

CYBEROPTICS CORP  
Form DEF 14A  
April 02, 2007

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

Filed by a Party other than the Registrant

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**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required
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1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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**CYBEROPTICS CORPORATION**

5900 Golden Hills Drive

Minneapolis, MN 55416

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

May 21, 2007

To the Shareholders of

CYBEROPTICS CORPORATION:

The Annual Meeting of Shareholders of CyberOptics Corporation will be held on Monday, May 21, 2007, at the offices of Dorsey & Whitney LLP, 50 South Sixth Street, 15<sup>th</sup> Floor, Minneapolis, Minnesota at 3:00 p.m. for the following purposes:

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- 1) To elect six directors;
- 2) To consider an amendment to extend the termination date of the CyberOptics Corporation 1998 Stock Incentive Plan to May 21, 2017; and
- 3) 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 March 30, 2007, 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 6, 2007

### **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.

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### **CYBEROPTICS CORPORATION**

5900 Golden Hills Drive

Minneapolis, MN 55416

### **PROXY STATEMENT**

#### **Annual Meeting of Shareholders to be held**

**on May 21, 2007**

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 21, 2007. The annual meeting will be held on the 15<sup>th</sup> 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.

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The only matters that our Board of Directors knows will be presented at the annual meeting are (i) the election of directors, and (ii) consideration of an amendment to extend the 1998 Stock Incentive Plan. **The Board of Directors recommends that you vote in favor of the election of each Director who has been nominated, and in favor of approval of the amendment to the 1998 Stock Incentive Plan.** 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, for the amendment to the 1998 Stock Incentive Plan, 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 March 30, 2007, to be entitled to receive notice of and to vote at the meeting. On March 30, 2007, we had 8,899,531 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, 2006, with this Proxy Statement. We are mailing this Proxy Statement and a form of proxy on or about April 6, 2007.

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### 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, 2007:

| <b>Name and Age</b>              | <b>Principal Occupation and Business Experience for Past Five Years</b>   | <b>Director Since</b> |
|----------------------------------|---|-----------------------|
| Steven K. Case<br>Age 58         | Chairman of CyberOptics since September 1995 and Chairman and Chief Executive Officer of Avanti Optics Corporation from May 2000 until February 2003; Director of American Electronics Association 2000 to 2001; 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<br>Age 51    | 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 +<br>Age 67 | President and owner of Four Peaks Technologies, Inc., a printing company, since November 1996; Chief Executive Officer of Delphax Systems from November 1988 to September 1995.   | May 1984              |

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|                                    |  |               |
|------------------------------------|--|---------------|
| Erwin A. Kelen +<br>Age 71         | President of Kelen Ventures since 1990; President of Datamyte Corporation, a subsidiary of Allen Bradley Co., from 1984 until 1990; Director of Printronix, Inc.   | February 1995 |
| Irene M. Qualters +<br>Age 57      | Vice President, Software Engineering, Ageia, since October 2005; Vice President, Research Information Services, Merck & Company, Inc. from 1999 until October 2005; 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 of Cray Research from 1995 until its acquisition by Silicon Graphics, Inc. in 1996. | June 1999     |
| Michael M. Selzer, Jr. +<br>Age 54 | 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     |

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Member of Audit Committee

Member of Compensation Committee

+ Member of Nominating Committee

All nominees that are elected will serve until the next annual meeting or until their earlier death, resignation, removal or disqualification. We intend to vote the proxies in favor of the nominees named above as directors, unless you otherwise direct us in the proxy card. If a nominee for director becomes unavailable for any reason, the proxies will be voted in accordance with the best judgment of the named representatives. We have no reason to believe that any candidate will be unavailable

**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.**

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### 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, and based on inquiry of each of our directors, 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. In considering the independence of our directors, our board inquired and was advised that, to the knowledge of these individuals, neither they nor any member of their immediate family had engaged in any transaction with us except in

their capacities as directors.

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, 2006, 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 2006. Our independent directors meet in separate, executive session without management or management directors as part of each regular meeting of the Board and met in executive session four times during 2006.

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 15, 2006.

#### **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](http://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 Business Conduct and Ethics. The Audit Committee generally requires any transaction between CyberOptics and a director or officer, the immediate family of a director or officer, or any entity that a director or officer controls to be reported to our Ethics Officer. The Ethics Officer, in turn, is obligated to report the transaction to the Committee. Although it has not adopted written standards of approval, the Audit Committee generally considers these transactions consistent with its fiduciary obligations and approves transactions only if they are fair and reasonable, in the best interests of the corporation, and on terms no less favorable than could be obtained from an unaffiliated third party.

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.

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It is our policy to present to the entire Committee proposals for all audit services and permissible non-audit services prior to engagement.

Our Audit Committee currently consists of Mr. Cimochofski (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. Cimochofski and Mr. Selzer as audit committee financial experts within the definition established by the Securities and Exchange Commission. The Audit Committee held five meetings during 2006. All members of the Committee attended at least 75% of the meetings. The report of the Audit Committee is contained on pages 19 and 20 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 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. Cimochofski, each of whom is an independent director under Nasdaq listing standards. During 2006, the Compensation Committee held three meetings. All members of the Committee, except Mr. Kelen who missed one meeting, attended 100% of the meetings. The report of the Compensation Committee on our Compensation Discussion and Analysis is contained on page 12 of this proxy statement.

*Nominating Committee.* 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 the meeting. The Nominating Committee currently consists of all of our independent directors, including Mr. Cimochofski, Mr. Kelen, Ms. Qualters and Mr. Selzer.

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We generally require that each nominee for 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 2007 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 2008 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 2008 meeting should contact the Board with specific information about the proposed nominee, including an appropriate resume, prior to December 7, 2007. Methods of communicating with our Board are described on our website at [www.cyberoptics.com](http://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 2007 annual meeting, we did not receive any nominations from shareholders, and our Nominating Committee concluded that current 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.

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

Our Code of Business Conduct and Ethics, which is posted on our website at [www.cyberoptics.com](http://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](mailto: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](http://www.cyberoptics.com).

### **Compensation of Our Independent Directors**

None of Mr. Cimochowski, 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. We pay our independent directors 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. We also pay fees of \$500 for each meeting of a committee attended that is not associated with a Board meeting. Each of our independent directors 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. We do not provide any stock awards, non-equity incentive compensation, pension benefits or any other form of compensation to our directors who are not employees.

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Dr. Case and Ms. Iverson, who are also employees and not independent directors, do not receive any additional compensation for service as Board members. During 2006, we provided the following compensation to directors who are not also employees:

### Director Compensation

| Name                   | Option                          |                          | Total (\$) |
|------------------------|---------------------------------|--------------------------|------------|
|                        | Fees Earned or Paid in Cash(\$) | Awards <sup>1</sup> (\$) |            |
| Alex B. Cimoichowski   | \$13,500                        | \$35,757                 | \$49,257   |
| Erwin A. Kelen         | 11,500                          | 35,757                   | 47,257     |
| Irene M. Qualters      | 13,500                          | 35,757                   | 49,257     |
| Michael M. Selzer, Jr. | 13,000                          | 35,757                   | 48,757     |

1. Represents the expense recorded in 2006 relative to options for each director. Because the options are fully vested on the date of grant, this column also represents the aggregate grant date fair value for each director. A discussion of the methods used in calculation of these values may be found in footnote 2 on page 37 of our annual report. Options to purchase 36,000 shares for Mr. Cimoichowski, 40,500 shares for Mr. Kelen, 35,000 shares for Ms. Qualters and 22,500 shares for Mr. Selzer were outstanding at December 31, 2006.

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## EXECUTIVE COMPENSATION

### Executive Officers

Ms. Iverson and Dr. Case, our Chief Executive Officer and Chairman, serve on the Board of Directors and their background is described above under the caption Proposal I Election of Directors. Our other Executive Officers include:

Jeffrey A. Bertelsen, 44, started as Vice President Finance and Chief Financial Officer in July 2005. Before joining CyberOptics, Mr. Bertelsen was Vice President, Finance, Corporate Controller and Treasurer and Assistant Secretary of Computer Network Technology Corporation ( CNT ), a provider of storage networking equipment and solutions. During his ten years at CNT, Mr. Bertelsen held various positions starting as controller in March 1995. Prior to joining CNT, Mr. Bertelsen was a CPA with KPMG LLP.

Steven J. DiMarco, 43, started as Vice President Marketing and Strategic Planning in December 2005, and now serves as our Vice President Sales and Marketing. Mr. DiMarco was with Emerson Electric for 14 years prior to joining CyberOptics, the last five as Vice President in charge of Emerson s Electromagnetic & Vortex Flow Meter Business Unit.

Michael Proulx, 53, started as 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 August 1998 to January 1999 and prior to that Director, Manufacturing and Information Systems of Fisher-Rosemount Systems from October 1994 to 1999.

### Compensation Discussion and Analysis

We discuss in this section the objectives of our executive compensation policies, how those policies are administered and implemented, and the effect of those policies on our compensation decisions during the 2006 fiscal year. Detailed information on the amounts that we paid to our executives, and the other benefits they receive, is included in the tables and explanation following this Compensation Discussion and Analysis.



## Overview and Objectives

We function in a very cyclical market the market for capital equipment for the surface-mount, printed circuit board industry. This market creates significant growth during periods of micro-electronics expansion, often followed by periods of partial decline. We must compete in this market for talented executives with other companies locally and nationally, and must provide competitive compensation in order to do so. Accordingly, we negotiate compensation for newly retained executives based on competitive comparisons to industry standards. In negotiating compensation for new executives, we also consider the experience of the executive, and adjust our compensation offers on the basis of that experience.

We focus our operations on, and compete on the basis of, innovation through technology. Our objective is to provide longer-term growth at levels that exceed industry norms and we believe that we can best achieve these objectives through innovation. Consistent with these beliefs, we have a proportionately high level of research and technical personnel as employees.

We believe that for our highly educated technical personnel, fairness and integrity in our compensation system is a primary ingredient in employee retention and satisfaction.

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Further, our compensation policy, and our overall approach to compensation decisions, has been driven in part by the corporate culture of our executives, and particularly our founder. We have functioned with a smaller company, team or family culture. Because of this, in making annual decisions regarding increases or adjustments in executive compensation, we rarely depart significantly from equivalent increases made to the rest of our staff.

Accordingly, the objectives of our executive compensation policy are to:

- foster a highly creative, collegial and integrated team whose participants understand and share our business objectives and ethical and cultural values;
- provide incentive to our executives to increase performance and value to shareholders, in part through technology innovation;
- enable us to attract and retain talented executives in both periods of growth and cyclical decline;
- foster a cooperative approach among all of our employees that engenders superior performance.

Consistent with these objectives, we have historically:

- based compensation in initial hiring decisions on competitive compensation for companies in our markets;
- in annual compensation set the base salary of our executives at slightly less than the median salaries of similarly situated executives, with reference to the experience of the executive and performance during the preceding year;
- to encourage growth, create an annual cash incentive, or bonus program, that would, if targeted goals for substantial growth are achieved, provide overall cash compensation that is slightly higher than the median overall compensation of similarly situated executives, but that provides no incentive compensation if we are not profitable or do not grow;

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in part because of the lack of predictability of cash flow and the volatility of our stock price, provide significant long-term incentives through stock options.

Our equity based incentives, prior to the adoption of changes in the way equity based incentives are treated for accounting purposes, provided significant incentive for growth and innovation and little impact on our operating performance. In the past two and one-half years, however, with the changes in the accounting treatment of stock options, we have used equity based incentives very sparingly. We did not grant equity based incentives to executives in 2005 except to newly retained executives and to Ms. Iverson, who had not received equity benefits since 2002. We worked during the latter half of 2005 and during 2006 to reformulate our equity incentives consistent with the expense incurred under SFAS 123(R).

We also rescheduled our executive compensation approval process during 2005 to coincide with approval of our budget. We accelerated our consideration of executive compensation, which has historically occurred in May of each year with our annual meeting, to December for the 2006 calendar year and followed the same schedule for the 2007 calendar year. We have determined to adopt standards for incentive compensation for our executives during the budgeting process to better align our annual incentive compensation programs with our goals and objectives prior to the start of the upcoming year.

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### **Decisions Regarding Our Executive Compensation Role of Our Compensation Committee**

**Our Compensation Committee.** Our Compensation Committee approves, administers and interprets our executive compensation and benefit policies, including our 1998 Stock Incentive Plan and our Employee Stock Purchase Plan. Our Compensation Committee is appointed by our Board of Directors, and consists entirely of independent directors under the rules of the Nasdaq Stock Market and who are both outside directors for purposes of Section 162(m) of the Internal Revenue Code and non-employee directors for purposes of Rule 16b-3 under the Securities Exchange Act of 1934. Our Compensation Committee is comprised of Michael M. Selzer, Jr. (Chair), Alex B. Cimochowski and Erwin A. Kelen.

Our Compensation Committee makes all decisions regarding the compensation of our executive officers. Although the Committee reports its decisions to our Board of Directors, there is no requirement for Board approval or ratification. Our Chief Executive Officer, with the assistance of our Chairman and our Director of Human Resources, formulates proposals for compensation to our executive officers and presents those proposals to the Compensation Committee. With respect to the specific compensation of our Chief Executive Officer, the compensation proposals are normally formulated by our Chairman after discussion with our Chief Executive Officer. Our Chief Executive Officer and Chairman present proposals regarding executive compensation but do not participate in deliberations regarding their own compensation.

**Equity Grants.** Our Compensation Committee also makes all grants to executive officers under our 1998 Stock Incentive Plan. Although the Compensation Committee has historically made such grants at any of the four regularly scheduled meetings, it established a policy in 2006 to make annual grants representing additional options or restricted stock units to employees and executives at the regularly scheduled meeting of the Committee held in December of each year. Grants to new executives are made at the regular meeting, or at a special meeting, scheduled after commencement of employment of the executive. We also periodically make grants to existing employees or executives upon promotion or to recognize exceptional performance. Such grants are made at regularly scheduled meetings of the Committee.

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Prior to 2007, the Committee had delegated to our Chief Executive Officer the authority to make grants, within prescribed limits, of equity-based incentives under our 1998 Stock Incentive Plan to new employees who were not executive officers and who were not managers. Our Chief Executive Officer made the grants upon commencement of employment of the employee, and the grants were presented in detail for review by, but not approval of, our Compensation Committee. We have changed this policy for 2007 and have adopted a policy to make grants, including new hire grants to non-executive employees, only at meetings of the Compensation Committee.

All equity based grants under our 1998 Stock Incentive Plan have always been granted with an exercise price or value equal to the fair market value on the date of grant (the date of the meeting at which they are approved). We currently base fair market value on the closing price on the date of grant.

**Benchmarking.** Our Director of Human Resources obtains statistical data on executive compensation at comparable companies for presentation to our Compensation Committee. Because of our size and the cost involved, we have not retained compensation consultants during recent years, and the Compensation Committee has not used independent consultants to generate statistical information. In general, we have relied on statistical information from the American Electronics Association for companies with annual revenue of between \$25 million and \$50 million and statistics from Radford, a division of Aon Consulting Inc., for companies with less than \$50 million of revenue. We do not formally obtain statistical information regarding specific peer companies, although our Director of

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Human Resources has surveyed compensation informally from some of the public filings of comparable companies. We understand that the statistics from the American Electronics Association for our size group are more heavily weighted to private companies and generate lower overall compensation for comparables, while the Radford information includes fewer companies for our size range and has proportionately higher weighting in the biotech, medical device and semiconductor industries. We review both of these statistics individually, and an average of the two in making decisions.

**Tally Sheets**In connection with each decision for compensation of our executive officers, our Compensation Committee reviews sheets that provide a compilation of all compensation to our officers, a history of salary and total compensation for in excess of five years or since the officer was first retained, a listing of equity benefits, including options and restricted stock units, the annual cost we incur from those equity benefits, and the cost we will incur from proposed grants. The Committee also reviews other benefits, including severance and paid time off, received by executives to the extent different from other employees.

### **Elements of Compensation and our 2006 and 2007 Compensation Plans**

The three components of our executive compensation program, including base salary, annual cash incentive or bonus and equity based incentives, constitute substantially all of the compensation to our executive officers. Each of our executives is entitled to participate in our general benefit plans, including our health insurance, disability insurance, life insurance, cafeteria plans, and 401K retirement savings plan and, to the extent they do not hold more than 5% of our outstanding common stock, our employee stock purchase plan, on the same terms as our other employees. We do not provide any perquisites to our executives, except for company contributions to our 401(k) plan (at the same matching

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level as for other employees), reimbursement for a portion of health costs to the extent the executive does not participate in our health plans, tax preparation services reimbursement and for Ms. Iverson until 2007, a car allowance.

**Base Salary.** The base salary of our executives is designed for its retention value and is set during our annual compensation decisions at slightly below the median salary of companies in the statistical surveys we review. In addition, our compensation decisions are based in part on the experience and performance of the executive and on statistical information from the preceding year, causing our executive compensation to lag slightly behind in increasing salary environments. As a growth company, we seek to place more emphasis on cash incentives and long-term equity incentives than on salary as a means of providing compensation that exceeds averages. Because our stock has been volatile, stock based compensation has yielded more value to executives. We also base salary levels on the level of the salary from prior years and seek to implement increases over time.

We set Ms. Iverson's base salary at \$247,000 for 2006, which is at approximately 95% of the average of the median compensation of the data from the AEA and Radford for 2005 that we reviewed in December 2005 when we set her salary. Mr. Bertelsen's salary was set at \$167,000 or roughly 92% of the AEA and Radford average, Mr. Proulx's salary was set at \$151,000 or 95% of the average, and Mr. DiMarco's salary was set at \$150,000 or roughly 81% of the average.

For calendar 2007, our Compensation Committee met on December 7, 2006 and increased Ms. Iverson's salary by approximately 5.3% to \$269,600, which we believe is approximately 98% of the average of the median salary levels from AEA and Radford for 2006. We increased Mr. Bertelsen's salary to \$173,000 or approximately 93% of the midpoint, Mr. Proulx's salary to \$158,500 or approximately 95% of the midpoint, and Mr. DiMarco's to \$160,000 of approximately 87% of the midpoint.

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Dr. Case, our founder and a significant shareholder, has requested that we not increase his salary and it has remained fixed at \$240,000 since 2003. He has also requested that his cash incentive target not be increased and it has remained fixed at \$75,000 since 2004. Instead of any increase in 2007, he requested, and our Compensation Committee agreed, that as part of our charitable giving program, we consider donating \$52,000 to the Cabrini Foundation, a charity for the homeless for which his spouse serves as a board member.

**Annual Incentive.** Our Compensation Committee annually establishes a cash incentive plan, or "bonus" for all of our employees, including our executive officers. We have not, during the past three years, established individual performance objectives, but instead base all of our cash incentives upon

annual financial performance.

The Compensation Committee establishes a targeted level of payout under this program which varies based on the seniority and position of each executive. We establish the target amount so that pay at the targeted level, when combined with salary, equals or slightly exceeds the aggregate cash compensation of survey companies at the median point. For 2006, Ms. Iverson's targeted bonus was set at \$100,000 which, when combined with salary at the targeted level, would have equaled the average of the median total compensation from the AEA and Radford surveys.

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The executive, and our other employees, is paid this targeted amount, or less than or more than the targeted amount, based upon a matrix of the ratio of (i) revenue growth to (ii) net income before interest, taxes and stock compensation expense, that we generate for the calendar year. If our revenue declines, or we are not profitable, no bonus is paid. Our traditional bonus matrix, and the matrix employed for 2006 and for several years prior to 2006, provided that the targeted bonus would be paid if sales grew by 25% over the previous year's (2005) sales, and we generated net income before interest, taxes and stock compensation expense of 16% of this sales amount. Our sales growth was roughly 35% from 2005 to 2006 and our net income before interest, taxes and stock compensation expense was roughly 14%. Accordingly, the incentive compensation payable in accordance with the matrix was 1.1 times the targeted incentive compensation and we paid Ms. Iverson a bonus of \$110,000.

Our payments under the matrix of incentive compensation have been highly variable, with very high payouts in years of cyclical growth and no payouts in years of decline. On average, over the past 5 years, we have paid roughly 63% of the targeted amount. To avoid issues relating to the cyclical nature of the incentive compensation and continue to provide adequate incentive for the 2007 fiscal year, we have changed the matrix for fiscal 2007. Rather than year to year revenue growth, our Compensation Committee instead determined to change the matrix to measure growth in revenue over an average of three years. Further, based on our review of the average payout under the matrix, we determined to decrease the level of revenue growth at which targeted incentives are paid to 13% over the three year average and the level of net income before interest and taxes to 12%. In 2007, stock compensation expense will now be included for purposes of calculating net income before interest and taxes. This expense was excluded for purposes of the 2006 matrix calculation. If we had used this form of matrix during the past five years, we would have paid 74% of the targeted bonus, on average. We set Ms. Iverson's targeted bonus based on the matrix at the same level in 2007 as it was in 2006 (\$100,000), but provided small increases to other executives.

**Long-Term Incentives Equity-Based Compensation** In part because the cyclical nature of our markets renders it difficult to predict long-term financial performance, and in part to avoid cash expense, our long-term incentives use equity based incentives. Although these incentives have traditionally been stock options, during 2006 we adopted a policy to grant restricted stock units, rather than options, to non-management employees and a combination of restricted stock units and options to executive officers and management employees. This change was made in part to reduce the aggregate expense we must recognize

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annually under SFAS 123(R) for these benefits. We also believe that restricted stock units provide a less variable form of benefit that is not lost if our performance does not increase substantially. For employees who have less influence on our growth, we believe this provides a more fair basis for incentive and more retention value. For managers who substantially influence long-term growth, however, we have retained options, which have no value if our stock performance declines, as a significant component of our long-term compensation.

In accordance with our new policy, we granted a combination of restricted stock units and stock options to our executive officers at the regularly scheduled Compensation Committee meeting on December 7, 2006. In making grant decisions, our Compensation Committee reviewed both the overall level of option holdings of each of our executives, and survey data from Radford regarding the median grant in terms of face value for options during 2006. The Committee also reviewed the projected annual expense that would result from the new grants.

For our executives, we attempted to provide one-third of this value in restricted stock and two-thirds in the form of stock options. For Ms. Iverson, we estimated the number of options necessary to place an annual grant at approximately the midpoint of competitive companies at 25,000 shares, and granted 2/3 or 16,500 as options and one-third or 2,800 as restricted stock units. The vesting of both forms of equity compensation commences one year from the date of grant and continues annually for four years.

**Other benefit arrangements.**

**Employment Agreements.** We do not have formal employment agreements with any of our executive officers, but instead have retained those officers under informal offer letters that expressly provide that employment is at will.

**Severance and Change in Control Arrangements.** Although we do not have formal severance arrangements with our executives, the offer letters of Ms. Iverson and Mr. DiMarco provide that, if either is involuntarily terminated for any reason other than misconduct, they will receive a severance payment. For Ms. Iverson this severance payment is equal to 12 months salary and health insurance continuation, and for Mr. DiMarco this severance is equal to six months salary and health insurance continuation. Both of these severance benefits were negotiated with, and required by, the executive as a condition to employment.

We do not have change in control agreements with our executives. Our standard form option agreement and restricted stock unit agreement does provide for acceleration of vesting of all options and RSUs upon termination of employment without cause within two years of a change of control, or if the employee terminates employment for good reason within two years after a change of control. We have defined a change of control for these purposes as a change requiring disclosure under the proxy rules in federal securities laws, an acquisition by a person or group of more than 40% of our voting shares, a change in a majority of our directors other than by succession, an acquisition through merger in which we are not the surviving corporation, or a purchase of substantially all our assets. We believe this double trigger form of benefit in our RSUs and options would, if we were ever in the position of being acquired, provide comfort to employees and executives that they would not lose the future value of their equity benefits by being arbitrarily terminated because we are acquired.

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**Compensation Committee Report**

The Compensation Committee evaluates and establishes compensation for executive officers and oversees our management stock plans, and other management incentive and benefit programs. Management has the primary responsibility for our financial statements and reporting process, including the disclosure of executive compensation. With this in mind, as the Compensation Committee, we have reviewed and discussed with management the Compensation Discussion and Analysis found on pages 6 to 11 of this proxy statement. The Committee is satisfied that the Compensation Discussion and Analysis fairly and completely represents the philosophy, intent, and actions of the Committee with regard to executive compensation. We recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement for filing with the Securities and Exchange Commission.

Michael M. Selzer, Jr.

Erwin A. Kelen

Alex B. Cimoichowski

**Summary Compensation Table**

The following table summarizes the total compensation that we paid or accrued for our executive officers during 2006. We do not pay discretionary bonuses, but instead pay executives incentive compensation under our cash incentive plan as described under our Compensation Discussion and Analysis under the caption Annual Incentives. This cash incentive compensation is included in the table below under Non-Equity Incentive Plan Compensation. We do not maintain a pension plan and do not provide our executives non-qualified deferred compensation, but instead encourage retirement savings through our 401K Retirement Savings Plan. We have historically matched 50% of employee, including executive, contributions to the 401K plan, up to contributions by the employee equal to 6% of annual compensation. The stock awards and option awards reflected in the table represent the expense we recorded during 2006 for restricted stock units and stock options under our 1998 Stock Incentive Plan.

| Name  | Year | Salary     | Stock Awards <sup>1</sup> | Option Awards <sup>1</sup> | Non-Equity Incentive Plan Compensation <sup>2</sup> | All Other Compensation <sup>3</sup> | Total      |
|---|------|------------|---------------------------|----------------------------|---|-------------------------------------|------------|
| Kathleen P. Iverson<br>Chief Executive Officer &<br>President | 2006 | \$ 247,000 | \$ 510                    | \$ 76,760                  | \$ 110,000  | \$ 17,874                           | \$ 452,144 |
| Steven K. Case<br>Chairman                                    | 2006 | 240,000    | -0-                       | 92,733                     | 82,500  | 7,223                               | 422,456    |
| Jeffrey A. Bertelsen<br>Chief Financial Officer               | 2006 | 167,000    | 200                       | 19,119                     | 40,700  | 4,817                               | 231,836    |
| Michael Proulx<br>Vice President Operations                   | 2006 | 151,000    | 164                       | 20,332                     | 33,000  | 5,271                               | 209,767    |
| Steven J. DiMarco<br>Vice President Sales and<br>Marketing    | 2006 | 150,000    | 91                        | 18,233                     | 55,000  | 4,327                               | 227,651    |

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1. Represents the amount recorded in our financial statements as expense for these awards during 2006. A discussion of the methods used in calculation of these values can be found in footnote 2 on page 37 of our annual report.
  2. Payment for 2006 performance under our incentive plan.
  3. Consists of company contributions to a 401K plan of \$7,104 for Ms. Iverson, \$3,323 for Dr. Case \$4,817 for Mr. Bertelsen, \$4,551, for Mr. Proulx, and \$4,327 for Mr. DiMarco; \$720 paid to each of Ms. Iverson and Mr. Proulx for non-participation in our health plan; a car allowance of \$9,600 for Ms. Iverson; and tax preparation fees of \$3,900 for Dr. Case and \$450 for Ms. Iverson.

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**Grants of Plan-Based Awards**

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The following table provides detailed information regarding grants of individual incentives provided to our executives during 2006. The Non-Equity Incentive Plan Awards shown in the table do not relate to 2006 compensation, but instead represent our cash incentive or bonus plan that executives may earn for 2007 performance. We make decisions regarding our cash incentive plan for the following year in connection with our budgeting approval process in December of each year.

All of our equity awards, consisting only of restricted stock awards and stock options, are made under the 1998 Stock Incentive Plan and vest based on continuation of employment.

| Name          | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>1</sup> |             |              | Restricted Stock Unit Awards: Number of Shares of Stock or Units <sup>2</sup> | Option Awards: Number of Securities Underlying Options <sup>2</sup> | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards <sup>3</sup> |
|---------------|------------|--|-------------|--------------|---|---|---|---|
|               |            | Threshold (\$)   | Target (\$) | Maximum (\$) |   |   |   |   |
| Ms. Iverson   | 12/7/06    | 1  | \$ 100,000  | \$ 200,000   | 2,800   | 16,500  | \$ 12.95  | \$ 36,260   |
|               | 12/7/06    |  |             |              |   |   |   |   |
|               | 12/7/06    |  |             |              |   |   |   |   |
| Dr. Case      | 12/7/06    | 1  | 75,000      | 150,000      |   |   |   |   |
| Mr. Bertelsen | 12/7/06    | 1  | 38,000      | 76,000       | 1,100   | 6,670   | \$ 12.95  | 39,887  |
|               | 12/7/06    |  |             |              |   |   |   |   |
|               | 12/7/06    |  |             |              |   |   |   |   |
| Mr. Proulx    | 12/7/06    | 1  | 31,500      | 63,000       | 900   | 5,300   | \$ 12.95  | 31,694  |
|               | 12/7/06    |  |             |              |   |   |   |   |
|               | 12/7/06    |  |             |              |   |   |   |   |
| Mr. DiMarco   | 12/7/06    | 1  | 50,000      | 100,000      | 500   | 3,500   | \$ 12.95  | 20,930  |
|               | 12/7/06    |  |             |              |   |   |   |   |
|               | 12/7/06    |  |             |              |   |   |   |   |

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1. Represents our cash incentive plan for 2007 created as of such date. There is no minimum payout after achieving the threshold, but the payout instead increases linearly.
  2. Restricted stock units and stock options vest with respect to 25% of the shares on each of the four anniversaries of the grant date and options expire seven years from the grant date.
  3. Represents the full value that will be recognized as expense over the four-year vesting periods of options and restricted stock that was granted in 2006.

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### Outstanding Equity Awards at Fiscal Year-End



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The following table lists the options and restricted stock units held by each of our executives at December 31, 2006. All of the options become exercisable, to the extent not already vested, in annual increments of one-quarter of the number of shares to which they are subject and most expire seven years from the date of grant.

| Name          | Option Awards   |   |                            |                        | Restricted Stock Unit Awards                                     |   |
|---------------|---|---|----------------------------|------------------------|--|---|
|               | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock Held That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested <sup>1</sup> (\$) |
| Ms. Iverson   | 13,500  |   | \$ 12.25                   | 5/18/08                |  |   |
|               | 50,000  |   | 11.87                      | 2/15/12                |  |   |
|               | 16,250  |   | 4.30                       | 9/13/09                |  |   |
|               | 7,500   | 22,500 (2)  | 11.42                      | 5/16/12                |  |   |
|               |   | 16,500 (3)  | 12.95                      | 12/7/13                | 2,800 (3)  | \$ 35,532   |
| Dr. Case      | 120,000   |   | 15.00                      | 9/9/07                 |  |   |
|               | 1,000   |   | 11.87                      | 2/15/07                |  |   |
|               | 37,500  | 12,500 (4)  | 6.02                       | 2/14/10                |  |   |
|               | 75,000  |   | 11.71                      | 5/17/09                |  |   |
| Mr. Bertelsen | 2,500   | 7,500 (5)   | 14.60                      | 7/26/12                |  |   |
|               |   | 6,670 (3)   | 12.95                      | 12/7/13                | 1,100 (3)  | 13,959  |
| Mr. Proulx    | 1,750   |   | 11.71                      | 5/17/09                |  |   |
|               | 2,500   | 2,500 (6)   | 10.00                      | 12/5/10                |  |   |
|               |   | 5,300 (3)   | 12.95                      | 12/7/13                | 900 (3)  | 11,421  |
| Mr. DiMarco   | 2,500   | 7,500 (7)   | 12.86                      | 12/7/12                |  |   |
|               |   | 3,500 (3)   | 12.95                      | 12/7/13                | 500 (3)  | 6,345   |

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1. Based on closing price on December 29, 2006 of \$12.69 per share.
  2. Vests with respect to 7,500 shares on 5/16/07, 5/16/08 and 5/16/09.
  3. Vests with respect to 25% of the shares on 12/7/07, 12/7/08, 12/7/09 and 12/7/10.
  4. Vests on 2/14/07.
  5. Vests with respect to 2,500 shares on 7/26/07, 7/26/08 and 7/26/09.
  6. Vests on 12/5/07.
  7. Vests with respect to 2,500 shares on 12/7/07, 12/7/08 and 12/7/09.

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### Option Exercises and Stock Vested

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We began granting restricted stock units on December 7, 2006 and none of the units we have granted have vested yet. The following table provides information regarding options exercised by our executives in 2006 and the value they realized on exercise.

| Name          | <b>Option Awards</b>        | <b>Value Realized on</b>    |
|---------------|-----------------------------|-----------------------------|
|               | <b>Number of Shares</b>     | <b>Exercise<sup>1</sup></b> |
|               | <b>Acquired on Exercise</b> | <b>Exercise<sup>1</sup></b> |
|               | (#)                         | (\$)                        |
| Ms. Iverson   | 10,000                      | \$ 109,500                  |
| Dr. Case      | 7,000                       | 16,980                      |
| Mr. Bertelsen | -0-                         | -0-                         |
| Mr. Proulx    | 12,050                      | 52,775                      |
| Mr. DiMarco   | -0-                         | -0-                         |

1. Based on the difference between the exercise price and the closing price on the date of exercise.

### Potential Payments upon Termination or Change in Control

The following table describes the potential payments and benefits under our compensation and benefit plans and arrangements to which the named executive officers would be entitled upon termination of employment. Except for (i) acceleration of vesting of options and restricted stock following a change in control, and (ii) severance benefits on involuntary termination of Ms. Iverson and Mr. DiMarco, we have no agreements, arrangements or plans that entitle executive officers to severance, perquisites, or other enhanced benefits upon termination of their employment.

|  | <b>Cash</b>                | <b>Continuation of</b> | <b>Acceleration of</b>           | <b>Total</b>       |
|--|----------------------------|------------------------|----------------------------------|--------------------|
|  | <b>Severance</b>           | <b>Medical/Welfare</b> | <b>Equity Awards<sup>2</sup></b> | <b>Termination</b> |
|  | <b>Payment<sup>1</sup></b> | <b>Benefits</b>        |                                  | <b>Benefits</b>    |
| Kathleen P. Iverson  |                            |                        |                                  |                    |
| Involuntary termination  | \$ 247,000                 | \$ 15,495              | -0-                              | \$ 262,495         |
| Involuntary or good reason termination after change in control ( CIC ) | 247,000                    | 15,495                 | \$ 64,107                        | 326,602            |
| Steven K. Case   |                            |                        |                                  |                    |
| Involuntary termination  | -0-                        | -0-                    | -0-                              | -0-                |
| Involuntary or good reason termination after CIC                       | -0-                        | -0-                    | 83,375                           | 83,375             |
| Jeffrey A. Bertelsen   |                            |                        |                                  |                    |
| Involuntary termination  | -0-                        | -0-                    | -0-                              | -0-                |
| Involuntary or good reason termination after CIC                       | -0-                        | -0-                    | 13,959                           | 13,959             |
| Michael Proulx   |                            |                        |                                  |                    |
| Involuntary termination  | -0-                        | -0-                    | -0-                              | -0-                |
| Involuntary or good reason termination after CIC                       | -0-                        | -0-                    | 18,146                           | 18,146             |
| Steven J. DiMarco  |                            |                        |                                  |                    |
| Involuntary termination  | 75,000                     | 7,748                  | -0-                              | 82,748             |
| Involuntary or good reason termination after CIC                       | 75,000                     | 7,748                  | 6,345                            | 89,093             |

1. Based on 2006 salary.

2. Represents the value of unvested shares, plus the difference, if positive, between the market price and the exercise price of unvested options, based on the closing price at December 29, 2006 of \$12.69 per share.

The amounts shown in the table above do not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment.

**BENEFICIAL OWNERSHIP**

The following table provides information at March 5, 2007 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:

| Name and Address<br>of Beneficial Owner   | Amount and Nature of<br>Beneficial Ownership (1) | Percent<br>of Class |
|---|--|---------------------|
| Rutabaga Capital Management<br>64 Broad Street, 3rd Floor<br>Boston, MA 02109 (2)                     | 900,706  | 10.1%               |
| T. Rowe Price Associates, Inc.<br>100 E. Pratt Street<br>Baltimore, MD 21202 (3)                      | 790,337  | 8.9%                |
| Steven K. Case (4)<br>c/o CyberOptics Corporation<br>5900 Golden Hills Drive<br>Minneapolis, MN 55416 | 586,442  | 6.4%                |
| Jeffrey Bertelsen   | 2,500  | *                   |
| Alex B. Cimochoowski (4)  | 24,906   | *                   |
| Steven J. DiMarco   | 2,500  | *                   |
| Kathleen P. Iverson (4)   | 107,035  | 1.2%                |
| Erwin A. Kelen  | 80,500   | *                   |
| Michael Proulx  | 4,250  | *                   |
| Irene M. Qualters   | 36,000   | *                   |
| Michael M. Selzer, Jr.  | 22,950   | *                   |
| All executive officers and<br>directors as a group (9 persons)  | 867,083  | 9.3%                |

\*Less than 1%

(1) Includes 246,000 shares for Dr. Case, 2,500 shares for Mr. Bertelsen, 18,000 shares for Mr. Cimochoowski, 2,500 shares for Mr. DiMarco, 87,250 shares for Ms. Iverson, 40,500 shares for Mr. Kelen, 4,250 shares for Mr. Proulx, 35,000 shares for Ms. Qualters, 22,500 shares for

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Mr. Selzer, and 458,500 shares for all officers and directors as a group, purchasable upon exercise of options exercisable within 60 days of March 5, 2007.

- (2) Based on an amendment to Schedule 13G filed February 7, 2007. Includes 299,100 shares over which sole voting power, and 601,606 shares over which shared voting power is exercised.
- (3) Based on an amendment to Schedule 13G filed February 13, 2007 by T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc. Includes 790,337 shares over which sole dispositive power, and 490,000 shares over which sole voting power is exercised.
- (4) Includes, for Dr. Case 13,000 shares, for Mr. Cimoehowski 4,425 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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### **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, 2006. Based upon information provided by officers and directors, all our officers, directors and 10% shareholders filed all reports on a timely basis in the 2006 fiscal year.

### **PROPOSAL II APPROVAL OF THE AMENDMENT TO THE**

### **CYBEROPTICS CORPORATION 1998 STOCK INCENTIVE PLAN**

#### **Introduction**

On February 23, 2007, our Board of Directors approved, subject to shareholder approval, an amendment to the our 1998 Stock Incentive Plan that extends the termination date of the plan to May 21, 2017. The 1998 Plan is intended to assist in attracting, retaining and providing an incentive to employees, management personnel and other personnel capable of assuring the future success of the Company.

The plan provides that, absent this amendment, it will expire on May 18, 2008. We believe that the 1998 Stock Incentive Plan, which allows us to grant a variety of stock-based benefits, remains an essential ingredient in our long-term incentives for current employees and executives, as well as an indispensable tool in attracting new employees and executives. We are not seeking any other amendments to the plan other than the extension, and there remain 446,486 shares of common stock available for issuance under awards that may be granted under the plan in the future.

#### **Summary of the 1998 Plan**

The 1998 Stock Incentive Plan is administered by our Compensation Committee. The Committee has the authority to select the individuals to whom awards are granted, to determine the types of awards to be granted and the number of shares of Common Stock covered by the awards, to set the terms and conditions of the awards, to determine whether the payment of any amounts received under any award may be deferred, and to establish rules for the administration of the plan.

Although the plan permits the granting of a variety of different types of awards, including stock appreciation rights (SARs), restricted stock, performance awards, and dividend equivalents, until December 2006, all of the awards granted under the 1998 Plan had been stock options. During 2006, however, we adopted a policy to grant restricted stock units, rather than options, to non-management employees and a combination of restricted stock units and options to executive officers and management employees. This change was made in part to reduce the aggregate expense we must recognize annually under SFAS 123(R) for these benefits, and we also believe that restricted stock units provide a less variable form of benefit that is not lost if our performance does not increase substantially.

Our Compensation Committee may grant incentive stock options meeting the requirements of Section 422 of the Code, and stock options that do not meet such requirements (non-qualified stock options). Because of the unfavorable treatment of the accounting effect of tax deductions for incentive stock options, all of the stock options we have granted in recent years are non-qualified stock options. The plan requires that the

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exercise price per share under any stock option, and the grant price of other awards under the 1998 plan, must be not be less than 100% of the fair market value of our common stock on the date of the grant of such option or other award. Determinations of fair market value under the plan are made in accordance with methods and procedures established by the Committee.

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The restricted stock units we have issued entitle the employee to receive a fixed number of shares when they vest. The restricted stock units vest in annual increments of one-quarter of the shares starting one year from the grant date if the employee remains employed by us on the vesting date.

Our Compensation Committee may grant awards under the plan for no cash consideration or for such minimal cash consideration as may be required by applicable law. Awards may provide that upon the grant or exercise the holder will receive cash, shares of common stock or other securities, awards or property, or any combination thereof, as the Committee shall determine. All of the stock options and restricted stock units we have granted required no cash consideration from the employee upon grant, and were payable solely in shares of our common stock.

Our Compensation Committee may permit participants (other than Non-Employee Directors) receiving or exercising awards, subject to the discretion of the Committee and upon such terms and conditions as it may impose, to surrender shares of our common stock or other property to satisfy federal and state tax obligations. Although the Committee has not historically allowed the surrender shares of common stock, in 2006 it adopted a policy to allow surrender of shares received upon exercise of options or vesting of restricted stock units having a value equal to the withholding tax that will be due to be surrendered in payment of the employee's share of withholding taxes. In addition, the Committee may grant, subject to its discretion and such rules as it may adopt, a bonus to a participant in order to provide funds to pay all or a portion of federal and state taxes due as a result of the receipt or exercise of (or lapse of restrictions relating to) an award. The Committee has never granted such a bonus.

Any of our employees, officers, consultants or independent contractors selected by the Committee (other than Non-Employee Directors) is eligible to receive an award under the 1998 plan. During the past two years and because of the expense they cause, however, we have granted stock options and restricted stock units primarily to management employees. No employee may be granted awards under the 1998 plan, the value of which awards are based solely on an increase in the value of the shares after the date of grant of the awards, of more than 100,000 shares in the aggregate in any calendar year. This annual limitation specifically includes the grant of any performance-based awards within the meaning of Section 162(m) of the Internal Revenue Code and is designed to avoid the loss of tax deductions to us under that section of the Code.

No award granted under the 1998 plan may be assigned, transferred, pledged or otherwise encumbered by the individual to whom it is granted, otherwise than by will or the laws of descent and distribution. Each award is exercisable, during such individual's lifetime, only by such individual or, if permissible under applicable law, by such individual's guardian or legal representative.

Our Board of Directors may amend, alter or discontinue the 1998 Plan at any time, provided that shareholder approval must be obtained for any such action that would (1) cause Rule 16b-3 under the Federal Securities Exchange Act of 1934 to become unavailable; (2) violate the rules or regulations of the Nasdaq National Market, or any other securities exchange applicable to CyberOptics; or (3) cause us to be unable, under the Internal Revenue Code, to grant incentive stock options. Our Compensation Committee may correct any defect, supply any omission, or reconcile any inconsistency in the 1998 plan. The Committee may waive any condition of, or rights we have under any outstanding award, prospectively or retroactively, but may not amend or terminate any outstanding award, prospectively or retroactively, without the consent of the holder or beneficiary of the award.

### **Income Tax Consequences of Awards**

We do not expect the grant of stock options to result in any tax consequences for the recipient or to us. The holder of an incentive stock option will have no taxable income when the option is exercised (except that the alternative minimum tax may apply), and we will receive no tax deduction when an option is exercised. The holder of a nonqualified option (an option that does not qualify as an incentive stock option) will recognize ordinary income when the option is

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exercised equal to the excess of the fair market value of the shares acquired on the date of exercise over the exercise price. We will be entitled to a tax deduction when a nonqualified option is exercised for the same amount, provided that the general rules concerning deductibility of compensation are satisfied. The tax consequences to an optionee of a disposition of shares acquired through the exercise of an option will depend on how long the shares have been held and upon whether the shares were acquired by exercising an incentive stock option or a nonqualified stock option. Generally, there will be no tax consequence to us in connection with a disposition of shares acquired under an option, except that we may be entitled to a tax deduction in the case of a disposition of shares acquired under an incentive stock option before the applicable holding period has been satisfied.

The tax consequences of restricted stock, restricted stock units and performance awards which we refer to collectively as deferred awards are similar. At the time a deferred award is granted, a recipient will not recognize any taxable income. At the time a deferred award matures or vests, the recipient will recognize ordinary income equal to the cash or fair market value of the shares received. Any additional gain recognized on a subsequent sale or exchange of the shares will not be compensation income but will be treated as capital gain if, as is usually the case, the shares are held as a capital asset. Under Section 83(b) of the Internal Revenue Code, a recipient of a restricted stock award may elect, not later than 30 days after the grant of restricted stock, to include as ordinary income the fair market value of the stock at the grant date. If a Section 83(b) election is made, any future appreciation in the value of the stock will be capital gain. If the stock is forfeited under the terms of the restricted stock award, the recipient will not be allowed a tax deduction with respect to the forfeiture. We generally will be allowed an income tax deduction in the amount that, and for our taxable year in which, a recipient recognizes ordinary income pursuant to a restricted stock award or performance award, but only if we properly report such income to the Internal Revenue Service or withhold income tax as required under the Code.

#### **Vote Required**

The affirmative vote of the holders of a majority of the shares of the common stock represented at the annual meeting and entitled to vote is necessary for approval of the amendment to the incentive plan described above. Proxies will be voted in favor of such proposal unless otherwise indicated. **The Board recommends that shareholders vote for the proposal to amend the Stock Incentive Plan as described above.**

#### **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. The Audit Committee requires the pre-approval by the Audit Committee of all audit services and permissible non-audit services to be provided by the 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 2006 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, 2006 filed with the Securities and Exchange Commission.

Members of the Audit Committee

Alex B. Cimoehowski

Michael M. Selzer, Jr.

Irene M. Qualters

**RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS**

We have not yet selected our principal independent accountant for the 2007 fiscal year and are not recommending an accountant for ratification by shareholders. 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 were our independent accountants for 2006 and 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, 2005, and December 31, 2006:

| Fee Category       | 2005 Fees  | 2006 Fees  |
|--------------------|------------|------------|
| Audit Fees         | \$ 319,000 | \$ 358,889 |
| Audit-Related Fees | 25,000     |            |
| Tax Fees           | 104,505    | 22,024     |
| All Other Fees     |            |            |
| Total Fees         | \$ 448,505 | \$ 380,913 |

*Audit Fees* consist of fees and expenses 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 also include work associated with testing required under Section 404 of the Sarbanes-Oxley Act of 2002.

*Audit-Related Fees* consist of fees and expenses 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 consultations in connection with acquisitions and divestitures, attest services that are not required by statute or regulation, tax consultation concerning

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treatment of income taxes in U.S. GAAP based financial statements and consultations concerning financial accounting and reporting standards.

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*Tax Fees* consist of fees and expenses 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. For which there were none in 2006 and 2005.

### **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 7, 2007.

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 7, 2007. 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 7, 2007; 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 6, 2007

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**CYBEROPTICS CORPORATION**

**2007 ANNUAL SHAREHOLDERS MEETING**

**Dorsey & Whitney**

**50 South Sixth Street, 15th Floor**

**May 21, 2007 3:00 p.m.**

**proxy**

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

The undersigned hereby appoints Steven K. Case, Kathleen P. Iverson and Jeffrey A. Bertelsen, 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 21, 2007, 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.*

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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 18, 2007. 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 18, 2007. 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 Services<sup>SM</sup>, 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 Items 1 and 2.**

|                           |                         |                        |                           |                                |                                     |
|---------------------------|-------------------------|------------------------|---------------------------|--------------------------------|-------------------------------------|
| 1. Election of directors: | 01 Steven K. Case       | 03 Kathleen P. Iverson | 05 Irene M. Qualters      | <input type="radio"/> Vote FOR | <input type="radio"/> Vote WITHHELD |
|                           | 02 Alex B. Cimoichowski | 04 Erwin A. Kelen      | 06 Michael M. Selzer, Jr. | all nominees                   | from all nominees                   |
|                           |                         |                        |                           | (except as marked)             |                                     |

**(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. Amendment to 1998 Stock Incentive Plan  For  Against  Abstain

3. 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 AND FOR PROPOSAL 2.**

Address Change? Mark Box  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.