

CYBEROPTICS CORP  
Form DEF 14A  
April 03, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**SCHEDULE 14A**

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

Filed by the Registrant  X

Filed by a Party other than the Registrant  O

Check the appropriate box:

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

**CyberOptics Corporation**

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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
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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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Fee paid previously with preliminary materials.

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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 15, 2006

To the Shareholders of  
CYBEROPTICS CORPORATION:

The Annual Meeting of Shareholders of CyberOptics Corporation will be held on Monday, May 15, 2006, 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:

1) To elect six directors;

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- 2) To consider an amendment to increase the number of shares of common stock reserved for issuance under the 1992 Employee Stock Purchase Plan by 100,000;
- 3) To consider an amendment to increase the number of shares of common stock reserved for issuance under the Stock Option Plan for Non-employee Directors by 75,000; 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 March 31, 2006, 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 5, 2006

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**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 15, 2006**

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 15, 2006. The annual meeting will be held on the 15<sup>th</sup> floor of the offices of Dorsey & Whitney 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 knows will be presented at the annual meeting are (i) the election of directors, (ii) consideration of an amendment to the 1992 Employee Stock Purchase Plan, and (iii) consideration of an amendment to the Stock Option Plan for Non-Employee Directors. **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 AMENDMENTS TO THE 1992 EMPLOYEE STOCK PURCHASE PLAN AND THE STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS.** If you return a

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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 1992 Employee Stock Purchase Plan described below, for the amendments to the Stock Option Plan for Non-Employee Directors, 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 31, 2006, to be entitled to receive notice of and to vote at the meeting. On March 31, 2006, we had 8,954,184 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, 2005, with this Proxy Statement. We are mailing this Proxy Statement and a form of proxy on or about April 5, 2006.

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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. Cimochoowski, 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, 2006:

Name and Age	Principal Occupation and Business Experience for Past Five Years	Director Since
Steven K. Case Age 57	Chairman of CyberOptics since September 1995 and Chairman and Chief Executive Officer of Avanti Optics Corporation from May 2000 until February 2003; President of CyberOptics from 1984 until February 1998; adjunct Professor of Electrical Engineering at the University of Minnesota since 1978 and member of University Industry Advisory Board.	January 1984
Kathleen P. Iverson Age 50	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. Cimochoowski + Age 66	President and owner of Four Peaks Technologies, Inc., a printing company, since November 1996; independent business consultant from September 1995 to November 1996; Chief Executive Officer of Delphax Systems from November 1988 to September 1995.	May 1984

February 1995

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Name and Age	Principal Occupation and Business Experience for Past Five Years	Director Since
Erwin A. Kelen + Age 70	President of Kelen Ventures since 1990; President of Datamyte Corporation, a subsidiary of Allen Bradley Co., from 1984 until 1990; Director of Printronix, Inc.	
Irene M. Qualters + Age 56	Vice President, Software Engineering, Ageia, since Oct. 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. + Age 53	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
<hr/> Member of Audit Committee Member of Compensation Committee + Member of Nominating Committee		

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

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

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

#### Our Board

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

Our Board has long strived to maintain sound corporate governance, consistent with the scope of our operations and the integrity of our personnel. Accordingly, attendance by our Board members at all meetings has been a continuing goal and we devote considerable effort to

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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, 2005, we had five regular meetings of the Board and each director attended 100% of the meetings. Our Board also acted by written consent one time during 2005. 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 five times during 2005.

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 16, 2005.

### **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 Conduct. The Audit Committee has sole authority to appoint, determine funding for, retain and oversee our independent auditors and to pre-approve all audit services and permissible non-audit services. It is our policy to present to the entire committee proposals for all audit services and permissible non-audit services prior to engagement.

Our Audit Committee currently consists of Mr. Cimochowski (Chair), Ms. Qualters and Mr. Selzer, each of whom is an independent director within the meaning of Section 301 of The Sarbanes Oxley Act of 2002 and Nasdaq listing standards applicable to audit committees. Our Board of Directors has identified Mr. Cimochowski and Mr. Selzer as audit committee financial experts within the definition established by the Securities and Exchange Commission. The Audit Committee held four meetings during 2005. All members of the Committee attended 100% of the meetings. The report of the Audit Committee is contained on page 14 of this proxy statement.

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*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. Cimochowski, each of whom is an independent director under Nasdaq listing standards. During 2005, the Compensation Committee held four meetings. All members of the Committee attended 100% of the meetings. The Compensation Committee also acted by written consent two times during 2005. The report of the Compensation Committee on executive compensation is contained on page 6 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 such meeting. The Nominating Committee currently consists of all of our independent directors, including Mr. Cimochowski, Mr. Kelen, Ms. Qualters and Mr. Selzer.

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 2006 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 2007 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 2007 meeting should contact the Board with specific information about the proposed nominee, including an appropriate resume, prior to December 7, 2006. 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

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processes, other than as described above, for nominations. For the 2006 annual meeting, our Nominating Committee concluded that members of our Board of Directors meet the criteria set forth above, and that, given the current scope of our operations, there is not currently a need for additional expertise on the Board that would justify the expense of additional directors.

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

Our Code of Conduct, which is posted on our website at [www.cyberoptics.com](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).

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

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

### **Executive Officers**

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

Jeffrey A. Bertelsen, 43, 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, 42, started as Vice President Marketing and Strategic Planning in December 2005. 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, 52. Mr. Proulx started as our Director, Systems Operations in September 2000 and was promoted to Vice President Operations in October 2001. Before joining CyberOptics, Mr. Proulx was Director, Materials of Cummins Power Generation America from August 1998 to January 1999 and prior to that Director, Manufacturing and Information Systems of Fisher-Rosemount Systems from October 1994 to 1999.

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## EXECUTIVE COMPENSATION

### Compensation Committee Report of the Board of Directors

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

The principal objective of our compensation policy is to increase shareholder value by providing an incentive to our officers and employees to maximize our performance. We have historically set the base salaries of our executives at slightly below industry averages, but provide substantial incentives in the form of bonuses and stock options for increased performance. The Compensation Committee reviews and resets base salary, annual incentive compensation and long-term equity incentives annually. For the year ended December 31, 2005, we made these decisions at a regularly scheduled compensation committee meeting in February 2005. We based the decisions on our compensation policy and on information regarding comparable companies from two sources.

**Salary.** Our Compensation Committee increased the salaries of three of our four executive officers by approximately 3% in 2005 over their salaries in 2004. This increase was consistent with the overall merit increases afforded all employees from 2004 to 2005 and was instituted, despite significantly improved performance in 2004 relative to 2003, based on a recommendation of the executives that they not be treated differently than employees. Dr. Case asked that his salary not be increased because of his substantial holdings of options, and because he believed that his salary increase should be tied to the success of a specific research project. We increased Ms. Iverson's salary from \$235,000 to \$242,000; approximately a 3% increase.

**Bonus.** We annually establish a bonus program for each fiscal year that pays bonuses to executives and all employees based on a matrix that is dependent on increases from the prior year in revenue and on the ratio of our net income before interest and taxes to our revenue. We assign target bonuses to executives that pay out as a multiple based on this matrix, with a multiple of one applying when revenue has increased by 25% and when the ratio of net income before interest and taxes to revenue is at least 16%. Although we have in the past also created individual performance milestones, to better foster a commonality of interest among all employees and executives we based all bonuses during the past several years on financial performance under the matrix. Ms. Iverson's targeted bonus was \$95,000 for the 2005 fiscal year. Because the Company's performance did not meet the threshold for payout under the matrix, no executives received bonuses with respect to fiscal 2005.

**Long-Term Incentive Options.** We have traditionally used stock options as our primary long-term incentive. Nevertheless, because of the pending impact on operating results caused by options that had not fully vested as of December 31, 2005 and the required implementation of SFAS 123(R) after that date, we have modified our policy with respect to both option grants to new employees, and additional option grants as an incentive to existing employees. Further, because of the level of options they held and because we had not assessed the full impact of existing options under SFAS 123(R), we did not grant across the board options to executives during 2005. Nevertheless, because of exceptional performance during the year ended December 31, 2004, because she had received no options since 2001 and the options she held were becoming fully vested, and because of the relatively low level of her fixed compensation, we granted options to purchase 30,000 shares of our common stock to Ms. Iverson in May 2005.

The Compensation Committee believes that the compensation program for executive officers during the year 2005 achieved the principal objectives for which it was designed.



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

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### Summary Compensation Table

The cash and non-cash compensation that we have paid for the last three fiscal years, or that was earned by, our Chief Executive Officer and each of our other executive officers who received annual cash compensation in excess of \$100,000 is detailed in the following table:

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation (1)
		Salary	Bonus	Other Annual Comp.	Awards	Payouts	
					Restricted Stock Awards	Securities Underlying Options(#) LTIP Payouts	
Kathleen P. Iverson Chief Executive Officer, President & Director	2005	\$ 237,962				30,000	\$ 10,220
	2004	224,904	\$ 184,500				7,220
	2003	219,375	18,000				6,720
Steven K. Case (2) Chairman	2005	240,000					3,938
	2004	235,385	154,050				2,552
	2003	222,231	19,500			50,000	2,222
Scott Larson (3) Vice President Finance and CFO	2005	124,745	3,000				5,677
	2004	143,116	61,500				4,564
	2003	132,115	9,000			15,000	3,963
Michael Proulx Vice President Operations	2005	134,115					6,487
	2004	128,700	57,400				4,625
	2003	118,892	6,000			10,000	4,308

(1) Includes company contributions to a 401K plan, and \$720 paid to each of Ms. Iverson and Mr. Proulx in 2003, 2004 and 2005 for non-participation in our health plan. Includes a car allowance of \$3,200 for Ms. Iverson in 2005.

(2) Dr. Case worked half time for us until February 2003 when he returned as a full-time employee.

(3) Mr. Larson resigned as Chief Financial Officer on July 26, 2005.

### Long-Term Incentive Plan Awards/Employment Agreements

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

#### Stock Options

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We maintain a 1998 Stock Incentive Plan, Restated Stock Option Plan, and a Stock Option Plan for Nonemployee Directors. Our Compensation Committee may grant stock options to our executive officers, other employees and consultants under the 1998 Stock Incentive Plan. The following table sets forth information with respect to options granted during 2005 to the executive officers name in the summary compensation table:

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**Option Grants in 2005**

Name	Options Granted (#)	% of Total Options Granted to Employees in 2005	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1)	
					5% (\$)	10% (\$)
Ms. Iverson	30,000 (2)	28%	\$11.42	5/16/2012	\$139,473	\$325,030
Dr. Case						
Mr. Larson						
Mr. Proulx						

(1) Represents the realizable value from the date of grant until termination, without discounting to present value, assuming appreciation in the market value of the common stock from the market price on the date of grant at the rates indicated. Actual gains, if any, on stock option exercises are dependent on the future performance of the Common Stock, and overall stock market conditions. The amounts reflected in this table may not be achieved.

(2) Options vest 25% per year commencing one year after grant and expire seven years after the date of grant.

The following table sets forth information with respect to options exercised by the executive officers named in the summary compensation table during 2005:

**Aggregated Option Exercises in 2005 and Option Values as of December 31, 2005**

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2005 (1)		Value of Unexercised In-the-Money Options at December 31, 2005 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ms. Iverson	5,250	\$ 39,008	68,500	51,250	\$ 237,630	\$ 162,250
Dr. Case			89,250	43,750	306,022	219,688
Mr. Larson	3,750	16,415	17,250		37,415	
Mr. Proulx			12,050	6,750	30,694	20,498

(1) All of such options are exercisable at a price equal to the fair market value of the Common Stock as reported on the Nasdaq National Market ( Nasdaq ) on the date of grant.

(2)

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Represents the difference between the closing price of the Common Stock as reported on Nasdaq on December 31, 2005, and the exercise price of the options.

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### Equity Compensation Plan Information

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

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding those reflected in column (a))
<b>Equity compensation plans approved by security holders</b>			
Restated Stock Option Plan	278,825	\$11.67	
1998 Stock Incentive Plan	403,651	11.78	450,921 (1)
Stock Option Plan for Nonemployee Directors	147,500	13.26	9,300
Employee Stock Purchase Plan	N/A	N/A	99,574 (2)
<b>Equity compensation plans not approved by security holders</b>			
Options issued to executives and certain other employees upon initial employment (3)	71,200	\$11.50	
<b>Total</b>	<b>901,176</b>	<b>\$11.96</b>	<b>559,795</b>

(1) In addition to options, shares may be issued in restricted stock awards, performance awards and other stock-based awards.

(2) Shares are issued based on employees' elections to participate in the plan.

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

**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, 2005. Based upon information provided by officers and directors, all our officers, directors and 10% shareholders otherwise filed all reports on a timely basis in the 2005 fiscal year.

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**BENEFICIAL OWNERSHIP**

The following table provides information at February 28, 2006 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 named in the summary compensation table, and by all our officers and directors as a group:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
LeRoy C. Kopp Kopp Investment Advisors, LLC and Kopp Holding Company Kopp Holding Company, LLC 7701 France Avenue South, Suite 500 Edina, MN 55435 (2)	618,000	6.9%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202 (3)	883,887	9.9%
Kern Capital Management LLC 114 West 47th Street, Suite 1926, New York, NY 10036 (4)	479,300	5.4%
Goldman Sachs Asset Management, L.P. 32 Old Slip New York, NY 10005 (5)	581,685	