

CYBEROPTICS CORP
Form DEF 14A
April 07, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

CyberOptics Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required
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SCHEDULE 14A

2) Aggregate number of securities to which transaction applies:

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2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

CYBEROPTICS CORPORATION

5900 Golden Hills Drive
Minneapolis, MN 55416

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 8, 2005

To the Shareholders of
CYBEROPTICS CORPORATION:

The Annual Meeting of Shareholders of CyberOptics Corporation will be held on Monday, May 16, 2005, at the offices of Dorsey & Whitney LLP, 50 South Sixth Street, 15th Floor, Minneapolis, Minnesota at 3:00 p.m. for the following purposes:

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- 1) To elect six directors;
- 2) To consider such other matters as may properly come before the meeting or any adjournments thereof.

Only holders of record of Common Stock at the close of business on April 1, 2005, will be entitled to receive notice of and to vote at the meeting. Shareholders who do not expect to attend the meeting in person are urged to fill in, date, sign and promptly return the proxy in the enclosed envelope, or, for registered shareholders, promptly return your proxy online at <http://www.eproxy.com/cybe>, as described more completely on the enclosed proxy card. If you later desire to revoke your proxy, you may do so at any time before it is exercised.

By Order of the Board of Directors

Thomas Martin
Secretary

Minneapolis, Minnesota
April 8, 2005

IMPORTANT PLEASE MAIL YOUR PROXY PROMPTLY

In order that there may be a proper representation at the meeting, you are urged, whether you own one share or many, to promptly complete, sign and mail your proxy, or to return it electronically at the website set up for this purpose.

CYBEROPTICS CORPORATION

5900 Golden Hills Drive
Minneapolis, MN 55416

PROXY STATEMENT

**Annual Meeting of Shareholders to be held
on May 16, 2005**

We have prepared this proxy statement on behalf of our Board of Directors for use in soliciting proxies for our Annual Meeting of Shareholders to be held Monday, May 16, 2005. The annual meeting will be held on the 15th floor of the offices of Dorsey & Whitey LLP, 50 South Sixth Street, Minneapolis, Minnesota at 3:00 p.m. We will bear the cost of soliciting proxies, including the cost of preparing and mailing the Notice of Annual Meeting of Shareholders and this Proxy Statement. We have not retained a proxy solicitation agent or any other consulting firm to assist us with the proxy process. Instead, our officers or other regular employees may solicit proxies in person, by mail, telephone or facsimile, but will not receive any special compensation for these services.

The only matter that our Board of Directors knows will be presented at the annual meeting is the election of directors. **THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE ELECTION OF EACH DIRECTOR WHO HAS BEEN NOMINATED.** If you return a signed proxy form and any other matter properly comes before the meeting, the persons named in the proxy form will have authority to vote the proxy in accordance with their judgment.

VOTING RIGHTS AND PROCEDURES

If you return a proxy in the form solicited with this proxy statement, we will vote your shares in the manner that you have directed in the proxy form. If you complete the proxy form but do not direct us how to vote, your shares will be voted for the election of the nominees for director named in this proxy statement and in the manner the named proxies decide on any other matters properly brought before the meeting. If you withhold vote for one or more directors, we will consider your shares present and entitled to vote for purposes of determining the presence of a quorum at the meeting and as unvoted, although present and entitled to vote, for purposes of the election of the directors for whom you have abstained. If a broker submits a proxy that indicates the broker does not have discretionary authority to vote shares, those shares will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum at the meeting, but will not be considered as present and entitled to vote on the matters voted on at the meeting. You may revoke your proxy at any time before the meeting by delivering to our corporate secretary a written notice of termination of the proxies authority or a signed proxy bearing a later date.

You must be a holder of record of our Common Stock at the close of business on April 1, 2005, to be entitled to receive notice of and to vote at the meeting. On April 1, 2005, we had 8,870,480 shares of common stock outstanding. Each outstanding share is entitled to one vote on all matters presented at the meeting.

We are providing a copy of our Annual Report to Shareholders for the year ended December 31, 2004, with this Proxy Statement. We are mailing this Proxy Statement and a form of proxy on or about April 8, 2005.

PROPOSAL I-ELECTION OF DIRECTORS

Our Nominating Committee has nominated six persons for election at the Annual Meeting: Steven K. Case, Alex B. Cimoichowski, Kathleen P. Iverson, Erwin A. Kelen, Irene M. Qualters and Michael M. Selzer, Jr. Each nominee has served as one of our directors for more than one year. The following information is furnished with respect to each nominee as of March 31, 2005:

Name and Age	Principal Occupation and Business Experience for Past Five Years	Director Since
Steven K. Case Age 56	Chairman of CyberOptics since September 1995 and Chairman and Chief Executive Officer of Avanti Optics Corporation from May 2000 until February 2003; President of CyberOptics from 1984 until February 1998; adjunct Professor of Electrical Engineering at the University of Minnesota since 1978 and member of University Industry Advisory Board.	January 1984
Kathleen P. Iverson Age 49	President and Chief Executive Officer of CyberOptics since January 2003; President and Chief Operating Officer of CyberOptics from January 2002 until January 2003; Vice President/General Manager, Complete Point Solutions, of Rosemount, Inc., a subsidiary of Emerson Electric Co., from December 2000 to January 2002; Vice President/General Manager, Worldwide Temperature, of Rosemount, Inc. from January 1996 to December 2000.	May 1998
Alex B. Cimoichowski † Age 65	President and owner of Four Peaks Technologies, Inc., a printing company, since November 1996; independent business consultant from September 1995 to November 1996; Chief Executive Officer of Delphax Systems from November 1988 to September 1995.	May 1984
Erwin A. Kelent+ Age 69	President of Kelen Ventures since 1990; President of Datamyte Corporation, a subsidiary of Allen Bradley Co., from 1984 until 1990; Director of Printronix, Inc. and Computer Network Technologies, Inc.	February 1995
Irene M. Qualters + Age 55	Vice President, Research Information Services, Merck & Company, Inc. since 1999; President of Cray Research, a subsidiary of Silicon Graphics, Inc., and Senior Vice President of Silicon Graphics, Inc. from 1997 to 1998; Vice President of Silicon Graphics, Inc. from 1996 to 1997; Senior Vice President	June 1999

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Name and Age	Principal Occupation and Business Experience for Past Five Years	Director Since
Michael M. Selzer, Jr. + Age 52	of Cray Research from 1995 until its acquisition by Silicon Graphics, Inc. in 1996. President, Chief Executive Officer and Director of Optobionics Corp., a medical device manufacturer, since November 2003. Chief Executive Officer of Urologix, Inc., a medical device manufacturer from 1999 to May 2003; Vice President and General Manager-Neurostimulation Business of Medtronic, Inc., a medical device manufacturer, from 1994 until December 1998.	June 1999
Member of Audit Committee t Member of Compensation Committee + Member of Nominating Committee		

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All nominees elected at the Annual Meeting will serve until the next annual meeting or until their earlier death, resignation, removal or disqualification. The persons named in the accompanying proxy intend to vote the proxies held by them in favor of the nominees named above as directors, unless otherwise directed. Should any nominee for director become unavailable for any reason, the proxies will be voted in accordance with the best judgment of the persons named therein. The Board of Directors has no reason to believe that any candidate will be unavailable.

In accordance with Minnesota law, directors are elected by a plurality of votes cast. The six nominees receiving the highest number of votes will be elected. The Board of Directors recommends a vote FOR each nominee.

INFORMATION ABOUT OUR BOARD OF DIRECTORS AND ITS COMMITTEES, AND OTHER CORPORATE GOVERNANCE MATTERS

Our Board

Under the Minnesota Business Corporation Act, and our Articles of Incorporation and Bylaws, our business and affairs are managed under the direction of our Board of Directors. Our Board currently consists of six members, all of whom are standing for reelection at the annual meeting. We require that a majority of the members of our Board of Directors be independent within the meaning of the requirements of the Nasdaq Stock Market listing standards. Based on information contained in questionnaires completed by each director and otherwise available to us, our Board of Directors has concluded that each of Mr. Cimochowski, Mr. Kelen, Ms. Qualters and Mr. Selzer, constituting a majority of our Board, is independent not only within the meaning of the Nasdaq Marketplace Rules, but within the meaning of the heightened standards applicable to members of an audit committee contained in Section 301 of The Sarbanes Oxley Act of 2002 and Rule 4350(d) of the Nasdaq Marketplace Rules.

Our Board has long strived to maintain sound corporate governance, consistent with the scope of our operations and the integrity of our personnel. Accordingly, attendance by our Board members at all meetings has been a continuing goal and we devote considerable effort to scheduling meetings so that all directors may attend and may review financial information regarding our quarterly and annual results prior to public release. During the year ended December 31, 2004, we had four regular meetings of the Board and each director attended 100% of the meetings. Our Board also acted by written consent one time during 2004. Our independent directors meet in separate, executive session without

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management or management directors as part of each regular meeting of the Board and met in executive session four times during 2004.

We require that all Board members use their best efforts to attend our annual shareholder meeting. All of our directors attended the annual meeting held on May 14, 2004.

Committees of our Board

Our Board has three committees: An Audit Committee, a Compensation Committee and a Nominating Committee, each of which has a written charter. Copies of the charters for all three committees may be reviewed on our website at www.cyberoptics.com.

Audit Committee. Our Audit Committee assists our Board in overseeing and monitoring our accounting and financial reporting processes, audits of our financial statements, the independence and performance of our independent auditors and our compliance with legal and regulatory requirements. The Audit Committee reviews all interested party transactions and oversees our Code of Conduct. The Audit Committee has sole authority to appoint, determine funding for, retain and oversee our independent auditors and to pre-approve all audit services and permissible non-audit services. It is our policy to present to the entire committee proposals for all audit services and permissible non-audit services prior to engagement.

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Our Audit Committee currently consists of Mr. Cimochowski (Chair), Ms. Qualters and Mr. Selzer, each of whom is an independent director within the meaning of Section 301 of The Sarbanes Oxley Act of 2002 and Nasdaq listing standards applicable to audit committees. Our Board of Directors has identified Mr. Cimochowski and Mr. Selzer as audit committee financial experts within the definition recently established by the Securities and Exchange Commission. The Audit Committee held seven meetings during 2004. All members of the committee except one, who missed a single meeting, attended 100% of the meetings. The report of the Audit Committee is contained on page 13 of this proxy statement.

Compensation Committee. Our Compensation Committee establishes the compensation of our executive officers, including our Chief Executive Officer, administers our stock-based benefit plans, including our Restated Stock Option Plan, 1998 Stock Incentive Plan and our Employee Stock Purchase Plan, and makes recommendations to our Board regarding director compensation. The Compensation Committee currently consists of Mr. Selzer (Chair), Mr. Kelen and Mr. Cimochowski, each of whom is an independent director under Nasdaq listing standards. During 2004, the Compensation Committee held three meetings, and each member of the committee attended each meeting held while a member of the Committee. The report of the Compensation Committee on executive compensation is contained on page 6 of this proxy statement.

Nominating Committee. We formed a nominating committee, consisting of Mr. Cimochowski, Mr. Kelen, Ms. Qualters and Mr. Selzer, each of whom is an independent director within the meaning of the Nasdaq listing standards, in December 2003. The Nominating Committee identifies individuals qualified to become Board members and recommends to the Board nominees to fill vacancies in membership of the Board as they occur and, prior to each Annual Meeting of Shareholders, recommends a slate of nominees for election as Directors at such meeting. We generally require that each Director be an individual of the highest character and integrity, have substantial experience which is of particular relevance to CyberOptics, have sufficient time available to devote to our affairs, and represent the best interests of all our stakeholders, including our shareholders. The Nominating Committee has discretion as to the determination of which individuals will best fit these criteria.

Although most nominations have originated from recommendations of officers or board members, and all of the nominees for the 2005 annual meeting are currently directors and are being re-nominated as such, the Nominating Committee will consider suggestions from other stakeholders, including shareholders, for nominees for the 2006 annual meeting. Any shareholder who wishes to recommend that a specific individual (other than the shareholder and other than someone who would not be independent under Nasdaq listing standards) be considered for nomination for the 2006 meeting should contact the Board with specific information about the proposed nominee, including an appropriate resume, prior to December 7, 2005. Methods of communicating with our Board are described on our website at www.cyberoptics.com. The Nominating Committee will consider these recommendations, but has absolute discretion as to whether to recommend any individual for nomination. Our Nominating Committee has not established minimum standards for directors, nor has it pre-established objective procedures or processes, other than as described above, for nominations. For the 2005 annual meeting, our Nominating Committee concluded that members of our Board of Directors meet the criteria set forth above, and that, given the current scope of our operations, there is not currently a need for additional expertise on the Board that would justify the expense of additional directors.

Other Corporate Governance Matters: Our Code of Conduct and means of Shareholder Communications with the Board

Our Code of Conduct, which is posted on our website at www.cyberoptics.com, is applicable to all of our officers, directors and employees, including our senior financial officers.

We have also established procedures for communication by our shareholders with our directors. Shareholders may send communications by mail to the attention of:

Ethics Officer
CyberOptics Corporation
5900 Golden Hills Drive
Golden Valley, MN 55416

You may also send communications by e-mail to board@cyberoptics.com. Our Ethics Officer will review all communications received and provide copies, or summaries, of those communications which are not frivolous or vexatious to the Chair of our Audit Committee for consideration. These procedures may also be found at our website at www.cyberoptics.com.

Compensation of Our Independent Directors

None of Mr. Cimochoowski, Mr. Kelen, Ms. Qualters or Mr. Selzer receive any compensation from us for services other than services in their capacities as members of our Board of Directors or of a committee of our Board of Directors. Each of Mr. Cimochoowski, Mr. Kelen, Ms. Qualters and Mr. Selzer is independent under the rules of the Nasdaq and the SEC. Effective February 2005, our independent directors receive an annual retainer of \$7,500 plus directors' fees of \$1,000 per meeting of the Board of Directors attended in person and \$500 per meeting of the Board of Directors attended by conference call, and plus fees of \$500 for each meeting of a committee attended that is not associated with a Board meeting. Each of our independent directors also receives an option to purchase 4,500 shares, which is exercisable from the date of grant, at each annual meeting at which the director is elected or reelected. Dr. Case and Ms. Iverson, who are also employees and not independent directors, do not receive any additional compensation for service as Board members.

Executive Officers

In addition to Ms. Iverson and Dr. Case, our executive officers include:

Scott G. Larson, 44. Mr. Larson started as our Controller in October 1995, was promoted to Director of Financial Reporting in February 2000, and was promoted to Vice President Finance and Chief Financial Officer in August 2000. Before joining CyberOptics, Mr. Larson was Controller of Medisys, Inc., a publicly traded medical device company.

Michael Proulx, 51. Mr. Proulx started as our Director, Systems Operations in September 2000 and was promoted to Vice President Operations in October 2001. Before joining CyberOptics, Mr. Proulx was Director, Materials of Cummins Power Generation America from October 1994 to July 1999 and prior to that Director, Manufacturing and Information Systems of Fisher-Rosemount Systems from October 1994 to 1999.

EXECUTIVE COMPENSATION

Compensation Committee Report of the Board of Directors

Our executive compensation policies are recommended and administered by the Compensation Committee of our Board of Directors. The members and duties of the Compensation Committee are described on page 4 of this proxy statement.

The principal objective of our compensation policy is to increase shareholder value by providing an incentive to our officers and employees to maximize our performance. We normally set the base salaries of our executives at slightly below industry averages, but provide substantial incentives in the form of bonuses and stock options for increased performance. The Compensation Committee reviews and resets base salary, annual incentive compensation and long-term equity incentives annually. During 2004, the annual review was in May. In May 2004, the Compensation Committee determined to reset the schedule for compensation decisions for executives to better coincide with our fiscal year and budgeting process. Accordingly, base compensation decisions made by the Committee in May 2004, related only to the period from July 28, to December 31, 2004.

Salary. Our Compensation Committee did not increase salaries of our two most senior executives in either 2002 or 2003 because of the depressed market for suppliers of capital equipment to the electronics and semiconductor markets. Further, all executive officers took a voluntary 10% pay reduction in 2002 and Dr. Case and Ms. Iverson voluntarily took a 10% pay reduction from October 2003 to March 2004 to minimize expense. Therefore, the salaries of Dr. Case and Ms. Iverson reflect the absence of any increase in pay, and voluntary reductions in pay, during the cyclical low in the electronics industry, including an additional 10% reduction for the first three months of 2004.

The Compensation Committee reviewed executive salaries in May 2004, and reviewed comparative compensation information on executives in the electronics industry for companies with less than \$50 million of revenue from two sources. Based on such information, the Committee increased the salary of Ms. Iverson by \$10,000, or 4.4% to \$235,000 and increased the salary of Mr. Proulx by an equivalent percentage. Dr. Case determined to voluntarily forgo further salary increase until more substantial sales of EPV product. Mr. Larson's salary, which was substantially below industry averages, was increased by 11.1%. We believe that this level of salary places the fixed component of the compensation of our executives, and particularly our Chairman and Chief Executive Officer, at below the average compensation for similarly situated executives.

Bonus. We annually establish a bonus program for each fiscal year that pays bonuses to executives and all employees based on a matrix that is dependent on increases from the prior year in revenue and on the ratio of our net income before interest and taxes to our revenue. We created such a matrix in early 2004. We assign target bonuses to executives that pay out as a multiple based on this matrix, with a multiple of one applying when revenue has increased by 25% and when the ratio of net income before interest and taxes to revenue is at least 16%. Although we have in the past also created individual performance milestones, to better foster a commonality of interest among all employees and executives we based all bonuses on financial performance under the matrix during 2004. Ms. Iverson's targeted bonus was \$90,000 for the 2004 fiscal year. We substantially exceeded our revenue and profitability goals during 2004 and all executives, and all employees, received a bonus at a level of 2.05 target. Ms. Iverson received a bonus of \$184,500 based on the bonus plan for the year ended December 31, 2004.

Long-Term Incentive Options. We use stock options as our primary long-term incentive. Because we had granted substantial options to our executives in 2002 or 2003, and because we were assessing, and continue to assess, the advisability of substantial option grants in light of changes in accounting treatment, we did not grant any options to executives in 2004.

The Compensation Committee believes that the compensation program for executive officers during the year 2004 achieved the principal objectives for which it was designed.

Alex B. Cimoichowski
Erwin A. Kelen
Michael M. Selzer, Jr.

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Summary Compensation Table

The cash and non-cash compensation that we have paid for the last three fiscal years, or that was earned by, our Chief Executive Office and our other executive officers is detailed in the following table:

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation (1)	
		Salary	Bonus	Other Annual Compensation	Awards	Payouts		
					Restricted Stock Awards	Securities Underlying Options (#)	LTIP Payouts	
Kathleen P. Iverson Chief Executive Officer, President & Director (2)	2004	\$ 224,904	\$ 184,500					\$ 7,220
	2003	219,375	18,000					6,720
	2002	212,019	68,500			85,000		3,037
Steven K. Case Chairman (3)	2004	235,385	154,050					2,552
	2003	222,231	19,500			50,000		2,222
	2002	91,538				76,000		4,365
Scott G. Larson Vice President Finance & Chief Financial Officer	2004	143,116	61,500					4,564
	2003	132,115	9,000			15,000		3,963
	2002	119,000				26,000		3,632
Michael Proulx Vice President Operations	2004	128,700	57,400					4,625
	2003	118,892	6,000			10,000		4,308
	2002	115,000				7,400		4,053

- (1) Includes company contributions to a 401K plan, and \$720 paid to Ms. Iverson in 2003 and 2004 and Mr. Proulx in 2002, 2003 and 2004 for non-participation in our health plan.
- (2) Ms. Iverson began her employment with us in January 2002 and her 2002 bonus includes a \$38,500 hiring bonus and \$30,000 guaranteed bonus paid in 2003.
- (3) Dr. Case worked half time for us until February 2003 when he returned as a full-time employee.

Long-Term Incentive Plan Awards/Employment Agreements

Other than our Employee Stock Purchase Plan, our Restated Stock Option Plan and the 1998 Stock Incentive Plan, we do not maintain any long-term incentive plans. We do not have any employment agreements with any of the executive officers named in the Summary Compensation Table.

Stock Options

We maintain a 1998 Stock Incentive Plan, Restated Stock Option Plan, and a Stock Option Plan for Nonemployee Directors. Our Compensation Committee may grant stock options to our executive officers, other employees and consultants under the 1998 Stock Incentive Plan. No options were granted

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in 2004 to the executive officers named in the Summary Compensation Table. The following table sets forth information with respect to options exercised by our executive officers during 2004:

Aggregated Option Exercises in 2004 and Option Values as of December 31, 2004

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2004 (1)		Value of Unexercised In-the-Money Options at December 31, 2004 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ms. Iverson	3,500	\$ 35,665	52,500	42,500	\$ 258,350	\$ 259,975
Dr. Case	61,000	572,167	175,000	78,000	248,595	461,985
Mr. Larson	13,750	96,488	20,500	24,250	39,828	96,103
Mr. Proulx			15,550	11,250	29,102	48,493

- (1) All of such options are exercisable at a price equal to the fair market value of the Common Stock as reported on the Nasdaq National Market (Nasdaq) on the date of grant.
- (2) Represents the difference between the closing price of the Common Stock as reported on Nasdaq on December 31, 2004, and the exercise price of the options.

Equity Compensation Plan Information

The following table describes shares of our common stock that are available for purchase under outstanding options, or reserved for issuance under options or other rights that may be granted in the future, under our equity compensation plans:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding those reflected in column (a))
Equity compensation plans approved by security holders			
Restated Stock Option Plan	311,075	\$ 11.43	
1998 Stock Incentive Plan	442,502	15.46	423,495 (1)
Stock Option Plan for Nonemployee Directors	148,500	12.56	27,300
Employee Stock Purchase Plan	N/A	N/A	138,878 (2)
Equity compensation plans not approved by security holders			
Options issued to executives and certain other employees upon initial employment (3)	71,500	\$11.50	
Total	973,577	\$13.44	589,673

- (1) In addition to options, shares may be issued in restricted stock awards, performance awards and other stock-based awards.
- (2) Shares are issued based on employees' elections to participate in the plan.

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- (3) Represent options received by executives and certain other employees prior to 2003 upon their initial employment and granted on the same terms as those options granted under equity compensation plans approved by security holders. None of these options qualify as incentive stock options.

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SHAREHOLDER RETURN

The following graph compares the cumulative total shareholder return on our common stock from January 1, 2000 through December 31, 2004 with the cumulative total return on a broad market index (the Nasdaq NMS Index) and a peer group index (the Nasdaq Computer and Data Processing Index). In each case, we have calculated the cumulative return assuming an investment of \$100 on January 1, 2000, and reinvestment of all dividends.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under federal securities laws, our directors and officers, and any beneficial owner of more than 10% of our common stock, are required to report their ownership of our equity securities and any changes in ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established by the SEC, and we are required to disclose in this Proxy Statement any delinquent filing of those reports and any failure to file reports during the fiscal year ended December 31, 2004. Except for Mr. Kelen, who filed late one Form 4 reporting a sale under a 10b5-1 plan, based upon information provided by officers and directors, all our officers, directors and 10% shareholders otherwise filed all reports on a timely basis in the 2004 fiscal year.

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SHARES OUTSTANDING

The following table provides information at February 28, 2005 about the ownership of our common stock by each person known to us to beneficially own 5% or more of our common stock, by each of our directors, by each of our executive officers, and by all our officers and directors as a group:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership (1)</u>	<u>Percent of Class</u>
LeRoy C. Kopp Kopp Investment Advisors, LLC. and Kopp Holding Company Kopp Holding Company, LLC 7701 France Avenue South, Ste 500 Edina, MN 55435 (2)	811,305	9.2%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202(3)	720,587	8.1%
Steven K. Case 5900 Golden Hills Drive Minneapolis, MN 55416 (4)	605,942	6.7%

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Alex B. Cimoichowski (4)	35,956	*
Kathleen P. Iverson (4)	76,215	*
Erwin A. Kelen	71,500	*
Michael Proulx	17,328	*
Irene M. Qualters	27,000	*
Michael M. Selzer, Jr	25,700	*
Scott G. Larson	29,293	*
All executive officers and directors as a group (8 persons)	888,934	9.6%

*Less than 1%

- (1) Includes 187,500 shares for Dr. Case, 27,000 shares for Mr. Cimoichowski, 65,000 shares for Ms. Iverson, 31,500 shares for Mr. Kelen, 15,550 shares for Mr. Proulx, 27,000 shares for Ms. Qualters, 22,500 shares for Mr. Selzer, 20,500 shares for Mr. Larson and 396,550 shares for all officers and directors as a group, purchasable upon exercise of options exercisable within 60 days of February 28, 2005.
- (2) Based on an amendment to Schedule 13G filed January 21, 2005. Includes 111,500 shares held by Leroy Kopp, over which he has sole voting and dispositive power, 596,905 shares over which Kopp Investment Advisers, Inc. (KIA) has sole voting power, 235,000 shares over which KIA has sole power of disposition and 464,805 shares over which KIA has shared power of disposition.
- (3) Based on a 13G dated February 14, 2005. T. Rowe Price Associates, Inc. has sole dispositive power over all such shares, but sole voting power over only 352,137 shares.
- (4) Includes, for Dr. Case 18,000 shares, for Mr. Cimoichowski 4,475 shares, and for Ms. Iverson 155 shares, held by a spouse, or directly or in trust for children. Dr. Case disclaims beneficial ownership of shares held by his children.

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REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Our management is responsible for our internal controls and our financial reporting process. Our independent accountants are responsible for performing an independent audit of our consolidated financial statements in accordance with generally accepted auditing standards and to issue a report on those financial statements. The Audit Committee's responsibility is to monitor and oversee these processes.

Our Audit Committee has met and held discussions with our management and our independent accountants. Management represented to the Audit Committee that our consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and our independent accountants. The Audit Committee discussed with the independent accountants matters required to be discussed by Statement on Auditing Standards No. 61 and No. 90.

Our independent accountants also provided to the Audit Committee the written disclosure required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent accountants the accounting firm's independence. As part of its efforts to ensure the independence of our independent accountants, the Audit Committee maintains a policy requiring the pre-approval by the Audit Committee of all audit services and permissible non-audit services to be provided by the

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independent accountants, and reviews all services actually performed by the independent accountants in connection with its discussions regarding the continued independence of such accountants. All such services provided in 2004 were approved by the Committee.

Based upon the Audit Committee's discussion with management and the independent accountants and the Audit Committee's review of the representation of management and the report of the independent accountants to the Audit Committee, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed with the Securities and Exchange Commission.

Members of the Audit Committee

Alex B. Cimoichowski
Michael M. Selzer, Jr.
Irene M. Qualters

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RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS

We have engaged PricewaterhouseCoopers LLP to conduct procedures in connection with our quarterly financial statements, to provide tax consulting and to assist us with tax filings and anticipate that we will engage PricewaterhouseCoopers LLP to audit our financial statements at and for the year ending December 31, 2005. It is our policy to formally select independent accountants only after receipt and approval of a final fee proposal for the audit services. Representatives of PricewaterhouseCoopers LLP, which has served as our independent accountants since July 1994, are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from shareholders.

Independent Accountant Fees and Services.

The following is a summary of the fees billed to us by PricewaterhouseCoopers LLP for professional services rendered for the years ended December 31, 2003, and December 31, 2004:

<u>Fee Category</u>	<u>2003 Fees</u>	<u>2004 Fees</u>
Audit Fees	\$ 118,000	\$ 316,000
Audit-Related Fees	9,000	42,000
Tax Fees	140,000	85,000
All Other Fees		
Total Fees	<u>\$ 267,000</u>	<u>\$ 443,000</u>

Audit Fees consist of fees billed for professional services rendered for the audit of our annual consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports, and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements. Audit fees for 2004 also include work associated with testing required under Section 404 of the Sarbanes-Oxley Act of 2002.

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Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under *Audit Fees*. These services include accounting consolidations in connection with acquisitions and divestitures, attest services that are not required by statute or regulation, tax consultation concerning treatment of income taxes in U.S. GAAP based financial statements and consultations concerning financial accounting and reporting standards.

Tax Fees consist of fees billed for professional services for corporate tax return preparation and filing, compliance, tax advice and tax planning, as well as some personal tax preparation services for US personnel working on our behalf overseas. These services include assistance regarding federal, state and international tax compliance, tax audit defense, custom and duties, acquisitions and divestitures and international tax planning.

All Other Fees (if any) consist of fees for products and services other than the services reported above.

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SHAREHOLDER PROPOSALS AND NOMINATIONS FOR THE NEXT ANNUAL MEETING

Any shareholder wishing to include a proposal in our proxy solicitation materials for our next annual meeting of shareholders must submit the proposal for consideration in writing to our corporate Secretary at our principal executive offices, 5900 Golden Hills Drive, Minneapolis, MN 55416, no later than December 9, 2005.

Under our Bylaws, in order for business to be properly brought before the next annual meeting by a shareholder, or in order for a nominee for director to be considered at the next annual meeting, the shareholder must give us written notice of the shareholder's intent to bring a matter before the annual meeting, or nominate the director, no later than December 9, 2005. Each notice must describe the matter, the shareholder who intends to bring the matter before the meeting and the business desired to be conducted, as set forth in greater detail in our Bylaws.

Our management will use discretionary authority to vote against any shareholder proposal, or director nominee not made by management, presented at the next annual meeting if: (i) the proposal or nominee has been properly omitted from our proxy materials under federal securities laws; (ii) notice of the proposal or nominee was not submitted to the Secretary at the address listed above by December 9, 2005; or (iii) the proponent has not solicited proxies in compliance with federal securities laws from the holders of at least the percentage of our voting shares required to carry the proposal or elect the nominee.

GENERAL

Our Board of Directors does not know of any matters other than those described in this proxy statement that will be acted upon at the Annual Meeting. In the event that any other matters properly come before the meeting calling for a vote of shareholders, the persons named as proxies in the enclosed form of proxy will vote in accordance with their best judgment.

BY ORDER OF THE BOARD OF
DIRECTORS

Thomas Martin
Secretary

Dated: April 8, 2005

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M A K I N G L I G H T W O R K

CYBEROPTICS CORPORATION

2005 ANNUAL SHAREHOLDERS MEETING

May 16, 2005

proxy

This proxy is solicited on behalf of the Board of Directors.

The undersigned hereby appoints Steven K. Case, Kathleen P. Iverson and Scott G. Larson, and each of them, with power to appoint a substitute, to vote all shares the undersigned is entitled to vote at the Annual Meeting of Shareholders of CyberOptics Corporation, to be held on May 16, 2005, and any adjournments thereof, as specified below on the matters referred to, and, in their discretion, upon any other matters which may be brought before the meeting.

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY PROMPTLY BY
MAIL OR ELECTRONICALLY AS DESCRIBED ON THE REVERSE SIDE.**

See reverse for voting instructions.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY PROMPTLY BY MAIL OR ELECTRONICALLY AS DE

COMPANY #

There are three ways to vote your Proxy

Your telephone or Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

VOTE BY PHONE TOLL FREE 1-800-560-1965 QUICK * EASY *** IMMEDIATE**

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on May 13, 2005.

Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions the voice provides you.

VOTE BY INTERNET <http://www.eproxy.com/cybe/> QUICK * EASY *** IMMEDIATE**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on May 13, 2005.

Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions to obtain your records and create an electronic ballot.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we've provided or return it to CyberOptics Corporation, c/o Shareowner ServicesSM, P.O. Box 64873, St. Paul, MN 55164-0873.

If you vote by Phone or Internet, please do not mail your Proxy Card

∨ Please detach here ∨

The Board of Directors Recommends a Vote FOR Item 1.

- | | | | | | | | | |
|---------------------------|-------------------|-------------------------|------------------------|-------------------|----------------------|---------------------------|--|---|
| 1. Election of directors: | 01 Steven K. Case | 02 Alex B. Cimoichowski | 03 Kathleen P. Iverson | 04 Erwin A. Kelen | 05 Irene M. Qualters | 06 Michael M. Selzer, Jr. | o Vote FOR all nominees (except as marked) | o WITHHOLD AUTHORITY to vote for all nominees |
|---------------------------|-------------------|-------------------------|------------------------|-------------------|----------------------|---------------------------|--|---|

(Instructions: To withhold authority to vote for a specific nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2. To vote with discretionary authority on any other matter that may properly come before the meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ALL OF THE DIRECTORS NAMED IN PROPOSAL 1.

Address Change? Mark Box o Indicate changes below:

Date _____

Signature(s) in Box

When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.
