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Cognex Corporation Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. [Operator Instructions].

Richard Morin

I have a question, operator?

Operator

Go ahead.

Richard Morin

Where are the questions?

Operator

The first question comes from Richard Eastman from Robert W. Baird.

Richard Eastman - Robert W. Baird

Hi. Just a couple of things. One, Dr. Bob, the VSoC product as it makes its way yields good coming out of the fabs, is there a ready market there for that product? Do we have anything contractual established? Are there any revenue volumes or is it basically going to be piloted at this point into various products?

Robert Shillman

Thanks Richard. That's a very good question. The first use of VSoC is planned in one of our own product. It's going to be in one of our readers, I don't want to give too much detail on this. But the ID group is already designing a product, it will take VSoC. Other than that, we do not have any contractual commitment with anyone yet, and we didn't expect to have any.

We are holding discussions with some potential high-volume users, but I believe that is going to probably two or three quarters away before we can have an announcement. Then, I believe it's partly based on those customers and I'm really assuming this, because I haven't spoken with them on their interest in the technology and what they've seen, but they want to wait and see, if we can produce this chip in volume.

Richard Eastman - Robert W. Baird

Okay. Also on the factory automation side of the businesses \$4.4 million of deferred revenue, I wasn't aware that you had that type of project in MVSD, [our Congress] assuming to see something necessity? But is that at unusual or will that recur where we are differing revenue?

Robert Shillman

Well. It's highly unusual and it's due to what I believe are ridiculous rules and requirements for revenue recognition. We've been shipping this product, I think for over a two-year period, and had shipped probably 90 or 95% of the product in 2008, yet the auditors, because of a strict interpretation of the rule and the way the first set of auditors were interpreting the rules, we had to follow that and we weren't allowed to recognize a penny of revenue until that last 1% was shipped.

This is a problem with the revenue recognition rules and that's what I can tell you. I think we're facing one more. There's one more on our books where we've shipped just about everything, but a very strict reading of the contract and the customer says hey we're all set and they paid us for everything. We haven't recognized it yet. It's one of the largest (inaudible) too many bureaucrats get involved.

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