assets and liabilities:						
Accounts receivable	24,830			(2,238		)
Unbilled revenue	3,389			953		
Inventories	(27,321		)	(5,386		)
Prepaid expenses and other current assets	(866		)	(12,461		)
Accounts payable	5,309			7,167		
Accrued expenses	(9,927		)	(3,398		)
Accrued income taxes	186			397		
Deferred revenue and customer deposits	5,877			5,839		
Other	(424		)	(734		)
Net cash provided by operating activities	54,786			47,715		
Cash flows from investing activities:						
Purchases of investments	(118,108		)	(193,612		)

Maturities and sales of investments	144,337			171,667		
Purchases of property, plant, and equipment	(13,270		)	(6,095		)
Cash paid for acquisition of business	—			(176		)
Cash paid related to discontinued business	—			(291		)
Net cash provided by (used in) investing activities	12,959			(28,507		)
Cash flows from financing activities:						
Issuance of common stock under stock plans	11,123			29,139		
Repurchase of common stock	(69,202		)	(30,067		)
Payment of dividends	(7,787		)	(6,497		)
Net cash provided by (used in) financing activities	(65,866		)	(7,425		)
Effect of foreign exchange rate changes on cash and cash equivalents	1,111			1,004		
Net change in cash and cash equivalents	2,990			12,787		
Cash and cash equivalents at beginning of period	106,582			79,641		
Cash and cash equivalents at end of period	$	109,572		$	92,428	

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Par Value				
Balance as of December 31, 2017	173,507	$ 347	$ 461,338	$ 668,587	$ (34,599)	$ 1,095,673
Issuance of common stock under stock plans	697	1	11,122	—	—	11,123
Repurchase of common stock	(1,256)	(2)	—	(69,200)	—	(69,202)
Stock-based compensation expense	—	—	13,194	—	—	13,194
Payment of dividends	—	—	—	(7,787)	—	(7,787)
Adjustment as a result of the adoption of ASU 2016-16 "Income Taxes - Intra-Entity Transfers Other than Inventory" (Note 12)	—	—	—	(5,961)	—	(5,961)
Net income	—	—	—	37,217	—	37,217
Net unrealized gain (loss) on available-for-sale investments, net of tax of ($114)	—	—	—	—	(1,192)	(1,192)
Reclassification of net realized (gain) loss on the sale of available-for-sale investments	—	—	—	—	(22)	(22)
Foreign currency translation adjustment	—	—	—	—	4,056	4,056
Balance as of April 1, 2018 (unaudited)	172,948	$ 346	$ 485,654	$ 622,856	$ (31,757)	$ 1,077,099

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

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). As a result of the adoption of ASC 606 "Revenue from Contracts with Customers," Cognex Corporation (the "Company") has provided new disclosures related to revenue recognition in this Quarterly Report on Form 10-Q. 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, 2017 for a full description of other significant accounting policies.

In the opinion of the management of 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 April 1, 2018, and the results of its operations for the three-month periods ended April 1, 2018 and April 2, 2017, 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 period ended April 1, 2018 are not necessarily indicative of the results to be expected for the full year.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) 606, “Revenue from Contracts with Customers.” The core principle of ASC 606 is to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The framework in support of this core principle includes: (1) identifying the contract with the customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations; and (5) recognizing revenue when (or as) the performance obligations are satisfied.

Identifying the Contract with the Customer

The Company identifies contracts with customers as agreements that create enforceable rights and obligations, which typically take the form of customer contracts or purchase orders.

Identifying the Performance Obligations in the Contract

The Company identifies performance obligations as promises in contracts to transfer distinct goods or services. Standard products and services that the Company regularly sells separately are accounted for as distinct performance obligations. Application-specific customer solutions that are comprised of a combination of products and services are accounted for as one performance obligation to deliver a total solution to the customer. These solutions are provided to customers in a variety of industries, including the consumer electronics, logistics, and automotive industries. Shipping and handling activities for which the Company is responsible under the terms and conditions of the sale are not accounted for as performance obligations but as fulfillment costs. These activities are required to fulfill the Company’s promise to transfer the good and are expensed when revenue is recognized.

The Company does not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract. If revenue is recognized before immaterial promises have been completed, then the costs related to such immaterial promises are accrued at the time of sale.

Determining the Transaction Price

The Company determines the transaction price as the amount of consideration it expects to receive in exchange for transferring promised goods or services to the customer. Amounts collected from customers for sales taxes are excluded from the transaction price.

If a contract includes a variable amount, such as a rebate, then the Company estimates the transaction price using either the expected value or the most likely amount of consideration to be received, depending upon the specific facts and circumstances. The Company includes estimated variable consideration in the transaction price only to the extent it is probable that a significant reversal of revenue will not occur when the uncertainty is resolved. The Company updates its estimate of variable consideration at the end of each reporting period to reflect changes in facts and circumstances.

Allocating the Transaction Price to the Performance Obligations

The Company allocates the transaction price to each performance obligation at contract inception based on a relative stand-alone selling price basis, or the price at which the Company would sell the good or service separately to similar customers in similar circumstances.

Recognizing Revenue When (or As) the Performance Obligations are Satisfied

The Company recognizes revenue when it transfers the promised goods or services to the customer. Revenue for standard products is recognized at the point in time when the customer obtains control of the goods, which is typically upon delivery when the customer has legal title, physical possession, the risks and rewards of ownership, and an enforceable obligation to pay for the products. Revenue for services, which are not material, are typically recognized over the time the services are provided.

Revenue for application-specific customer solutions is recognized at the point in time when the solution is validated, which is the point in time when the Company can objectively determine that the agreed-upon specifications in the contract have been met and the customer will accept the performance obligations in the arrangement. Although the customer may have taken legal title and physical possession of the goods when they arrived at the customer’s designed site, the significant risks and rewards of ownership transfer to the customer only upon validation.

In certain instances, an arrangement may include customer-specified acceptance provisions or performance guarantees that allow the customer to accept or reject delivered products that do not meet the customer’s specifications. If the Company can objectively determine that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality. If acceptance provisions are presumed to be substantive, then revenue is deferred until customer acceptance.

For the Company’s standard products and services, revenue recognition and billing typically occur at the same time. For application-specific customer solutions, however, the agreement with the customer may provide for billing terms which differ from revenue recognition criteria, resulting in either deferred revenue or unbilled revenue. Credit assessments are performed to determine payment terms, which vary by region, industry, and customer. Prepayment terms result in contract liabilities for customer deposits. When credit is granted to customers, payment is typically due 30 to 90 days from billing. The Company's contracts have an original expected duration of less than one year, and therefore as a practical expedient, the Company has elected to ignore the impact of the time value of money on a contract and to expense sales commissions. The Company recognizes an asset for costs to fulfill a contract if the costs relate directly to the contract and to future performance, and the costs are expected to be recovered.

Management exercises judgment when determining the amount of revenue to be recognized each period. Such judgments include, but are not limited to, assessing the customer’s ability and intention to pay substantially all of the contract consideration when due, determining when two or more contracts should be combined and accounted for as a single contract, determining whether a contract modification has occurred, assessing whether promises are immaterial in the context of the contract, determining whether material promises in a contract represent distinct performance obligations, estimating the transaction price for a contract that contains variable consideration, determining the stand-alone selling price of each performance obligation, determining whether control is transferred over time or at a point in time for performance obligations, and assessing whether formal customer acceptance provisions are substantive.

NOTE 2: New Pronouncements

Accounting Standards Update (ASU) 2016-02, "Leases"

ASU 2016-02 creates Topic 842, Leases. The objective of this Update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet, and disclosing key information about leasing arrangements. This ASU applies to any entity that enters into a lease, although lessees will see the most significant changes. The main difference between current U.S. GAAP and Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under current U.S. GAAP. Topic 842 distinguishes between finance leases and operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current U.S. GAAP. For public companies, the guidance in ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. This ASU should be applied using a modified retrospective approach.

Management is in the process of implementing this Update. As of the date of this report, management has determined the scope of leases subject to the new accounting requirements and has selected a software package to assist with compliance. Management is in the process of drafting the internal accounting lease policy and designing the related processes and internal controls.

Accounting Standards Update (ASU) 2016-13, "Financial Instruments - Measurement of Credit Losses"
ASU 2016-13 applies to all reporting entities holding financial assets that are not accounted for at fair value through net income (debt securities). The amendments in this Update eliminate the probable initial recognition threshold to recognize a credit loss under current U.S. GAAP and, instead, reflect an entity's current estimate of all expected credit losses. In addition, this Update broadens the information an entity must consider in developing the credit loss estimate, including the use of reasonable and supportable forecasted information. The amendments in this Update require that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down and an entity will be able to record reversals of credit losses in current period net income. For public companies, the guidance in ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. This ASU should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Management does not expect ASU 2016-13 to have a material impact on the Company's financial statements and disclosures.
Accounting Standards Update (ASU) 2017-08, "Receivables - Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities "
ASU 2017-08 applies to all reporting entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date (that is, at a premium). The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. Under current GAAP, premiums and discounts on callable debt securities generally are amortized to the maturity date. If that callable debt security is subsequently called, the entity records a loss equal to the unamortized premium. The amendments in this Update more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. For public companies, the amendments in ASU 2017-08 are effective for annual periods beginning after December 15, 2019 and interim reporting periods within annual years beginning after December 15, 2020. This ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption, and, in the period of adoption, the entity is required to provide disclosures about the change in accounting principle. Early adoption is permitted, including adoption in an interim period. Management does not expect ASU 2017-08 to have a material impact on the Company's financial statements and disclosures.
Accounting Standards Update (ASU) 2017-12, "Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities"
ASU 2017-12 applies to all reporting entities that elect to apply hedge accounting. The hedge accounting requirements under current GAAP sometimes do not permit an entity to properly recognize the economic results of the hedging strategy in the financial statements, and they are difficult to understand and interpret. The amendments in this Update make certain targeted improvements to simplify the application of the hedge accounting guidance. Also, they better align the risk management activities and financial reporting for hedging relationships through changes to both 1) the designation and measurement guidance for qualifying hedging relationships and 2) the presentation of hedge results. For public companies, the amendments in ASU 2017-12 are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual periods. Early adoption is permitted including adoption in any interim period after issuance of the Update. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption. The entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the amendments in this Update. The amended presentation and disclosure guidance is required only prospectively. Management does not expect ASU 2017-12 to have a material impact on the Company's financial statements and disclosures.
Accounting Standards Update (ASU) 2018-1, "Land Easement Practical Expedient for Transition to Topic 842"
ASU 2018-01 applies to entities with land easements that exist or expired before an entity's adoption of Topic 842, provided that the entity does not account for those land easements as leases under Topic 840. The amendments in this

Update permit an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. An entity that elects this practical expedient should apply the practical expedient consistently to all of its existing or expired land easements that were not previously accounted for as leases under Topic 840. Once an entity adopts Topic 842, it should apply that Topic prospectively to all new (or modified) land easements to determine whether the arrangement should be accounted for as a lease. An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The amendments in this Update affect the amendments in Update 2016-02, which are not yet effective but may be early adopted. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Update 2016-02, which is for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Management is in the process of evaluating the impact of this Update.

Accounting Standards Update (ASU) 2018-2, "Income Statement - Reporting Comprehensive Income"

ASU 2018-02 applies to entities required to apply the provisions of Topic 220, Income Statement - Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires the effect of a change in tax laws or rates to be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. Management does not expect ASU 2018-2 to have a material impact on the Company's financial statements and disclosures.

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 April 1, 2018 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:			
Money market instruments	$ 7,958	—	$ —
Corporate bonds	—	380,621	—
Treasury bills	—	142,299	—
Asset-backed securities	—	131,678	—
Sovereign bonds	—	22,780	—
Municipal bonds	—	10,501	—
Agency bonds	—	5,931	—
Cash flow hedge forward contracts	—	—	—
Economic hedge forward contracts	—	4	—
Liabilities:			
Cash flow hedge forward contracts	—	—	—
Economic hedge forward contracts	—	18	—
Contingent consideration liabilities	—	—	3,115

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.

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.

COGNEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 during the three-month period ended April 1, 2018.
The Company's contingent consideration liabilities are reported at fair value based upon probability-adjusted present values of the consideration expected to be paid, using significant inputs that are not observable in the market, and are therefore classified as Level 3. Key assumptions used in these estimates include probability assessments with respect to the likelihood of achieving certain revenue milestones. The fair values of these contingent consideration liabilities were calculated using discount rates consistent with the level of risk of achievement, and are remeasured each reporting period with changes in fair value recorded in "Other income (expense)" on the Consolidated Statements of Operations.
The following table summarizes the activity for the Company's liabilities measured at fair value using Level 3 inputs for the three-month period ended April 1, 2018 (in thousands):

Balance as of December 31, 2017	$3,557
Fair value adjustment to Manatee contingent consideration	(675)
Fair value adjustment to Chiaro contingent consideration	52
Fair value adjustment to GVi contingent consideration	181
Balance as of April 1, 2018	$3,115

Non-financial Assets that are Measured at Fair Value on a Non-recurring Basis
Non-financial assets such as property, plant and equipment, goodwill, and intangible assets 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 three-month period ended April 1, 2018.
NOTE 4: Cash, Cash Equivalents, and Investments
Cash, cash equivalents, and investments consisted of the following (in thousands):

	April 1, 2018	December 31, 2017
Cash	$101,614	$97,951
Money market instruments	7,958	8,631
Cash and cash equivalents	109,572	106,582
Treasury bills	138,695	150,371
Corporate bonds	108,313	47,395
Asset-backed securities	75,432	59,203
Municipal bonds	9,153	8,805
Sovereign bonds	6,036	21,579
Agency bonds	—	10,608
Short-term investments	337,629	297,961
Corporate bonds	272,308	296,014
Asset-backed securities	56,246	71,727
Sovereign bonds	16,744	13,147
Agency bonds	5,931	14,890
Treasury bills	3,604	23,459
Municipal bonds	1,348	4,204
Long-term investments	356,181	423,441
	$803,382	$827,984

Treasury bills consist of debt securities issued by the U.S. government; corporate bonds consist of debt securities issued by both domestic and foreign companies; asset-backed securities consist of debt securities collateralized by pools of receivables or loans with credit enhancement; municipal bonds consist of debt securities issued by state and local government entities; sovereign bonds consist of direct debt issued by foreign governments; and agency bonds consist of domestic or foreign obligations of government agencies and government sponsored enterprises that have government backing. All securities are denominated in U.S. Dollars.

COGNEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes the Company’s available-for-sale investments as of April 1, 2018 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:				
Treasury bills	$ 139,159	$ —	$ (464)	$ 138,695
Corporate bonds	108,533	50	(270)	108,313
Asset-backed securities	75,710	5	(283)	75,432
Municipal bonds	9,165	—	(12)	9,153
Sovereign bonds	6,040	1	(5)	6,036
Long-term:				
Corporate bonds	272,345	797	(834)	272,308
Asset-backed securities	56,573	14	(341)	56,246
Sovereign bonds	16,779	38	(73)	16,744
Agency bonds	5,930	1	—	5,931
Treasury bills	3,601	3	—	3,604
Municipal bonds	1,360	—	(12)	1,348
	$ 695,195	$ 909	$ (2,294)	$ 693,810

The following table summarizes the Company’s gross unrealized losses and fair values for available-for-sale investments in an unrealized loss position as of April 1, 2018 (in thousands):

	Unrealized Loss Position For:					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ 172,162	$ (812)	$ 23,693	$ (292)	$ 195,855	$ (1,104)
Treasury bills	96,209	(277)	42,487	(187)	138,696	(464)
Asset-backed securities	112,632	(614)	2,640	(10)	115,272	(624)
Sovereign bonds	3,599	(9)	8,730	(69)	12,329	(78)
Municipal bonds	4,196	(24)	—	—	4,196	(24)
Agency bonds	—	—	—	—	—	—
	$ 388,798	$ (1,736)	$ 77,550	$ (558)	$ 466,348	$ (2,294)

As of April 1, 2018, the Company did not recognize any other-than-temporary impairment of these investments. In its evaluation, management considered the type of security, the credit rating of the security, the length of time the security has been in a loss position, the size of the loss position, the Company's intent and ability to hold the security to expected recovery of value, and other meaningful information. The Company does not intend to sell, and is unlikely to be required to sell, any of these available-for-sale investments before their effective maturity or market price recovery.

The Company recorded gross realized gains and gross realized losses on the sale of debt securities totaling $55,000 and $33,000, respectively, during the three-month period ended April 1, 2018 and $88,000 and $23,000, respectively, during the three-month period ended April 2, 2017. These gains and losses are included in "Investment income" on the Consolidated Statement of Operations. Prior to the sale of these securities, unrealized gains and losses for these debt securities, net of tax, are recorded in shareholders’ equity as other comprehensive income (loss).

COGNEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents the effective maturity dates of the Company's available-for-sale investments as of April 1, 2018 (in thousands):

	<1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5-7 Years	Total
Corporate bonds	$108,313	$116,223	$97,412	$36,342	$18,961	$3,370	$380,621
Treasury bills	138,695	3,604	—	—	—	—	142,299
Asset-backed securities	75,432	35,411	6,923	6,504	2,336	5,072	131,678
Sovereign bonds	6,036	10,995	5,749	—	—	—	22,780
Municipal bonds	9,153	—	1,348	—	—	—	10,501
Agency bonds	—	—	—	—	5,931	—	5,931
	$337,629	$166,233	$111,432	$42,846	$27,228	$8,442	$693,810

NOTE 5: Inventories

Inventories consisted of the following (in thousands):

	April 1, 2018	December 31, 2017
Raw materials	$42,759	$ 33,927
Work-in-process	2,192	2,114
Finished goods	51,448	31,882
	$96,399	$ 67,923

NOTE 6: Intangible Assets

Amortized intangible assets consisted of the following (in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Distribution networks	$38,060	$ 38,060	$ —
Completed technologies	13,687	4,791	8,896
Customer relationships	8,607		