

CYBEROPTICS CORP
Form DEF 14A
April 07, 2011

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
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- 1) Title of each class of securities to which transaction applies:
- 2) Aggregate number of securities to which transaction applies:
- 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):
- 4) Proposed maximum aggregate value of transaction:
- 5) Total fee paid:

Fee paid previously with preliminary materials.

Edgar Filing: CYBEROPTICS CORP - Form DEF 14A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid:
 - 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

May 23, 2011

To the Shareholders of
CYBEROPTICS CORPORATION:

The Annual Meeting of Shareholders of CyberOptics Corporation will be held on Monday, May 23, 2011, at the offices of Dorsey & Whitney LLP, 50 South Sixth Street, 15th Floor, Minneapolis, Minnesota at 3:00 p.m. for the following purposes:

- 1) To elect five directors to serve until the annual meeting in 2012;
- 2) To approve an amendment to the CyberOptics Employee Stock Purchase Plan to increase the number of shares that may be issued under the plan by 150,000, and to extend the termination date of the plan to 2021;
- 3) To ratify the appointment of Grant Thornton LLP as independent registered public auditors; and
- 4) 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, 2011, 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, 2011

Important notice

regarding the availability of proxy materials for the shareholder meeting to be held on May 23, 2011.

Our proxy statement, the form of our proxy card, and annual report on Form 10-K can be viewed online at <http://www.idelivercommunications.com/proxy/cybe>

CYBEROPTICS CORPORATION

5900 Golden Hills Drive
Minneapolis, MN 55416

PROXY STATEMENT

Annual Meeting of Shareholders to be held on May 23, 2011

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 23, 2011. 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 matters that our Board of Directors know will be presented at the annual meeting are (i) the election of directors, (ii) approval of an amendment to our Employee Stock Purchase Plan to authorize us to issue up to an additional 150,000 shares under that plan, and (iii) the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm. **The Board of Directors recommends that you vote in favor of the election of each Director who has been nominated, in favor of the amendment to the Employee Stock Purchase Plan, and in favor of the ratification of Grant Thornton LLP as our independent registered public accounting firm.** 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 on such matter in accordance with their judgment.

VOTING RIGHTS AND PROCEDURES

If you return a proxy card in the form solicited with this proxy statement, we will vote your shares in the manner that you have directed in the proxy card. If you complete the proxy card 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 ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm, 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 or abstain from a vote for the auditors, 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 or the ratification of auditors for which 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 matter for which the broker lacks discretionary authority. 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, 2011, to receive notice of and to vote at the meeting. On April 1, 2011, we had 6,891,350 shares of common stock outstanding. Each outstanding share is entitled to one vote on all matters presented at the meeting.

Enclosed with this Proxy Statement is a copy of our Annual Report on Form 10-K for the year ended December 31, 2010. We are mailing this Proxy Statement and a form of proxy on or about April 8, 2011.

PROPOSAL I ELECTION OF DIRECTORS

Our Nominating Committee has nominated five persons for election at the Annual Meeting: Alex B. Cimochoowski, Kathleen P. Iverson, Subodh Kulkarni, 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 April 1, 2011.

Alex B. Cimochoowski, age 71, has been a director of CyberOptics since its formation in 1984. Mr. Cimochoowski, received a BS in Engineering Physics from Penn State and a MS from the Massachusetts Institute of Technology, and started his career as an engineer with IBM Corporation. From 1964 until 1983, he held various management positions with Control Data Corporation, then the largest producer of supercomputers in the world, including Group Vice President. He founded Edge Computer Corporation in 1983, a venture capital backed company that developed a complete computer workstation, including a proprietary central processing unit, graphical processing unit, operating software and applications software, that was for a time during the early stages of the desktop computer industry the fastest workstation available. He was President of Edge until 1988. From 1988 until 1995, he was Chief Executive Officer of Delphax Systems, a manufacturer of high speed electronic printing solutions. From 1996 until his retirement in 2009, Mr. Cimochoowski was President and owner of Four Peaks Technologies, Inc., a printing company. Mr. Cimochoowski brings to our Board not only historical perspective of the operations of CyberOptics, but detailed knowledge of the computer development process, assembly process and markets, and substantial experience with the management and finance of both emerging and established companies.

Kathleen P. Iverson, age 55, has been a director of CyberOptics since 1998, has been Chair of our Board of Directors since August 2009, our Chief Executive Officer since January 2003, and our President since January 2002. From January 2002 until January 2003, Ms. Iverson was also our Chief Operating Officer. Prior to joining CyberOptics, Ms. Iverson was with Rosemount, Inc., a developer and manufacturer of industrial sensors and process control products for 22 years, lastly as Vice President and General Manager of Rosemount's Complete Point Solutions. Ms. Iverson also currently serves as a director of Navarre Corporation. Ms. Iverson, as the officer in charge of day to day operations and with the most direct management authority and broadest knowledge of company operations, is an essential member of the Board. Further, Ms. Iverson's previous positions managing the operations of a significant manufacturer of sensor controls, both locally and internationally, place her in the position to provide valuable input regarding our business strategy.

Subodh Kulkarni, age 46, has been a director of CyberOptics since 2009. Dr. Kulkarni has been Chief Technology Officer and Senior Vice President, OEM/Emerging Business, of Imation Corp since 2009; was Vice President, Global Commercial Business, R&D and Manufacturing of Imation from 2007 through 2009; Vice President, R&D and Manufacturing of Imation from 2006 through 2007; Vice President of R&D of Imation from March 2006 until October 2006; and Executive Director of R&D of Imation from 2004 until March 2006. Prior to 2004, Dr. Kulkarni held various research management positions with 3M Corporation, and prior to that, with IBM. Dr. Kulkarni received his B.S. in chemical engineering (first in his class) from IIT Bombay, India, and went on to obtain a master's degree and a PhD in chemical engineering from the Massachusetts Institute of Technology, with thesis work on disilane surface decomposition used in the manufacture of semiconductors. He has won a number of awards for commercializing technologies he and others have developed in the electronics industry. Dr. Kulkarni brings to our Board significant expertise in management of technology-focused entities, in commercialization of technologies in the electronics, computer and semiconductor industries, and in the markets for our products.

Irene M. Qualters, age 61, has been a director of CyberOptics since 1999 and has been Lead Director since 2009. Since December 2009, she has been Program Director Office of Cyberinfrastructure of the National Science Foundation. From 2008 until 2009, she was Senior Vice President Products of Silicon Graphics, Inc., a manufacturer of high-performance computing solutions. From 2005 until 2008, Ms. Qualters was Vice President, Software Engineering of Ageia Technologies, Inc., a developer of gaming physics technology. From 1999 until 2005, she was Vice President, Research Information Services at Merck & Company, a global pharmaceuticals company. From 1995 until 1999, she held various executive positions with Cray Research, a developer of super computers, lastly as President of Cray Research and Senior Vice President of Silicon Graphics, Inc., then its holding company. Ms. Qualters received her Bachelor's degree from Duquesne University, and a Masters in Computer Science from the University of Detroit. Ms. Qualters has significant experience managing large organizations, and brings particular expertise in managing organizations in the computer industry and engaged in both software and semiconductor development, as well as significant industry connections, and perspective as an executive officer of several public companies.

Michael M. Selzer, Jr., age 58, has been a director of CyberOptics since 1999. Mr. Selzer has served as a consultant to medical products companies since 2009. He was a founder of ConcepTx Medical, Inc., a developmental-stage medical device company, and served as the Chief Executive Officer and a Director of ConcepTx, from 2007 until 2009. He was President, Chief Executive Officer and Director of Optobionics Corp., a technology startup that attempted to apply semiconductors to human optical disorders, from 2003 until it filed for protection under federal bankruptcy law in 2007. He was Chief Executive Officer of Urologix, Inc., a publicly held, medical device manufacturer from 1999 to 2003 and was Vice President and General Manager Neurostimulation Business of Medtronic, Inc. from 1994 until December 1998. Mr. Selzer received his B.S. in electrical engineering from South Dakota School of Mines and his MBA from Arizona State University. Mr. Selzer brings to the Board expertise in semiconductor and circuit board fabrication, as well as considerable experience and expertise in public company management and sales, and emerging company finance, operations and management.

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 five 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 and Board Leadership

Composition and Independence. 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 officers are responsible for day to day management of operations. Our Board currently consists of five 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 nominee for 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. Cimochoowski, Mr. Kulkarni, 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.

-3-

Meetings and Attendance. Our Board strives 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, 2010, we had five meetings of the Board and each director attended 100% of the meetings. Our directors met in separate, executive session without management four times during 2010.

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 21, 2010.

Our Chair and our Lead Director. Kathleen P. Iverson, serves, and has served since August 2009, as both our Chair and our Chief Executive Officer. Irene Qualters, who is Chair of our Nominating and Corporate Governance Committee, serves as our Lead Director with responsibility to chair executive sessions of the Board, to formulate and set the agenda for executive sessions, to consult with the Chief Executive Officer regarding matters related to and approve the general agenda for Board meetings, to otherwise coordinate relations and communications between the Chief Executive Officer and the Board, and to be available in the event shareholders desire communication with independent members of the Board. In making the decision to appoint Ms. Iverson to the position of Chair in 2009, our Board considered the size of the operations of CyberOptics, the number of Board members and the history of open communication among members, the mixed message regarding authority that would be generated by appointing a non-executive chair, and the independence of all remaining Board members.

Responsibility for Risk Management. Our Board considers the identification and management of risk a responsibility of the board as a whole. Nevertheless our Audit Committee has specifically undertaken to identify and direct management in the control of financial risk, and in its role in reviewing the periodic reports we file with the Securities and Exchange Commission, continues to focus on articulating known risks and identifying them for the Board.

Our Compensation Committee is responsible for ensuring that the executive compensation plans and stock benefit plans that it establishes and oversees do not encourage our officers and employees to undertake unnecessary risks. The Compensation Committee has concluded that, given the size of grants made under and the time based vesting of grants under our Stock Incentive Plan as well as the multiple metrics required for incentive compensation under our Management Incentive Plan, our compensation policies are not likely to present risks that would have a material adverse effect on CyberOptics. Our Compensation Committee has also prepared a management succession plan, which it periodically revisits and revises to address the risk of loss of an executive.

Our Nominating and Corporate Governance Committee considers risks presented by changing law and regulation and recommends changes in governance and operations to comply. Each of these committees reports its recommendations on risk management to the Board as a whole.

Committees of Our Board

Edgar Filing: CYBEROPTICS CORP - Form DEF 14A

Our Board has three committees: An Audit Committee, a Compensation Committee and a Nominating and Corporate Governance 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.

-4-

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 registered public accounting firm 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.

Our Audit Committee currently consists of Mr. Cimochoowski (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. Cimochoowski 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 2010. All members of the Committee attended all (100%) of the meetings. The report of the Audit Committee is contained on page 14 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. Cimochoowski and Dr. Kulkarni, each of whom is an independent director under Nasdaq listing standards. During 2010, the Compensation Committee held five meetings. All members of the Committee attended 100% of the meetings.

Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee identifies individuals qualified to become Board members, recommends to the Board nominees to fill vacancies in membership of the Board as they occur, recommends a slate of nominees for election as Directors at the annual meeting, and monitors our corporate governance function. The Nominating Committee currently consists of all of our independent directors, including Ms. Qualters (Chair), Mr. Cimochoowski, Dr. Kulkarni and Mr. Selzer. During 2010, the Nominating and Corporate Governance Committee held four meetings. All members of the Committee attended 100% of the meetings.

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 and Corporate Governance Committee has discretion as to the determination of which individuals will best fit these criteria. We believe that all of the current nominees to the Board possess these characteristics, as described above. Although the Nominating and Corporate Governance Committee considers the diversity of Board members, including diversity of experience, gender and ethnicity, when considering candidates and believes that the current composition of the Board reflects that diversity, we have not adopted any diversity policies in the nomination of candidates for director. We believe our current board members reflect our commitment to diversity.

When seeking additions to, or replacements for, Board positions, we first poll members of the Nominating and Corporate Governance Committee, and the Board as a whole, as to the specific characteristics that they perceive are most desirable for an additional member of the Board, which regularly includes characteristics that Board members believe they as a whole do not possess. Although we could employ a search firm in the future, we have historically been able to locate suitable candidates through the recommendations of members of our Board and our professional advisors. After candidates are identified, a background check is completed and the resume of each candidate is circulated among members of the Committee. If the Committee believes that it is advisable to proceed with a candidate, the candidate is interviewed by several members of the Committee and the Board Chair, and the impressions generated from these interviews are circulated to all members of the Committee and discussed at a Committee meeting. If the impressions are favorable and the Committee so determines, the candidate is asked to stand for election.

Although most candidates have originated from recommendations of officers, Board members, or professional advisors, and all of the nominees for the 2011 annual meeting are currently directors and are being re-nominated as such, the Nominating and Corporate Governance Committee will consider suggestions from other stakeholders, including shareholders, for nominees for the 2011 annual meeting. A candidate suggested by a shareholder would be considered using the same process as a candidate suggested by a Board member or other adviser. 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 2012 meeting should contact the Board with specific information about the proposed nominee, including an appropriate resume, prior to February 22, 2012. Methods of communicating with our Board are described on our website at www.cyberoptics.com. The Nominating and Corporate Governance Committee will consider these recommendations, but has absolute discretion as to whether to recommend any individual for nomination. For the 2011 annual meeting, we did not receive any nominations from shareholders.

Code of Conduct and Shareholder Communications with the Board

Our Code of Business Conduct and Ethics, 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. Cimochowski, Dr. Kulkarni, 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. For 2010, we paid our independent directors an annual retainer of \$25,000 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.

-6-

Until 2008, each independent director received an option to purchase 4,500 shares on the date of each annual meeting at which he or she was reelected. These options, which were granted automatically under our Stock Option Plan for Non-Employee Directors, are fully exercisable from the date of grant at a price equal to the fair market value of our common stock on that date. Effective on the date of our 2008 Annual Meeting, these 4,500 option grants were replaced with the grant of 1,000 shares to each non-employee director at the annual meetings at which they are reelected. These shares are fully vested on grant. We do not provide any other stock awards, non-equity incentive compensation, pension benefits or any other form of compensation to our directors who are not employees.

Ms. Iverson, who is also an employee and not an independent director, does not receive any additional compensation for service as a Board member. During 2010, we provided the following compensation to directors who are not also employees:

Director Compensation

Name	Fees Earned or Paid in Cash(\$)	Stock Awards ¹ (\$)	Total (\$)
Alex B. Cimochoowski	\$31,500	\$9,450	\$40,950
Irene M. Qualters	\$31,500	\$9,450	\$40,950
Michael M. Selzer, Jr.	\$31,000	\$9,450	\$40,450
Subodh Kulkarni	\$29,500	\$9,450	\$38,950

1. Stock awards represent the expense recorded in 2010 for 1,000 shares granted each re-elected director based on the \$9.45 closing price on the date of our 2010 annual meeting. Options to purchase 22,500 shares for Mr. Cimochoowski, 31,500 shares for Ms. Qualters, and 22,500 shares for Mr. Selzer were outstanding at December 31, 2010.

PROPOSAL II APPROVAL OF AMENDMENT TO THE CYBEROPTICS 1992 EMPLOYEE STOCK PURCHASE PLAN

On February 14, 2011, our Board of Directors adopted, subject to shareholder approval, an amendment (i) to increase the number of shares of Common Stock available for issuance under the CyberOptics Corporation 1992 Employee Stock Purchase Plan (the Purchase Plan) by 150,000 shares and (ii) to extend the term of the Purchase Plan to the completion of the purchase period which ends on the first business day occurring on or after July 31, 2021. As of March 31, 2011, there were 61,344 shares remaining that could be issued under the Purchase Plan.

We have used the Purchase Plan for almost 20 years to provide an attractive means for employees to accumulate ownership in CyberOptics. Share ownership ties our employees more closely to our corporate growth objectives and is another tool available to attract new employees. Our Board believes that it is desirable to amend the Purchase Plan to increase the number of shares of Common Stock authorized for issuance and to extend the term of the Purchase Plan.

The Purchase Plan was initially approved by our shareholders in 1992 and is administered by the Compensation Committee of our Board of Directors. The Compensation Committee must consist of two or more directors who are not employees and are independent within the meaning of Section 16b-3 of the Securities Exchange Act of 1934.

The Purchase Plan reserves shares of our Common Stock for sale to participating employees at the lower of 85% of the fair market value of our Common Stock on the first business day, or the last business day, of the applicable purchase period. Under the terms of the Purchase Plan, purchase periods begin on the first business day of August of each year and end on the last business day of July of the following year.

-7-

Participating employees may direct CyberOptics to make payroll deductions of between 1% and 10% of their compensation during a purchase period that will be applied to the purchase of shares under the Purchase Plan, but may not contribute more than \$6,500 during any plan period. Participants may withdraw from the Purchase Plan at any time, although no employee may enroll again after a withdrawal until commencement of the next purchase period. No participant may purchase more than 10,000 shares or shares having a market value exceeding \$25,000 under the Purchase Plan during any purchase period. If total purchases during a purchase period would result in the sale of more than 100,000 shares under the Purchase Plan, each participant is allocated a pro rata portion of the 100,000 shares that may be sold in the purchase period.

Any employee of CyberOptics (other than employees who have been employed fewer than six months or whose customary employment is less than 20 hours per week or five months per calendar year) is eligible to participate in the Purchase Plan, provided that no employee who holds more than 5% percent of the outstanding Common Stock may participate. As of February 14, 2011, approximately 110 employees were eligible to participate in the Purchase Plan.

Upon termination of employment of any employee who is participating in the Purchase Plan, for any reason other than approved retirement or death, participation in the Purchase Plan terminates and the balance of the participant's share purchase account is paid, in cash, to the participant within 30 days. If a participating employee dies or retires, the former employee's contributions to the Purchase Plan cease, but the balance in the former employee's purchase plan account will be used to purchase shares of Common Stock at the end of the current purchase period or, at the former employee's election, will be paid in cash. If the termination results from retirement, no purchase of Common Stock is allowed if the last day of the purchase period in which the retirement occurs is more than 3 months following the date of retirement.

The Purchase Plan may be amended by our Board of Directors at any time, except that the Board cannot, without shareholder approval, adopt an amendment that (i) would cause Rule 16b-3 under the Exchange Act to become unavailable, (ii) requires shareholder approval under listing rules, or (iii) permits the issuance of Common Stock before payment in full.

Amounts contributed by employees to the Purchase Plan through payroll deduction are reportable as ordinary income by participating employees, and are deductible as compensation expense by CyberOptics. Participating employees do not recognize income when shares are purchased under the Purchase Plan at the end of a purchase period. When an employee sells shares acquired under the Purchase Plan more than a year after the end of the purchase period, the employee will recognize ordinary income equal to the excess of the fair market value on the first day of the purchase period over the purchase price, and capital gain or loss equal to the difference between the sale price, and the sum of the purchase price and the ordinary income that was recognized. When an employee sells shares acquired under the Purchase Plan less than a year after the end of the purchase period, the employee will recognize ordinary income equal to the excess of the fair market value on the date of the purchase over the purchase price, and capital gain or loss equal to the difference between the sale price, and the sum of the purchase price and the ordinary income that was recognized.

The amendments to the Purchase Plan are being submitted to the shareholders for approval in order to comply with the requirements of the Internal Revenue Code of 1986, as amended.

The affirmative vote of the holders of a majority of the Common Stock represented at the meeting is required to approve the amendments to the Purchase Plan. Our Board recommends a vote FOR the amendments to the Purchase Plan as described above.

EXECUTIVE COMPENSATION

Executive Officers

Ms. Iverson, our Chief Executive Officer, serves on the Board of Directors and her background is described above under the caption Proposal I Election of Directors.

Jeffrey A. Bertelsen, 48, started as Vice President Finance and Chief Financial Officer in 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 1995. Prior to joining CNT, Mr. Bertelsen was a CPA with KPMG LLP.

Daniel Good, 49, started as Vice President of Corporate Development in May 2010. From November 2008 to May 2010, Mr. Good served as Vice President, Worldwide Marketing and Product Management, for Storage Genetics, Inc. of Longmont, CO., a start-up company focused on innovative flash memory storage products. For the 10 years prior to joining Storage Genetics, Mr. Good held various management positions with Seagate Technology, including Vice President, Security Product Management, and Vice President, New Business Initiatives.

Compensation

We provide three principal forms of compensation to our executives: (1) an annual cash salary that is established annually by reference to industry statistics that we gather from TechAmerica (formerly, American Electronics Association) and from Radford, and customize based on the seniority and level of performance of the executive; (2) annual cash incentive pay based on a combination of financial performance goals and operating objectives; and (3) longer-term equity-based compensation in the form of stock options and restricted stock units. Our Compensation Committee, consisting solely of independent directors, sets executive compensation. Although our Chief Executive Officer participates in formulating compensation for employees other than herself, the Compensation Committee approves all executive compensation, and in the case of the Chief Executive Officer, without her participation.

Our executive compensation during the past three years is reflective of the severe downturn in microelectronics production markets resulting from the recession, and the recovery in late 2009 and 2010. In December 2008, because of global economic conditions, our Compensation Committee froze executive salaries for the 2009 fiscal year at the same level as salaries for 2008. As the recession deepened in February 2009 the Committee approved a further 12% decrease in executive salaries. These reductions, combined with the absence of any payout under our incentive plan and fewer paid officers as described below, resulted in significantly smaller overall executive compensation expense in 2009. Because of improving operations in late 2009, our Compensation Committee restored salaries by eliminating the 12% cuts effective January 1, 2010, but did not implement salary increases.

Our incentive plan as in effect for 2009 provided for payment of annual incentive pay based on a matrix of (i) revenue growth in 2009 over revenue averaged over the prior three years, to (ii) net income before interest and taxes that we generated for 2009. Because of the extremely depressed level of sales during the height of the recession in 2009, no incentive accrued under this incentive plan in 2009.

Our Compensation Committee revised the incentive plan for 2010 to apply primarily to management level employees, and to base 70% of the incentive pay upon financial performance relative to targeted performance, and 30% on specific operating goals. The financial performance goals would have resulted in payment to an executive of 5.6% of the executive's targeted incentive if revenue equaled a minimum of \$45.9 million, 28.0% of the executive's targeted incentive if revenue equaled a targeted \$50.5 million and a maximum of 50.4% of the executive's targeted incentive if revenue exceeded \$55.5 million. The goals would have resulted in payment of 4.2% of an executive's targeted incentive if operating profit equaled a minimum of \$.9 million, 21.0% of the executive's targeted incentive if operating profit equaled a targeted \$3.3 million and a maximum of 37.8% of the executive's targeted incentive if operating profit exceeded \$5.0 million or more. The goals would have resulted in payment of 4.2% of the executive's targeted incentive if the year-end cash balance equaled a minimum of \$22 million, 21.0% of an executive's targeted incentive if the year-end cash balance equaled a targeted \$25 million, and a maximum 37.8% of targeted incentive if cash balances equaled or exceeded a maximum \$27 million. In addition, 6% of each executive's targeted incentive was payable if any of five operating goals were achieved, including one goal relating to production of a new sensor designed for solar cell manufacturing, one related to a new 2D solder paste inspection product, one related to production of a new automated optical inspection product, one related to a new model of our 3D solder paste inspection products, and one related to identification of a new product introduction that will generate \$2 million of revenue.

Ms. Iverson's targeted incentive for 2010 was set at \$104,000, Mr. Bertelsen's was set at \$55,000 and Mr. Good's was set at \$50,000 but pro rated for the eight months he served as an officer. All five of the product goals were achieved during the year, and based upon fiscal 2010 performance, the revenue and operating profit targets were exceeded and our Compensation Committee concluded the cash balance target was met at the minimum level. Accordingly, Ms. Iverson, Mr. Bertelsen and Mr. Good were paid incentive compensation under the plan equal to 109% of these targets.

We typically grant options and restricted stock units to continuing management employees as long-term compensation in December of each year, with both RSUs and options vesting over a four-year period commencing one year from the date of grant and options having a seven-year term. Because we made proportionately large grants in December 2008, and due to economic conditions, we made no grants in December 2009. Several management employees, including Mr. Bertelsen, received option grants in May 2009 designed to compensate in part for the significantly reduced cash compensation that resulted from salary reductions in February, and Ms. Iverson received an option grant in September 2009 to reflect the significantly increased duties she assumed after the departure of our Vice President Systems and the death of Dr. Case, our founder. We returned to normal practice in December 2010, basing grants primarily on competitive statistics and the position of the officer.

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.

We do not have employment agreements with our executives, although we have entered into severance pay agreements with Ms. Iverson, Mr. Bertelsen and Mr. Good. Ms. Iverson's severance pay agreement provides that, in the event of her involuntary termination of employment for any reason other than misconduct, we will pay her twelve months' base salary. Further, Ms. Iverson's agreement provides that, in the event her employment is terminated by CyberOptics without cause or by Ms. Iverson with good reason after a change of control, we will pay her twice her total annual compensation averaged over the three years preceding termination and accelerate the vesting of her restricted stock units and options. We also have a severance pay agreement with both Mr. Bertelsen and Mr. Good that provides that each will be paid one times his annual compensation averaged over the three years preceding termination, and the vesting of his restricted stock units and options will be accelerated, in the event his employment is terminated by CyberOptics without cause or by the executive with good reason after a change of control. For purposes of these agreements "cause" is defined as the willful misconduct, or failure to perform services, by the executive, and "good reason" is defined as the failure of the successor to assign the executive comparable responsibilities, a relocation by more than 50 miles, or a reduction in compensation. A "change of control" is defined as a public announcement that any person or persons acting in concert have acquired 40% of our voting stock, a change of control required to be reported under proxy rules, a change in a majority of our directors, other than by succession, shareholder approval of a merger, consolidation or sale of substantially all our assets, or a decision of our directors that a change of control has occurred.

Summary Compensation Table

The following table summarizes, for 2010 and 2009, the total compensation that we paid or accrued for those of our executive officers whose total compensation exceeded \$100,000 in 2010. The stock awards and option awards reflected in the table represent the grant date value of the awards in the year in which they are granted. No discretionary bonuses were paid in the years presented.

					Non-Equity Incentive Plan	All Other Compensation³	
	Year	Salary	Stock Awards¹	Option Awards¹	Compensation²	Compensation³	Total
Kathleen P. Iverson Chief Executive Officer, President & Chair	2010	\$ 277,500	\$ 24,196	\$ 61,951	\$ 113,714	\$ 7,875	\$ 485,236
	2009	257,755		29,450		7,875	295,080