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Cognex Corp. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Our first question comes from Antonio Antezano from Bear Stearns.

Antonio Antezano - Bear Stearns

Good evening.

Bob Shillman

Hi,

Richard Morin

Hi, Antonio.

Antonio Antezano - Bear Stearns

Given the significant growth in the IT business, I was wondering if you could provide more color on the growth rate for the IT business by geography.

Richard Morin

Well, geography, I don't know. Yeah, Bob give him, probably if we have it.

Bob Shillman

We have it.

Richard Morin

We have everything except placement.

Bob Shillman

But we need the rank.

Richard Morin

But we need the rank. Okay. By geography, let's see. Did I miss it? Yeah. We'll get back to you. Do you have another question by the time we'll get that?

Antonio Antezano - Bear Stearns

Well, yes. Regarding the Surface Inspection business...

Richard Morin

Yeah.

Antonio Antezano - Bear Stearns

It has been very lumpy, but I was looking [at in you 10-Q at] the profitability also has been very volatile. I think you posted [is more loss] this quarter. I was wondering a couple of quarters ago, you mentioned that there was some initiative to increase profitability for that business, I was wondering, if there had been any changes or any initiatives recently to do that.

Bob Shillman

Well, I am going to answer overall, and then Dick can jump in with specifics. The reason that you see loss is because the revenue recognition method is frankly quite absurd that we are forced to follow. So we may have a quarter where we have \$8 million of revenue, where we didn't even ship anything. Because we have the deferral revenue recognition and the rules are -- just don't make sense, but we've to follow them. And the reason you're seeing that there is loss in this quarter is that the revenue according to the rule was \$5 million to \$6million.

Richard Morin

It was \$6million dollars, and always to respect \$6 million is not quite at their breakeven level to be able to support the level of operating expenses they have with the engineering development and sales and marketing. If you go back to Q4 where they have approximately \$12million in revenues, you'll see that the operating income turned out to be well in an excess of 20% for that particular quarter.

So while we have to defer the revenue and we also defer the COGS that related to that revenue, the operating expenses, they hit the P&L in that particular quarter. So what you really need to do is to have a revenue level there at least to get you to the breakeven point, which is probably somewhere around then \$6.5 million level?

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