

CYBEROPTICS CORPORATION

5900 Golden Hills Drive
Minneapolis, MN 55416

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on May 11, 2017

To the Shareholders of CYBEROPTICS CORPORATION:

The Annual Meeting of Shareholders of CyberOptics Corporation will be held on Thursday, May 11, 2017, 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 2018;
2. To approve amendments to the CyberOptics Corporation Non-Employee Director Stock plan;
3. To approve, on a nonbinding advisory basis, the compensation to our executive officers described in the Proxy Statement;
4. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm; and
5. 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, 2017 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 www.proxypush.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



Jeffrey A. Bertelsen
Secretary

Minneapolis, Minnesota
April 7, 2017

Important notice

regarding the availability of proxy materials for the shareholder meeting to be held on May 11, 2017.

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 11, 2017

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 Thursday, May 11, 2017. The annual meeting will be held on the 15th 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 the (i) election of five directors to serve until the annual meeting in 2017, (ii) approval of amendments to our Non-Employee Director Stock Plan, (iii) approval, on a nonbinding advisory basis, of the compensation of our executive officers described in this Proxy Statement, and (iv) 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 approval of the proposed amendments to our Non-Employee Director Stock Plan, in favor of the executive compensation described in this Proxy Statement, 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 your shares on the additional matter in accordance with their judgment.

VOTING RIGHTS AND PROCEDURES

If you return a proxy card, we will vote your shares in the manner that you have directed in the 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 approval of the amendments to our Non-Employee Director Stock Plan, for approval of the executive compensation described in this Proxy Statement, and for the ratification of appointment of Grant Thornton LLP as our independent registered public accounting firm, and in the manner the proxies decide on any other matter properly brought before the meeting. If you “withhold vote for” one or more directors or “abstain from” the vote on the amendments to our Non-Employee Director Stock Plan, executive compensation as described in this Proxy Statement or the ratification of our independent registered public accounting firm, 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 item for which you have withheld your vote for or 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 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, 2017, to receive notice of and to vote at the meeting. On March 31, 2017, we had 6,943,137 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, 2016. We are mailing this Proxy Statement and proxy card on or about April 7, 2017.

PROPOSAL 1—ELECTION OF DIRECTORS

Our Nominating Committee has nominated five persons for election at the Annual Meeting: Alex B. Cimochoowski, Craig D. Gates, Subodh Kulkarni, Irene M. Qualters and Michael M. Selzer, Jr. Each nominee is currently a director of the Company, and has served as a director for the periods indicated below. The following information is furnished with respect to each nominee as of February 15, 2017:

Alex B. Cimochoowski, age 77, has been a director of CyberOptics since its formation in 1984. Mr. Cimochoowski, received a B.S. in Engineering Physics from Penn State University and a M.S. 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, 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.

Craig D. Gates, age 58, has been a director of the Company since February 2012. Mr. Gates has been a director since July 2009 and President and Chief Executive Officer since April 2009 of Key Tronic Corporation, a publicly held electronic manufacturing services company. He was Executive Vice President of Marketing, Engineering and Sales of Key Tronic from July 1997 to April 2009; Vice President and General Manager of New Business Development of Key Tronic from October 1995 to July 1997; and Vice President of Engineering of Key Tronic from October 1994 to October 1995. From 1982 to October 1994, Mr. Gates held various engineering and management positions with the Microswitch Division of Honeywell Inc., lastly as Director of Operations, Electronics. Mr. Gates has a B.S. in Mechanical Engineering and a M.B.A from the University of Illinois, Urbana. Mr. Gates brings to our Board considerable experience as the chief executive officer of a growing public company in an electronics market served by the Company, as well as valuable technical and management experience in engineering and development.

Subodh Kulkarni, age 52, has been a director of CyberOptics since 2009, has been our President and Chief Executive Officer since February 2014, was our Executive Chairman from September 2013 to February 2014 and was lead director from December 2012 until election as Executive Chairman. He was Chief Executive Officer from January 2013 to February 2014 of Prism Computational Sciences, a developer of software tools for scientific and commercial applications in simulation of hot gases and plasma used in many applications, including the semiconductor industry. He was Chief Technology Officer and Senior Vice President, OEM/Emerging Business, of Imation Corporation from 2009 until 2012; 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 Ph.D 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 67, has been a director of CyberOptics since 1999. Since December 2009, she has been employed at the National Science Foundation where she is currently Director, Office of Advanced Cyberinfrastructure. 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 a B.A. from Duquesne University, and a M.S. in computer science from the University of Detroit. Ms. Qualters has significant technical and senior management experience in both start-up and public companies. She brings particular expertise regarding the computer industry, where she engaged in both software and semiconductor development.

Michael M. Selzer, Jr., age 64, has been a director of CyberOptics since 1999 and Chairman of the Board since February 2014. Mr. Selzer was the President of the South Dakota School of Mines and Technology Foundation from 2011 until his retirement in 2015. From 2009 until 2011, he served as a consultant to medical products companies. 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 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 M.B.A 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, proxies may be voted for another candidate in accordance with the best judgment of the persons named in the proxy form. 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. Proxies solicited by the Board of Directors will, unless otherwise directed, be voted in favor of the five nominees. 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 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. Cimoichowski, Mr. Gates, 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 Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 and Rule 5605(c)(2)(A) 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.

The only business relationship between CyberOptics and our directors and their affiliates that was considered by the Board when assessing the independence of our non-employee directors is the relationship between CyberOptics and Key Tronic Corporation, a company for which Mr. Gates serves as President, Chief Executive Officer and a director. The Board determined that this relationship, which is described later in this Proxy Statement under the heading “Related Person Transactions,” did not impair Mr. Gates’ independence because the transactions between the Company and Key Tronic are immaterial to the gross revenues of CyberOptics, and the relationship between the companies’ had no unique characteristics that would interfere with Mr. Gates’ exercise of independent judgment in carrying out his responsibilities as a director of the Company.

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, 2016, we had four meetings of the Board, and the Board acted once by unanimous written action. Each director attended all of the meetings of the Board and the committees on which such director served.

We require that all Board members use their best efforts to attend our annual shareholder meeting. All of our directors attended the annual meeting of shareholders held on May 20, 2016.

Our Chairman. Since September 2013, we have separated the roles of Chief Executive Officer and Chairman of the Board. Dr. Kulkarni served as Executive Chairman until he assumed the role of Chief Executive Officer at the end of January 2014, and Michael M. Selzer, Jr., an independent Board member, currently serves as our Chairman of the Board.

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. The Audit Committee considers and acts on transactions that may involve a conflict of interest between the Company and the members of the Board, our management and employees and members of their immediate family. The Audit Committee also administers our Code of Ethics.

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 our compensation policies are not likely to encourage risks that would have a material adverse effect on the Company. The Compensation Committee’s conclusion is based, in part, on the size and time-based vesting of awards under our 1998 Stock Incentive Plan, as amended, as well as the multiple Company performance criteria required for pay-out of incentive compensation to our executives under our annual management cash incentive plan.

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

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.

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 accounting firm 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 the Company 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 directly to the Audit 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 Company, 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 Audit Committee proposals from our independent registered public accounting firm for all audit services and permissible non-audit services prior to engagement.

Our Audit Committee consists of Mr. Cimochoowski (Chair), Mr. Gates and Ms. Qualters. Each of Mr. Cimochoowski, Mr. Gates and Ms. Qualters is an “independent director” within the meaning of Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 and Nasdaq listing standards applicable to audit committees. Our Board of Directors has identified Mr. Cimochoowski as an “audit committee financial expert” within the definition established by the Securities and Exchange Commission. The Audit Committee held six meetings during 2016. All members of the Committee attended each of these meetings. The report of the Audit Committee is contained later in this Proxy Statement under the heading “Report of the Audit Committee of the Board of Directors.”

Compensation Committee. Our Compensation Committee establishes the compensation of our executive officers, including our Chief Executive Officer, administers our stock-based incentive plans, including our 1998 Stock Incentive Plan, as amended, and our Employee Stock Purchase Plan, and makes recommendations to our Board regarding director compensation. The Compensation Committee currently consists of Ms. Qualters (Chair), Mr. Selzer and Mr. Cimochoowski, each of whom is an independent director under Nasdaq listing standards, including the listing standards applicable to compensation committee independence. During 2016, the Compensation Committee held two meetings. All members of the Compensation Committee attended both 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 our annual meeting of shareholders, and monitors our corporate governance policies. The Nominating Committee currently consists of all of our independent directors, including Mr. Selzer (Chair), Mr. Cimochoowski, Mr. Gates and Ms. Qualters. During 2016, the Nominating and Corporate Governance Committee held one meeting. All members of the Committee attended the meeting.

We require that each nominee for director be an individual of the highest character and integrity, have substantial experience that is of particular relevance to the Company, have sufficient time available to devote to our affairs, and represent the best interests of all our stakeholders, including our shareholders. Because of the business in which the Company operates, a background in marketing, sales, finance or technology is favored. 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. Although the Nominating and Corporate Governance Committee considers the diversity of Board members, including diversity of experience, gender and ethnicity, when considering candidates, 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 normally includes characteristics that Board members believe may be partially absent among the current board. 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 Nominating and Corporate Governance Committee. If the Nominating and Corporate Governance Committee believes that it is advisable to proceed with a candidate, the candidate is interviewed by several members of the Nominating and Corporate Governance Committee and the Chairman of the Board, and the impressions generated from these interviews are circulated to all members of the Nominating and Corporate Governance Committee and discussed at a meeting of the Committee. If the impressions are favorable and the Nominating and Corporate Governance Committee so determines, the candidate is asked to stand for election.

All of the nominees for the 2017 annual meeting are currently directors and are being re-nominated for election as directors. Although most candidates have originated from recommendations of officers, Board members, or professional advisors, the Nominating and Corporate Governance Committee will consider suggestions from other stakeholders, including shareholders, for nominees for director. A candidate suggested by a shareholder would be considered using the same process as a candidate suggested by an officer, Board member or advisor. 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 election to the Board of Directors should contact the Board with specific information about the proposed nominee, including an appropriate resume. 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 2017 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 regarding issues related to our Code of Business Conduct and Ethics by mail to the attention of:

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

You may also send communications by e-mail to www.board@cyberoptics.com. Our Ethics Officer will review all communications received regarding issues related to our Code of Business Conduct and Ethics 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 Independent Directors

None of Mr. Cimochoowski, Mr. Gates, 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. For 2016, we paid our independent directors an annual retainer of \$30,000, payable in four equal quarterly installments. Our independent director serving as Chairman of the Board received an additional annual retainer of \$5,000, also payable quarterly. For 2017, there are no changes planned with respect to the cash compensation paid to our non-employee directors, including our Chairman of the Board. Currently, under our Non-Employee Director Stock Plan, each non-employee director of the Company is automatically granted on the date of each annual meeting of shareholders at which such director is elected to serve on the Board of Directors (a) a stock option to purchase 4,000 shares of Common Stock and (b) 2,000 shares of Common Stock that are not subject to vesting restrictions. If the proposed amendments to the Non-Employee Director Stock Plan are approved at our 2017 Annual Meeting of Shareholders, the annual grant of stock options to our non-employee directors would be eliminated and the annual award of shares of Common Stock to our non-employee directors would be subject to certain vesting restrictions. See “Proposal 2—Approval of Amendments to Non-Employee Director Stock Plan.”

During 2016, we provided the following compensation to directors who were not also employees:

Director Compensation

Name	Fees Earned or Paid in Cash	Stock Awards ¹	Option Awards ²	Total
Alex B. Cimochoowski	\$30,000	\$33,940	\$34,850	\$98,790
Craig D. Gates	\$30,000	\$33,940	\$34,850	\$98,790
Irene M. Qualters	\$30,000	\$33,940	\$34,850	\$98,790
Michael M. Selzer, Jr.	\$35,000	\$33,940	\$34,850	\$103,790

¹ Stock awards represent the expense recorded in 2016 for 2,000 shares of Common Stock granted to each reelected director based on the \$16.97 closing price on the date of our 2016 annual meeting.

² Option awards represents the expense recorded in 2016 for an option to acquire 4,000 shares of Common Stock granted to each reelected director as determined using the Black-Scholes valuation model. Each option granted was immediately exercisable and had an exercise price equal to \$16.97, the closing price of our common stock on the date of our 2016 Annual Meeting of Shareholders. Options to purchase 4,000 shares for Mr. Cimochoowski, 4,000 shares for Mr. Gates, 8,500 shares for Ms. Qualters and 8,500 shares for Mr. Selzer were outstanding at December 31, 2016.

RELATED PERSON TRANSACTIONS

During the year ended December 31, 2016, the Company sold surface mount technology inspection equipment to Key Tronic Corporation, of which Mr. Gates is President, Chief Executive Officer and a director. The Company's sales to Key Tronic totaled \$556,000 in 2016. These transactions were conducted at arm's length in the ordinary course of business of CyberOptics and Key Tronic, and the terms of sale were no more favorable to Key Tronic than sales to unaffiliated parties by CyberOptics. As discussed above, under the heading "Information About Our Board of Directors and Its Committees, and Other Corporate Governance Matters—Our Board and Board Leadership—Compensation and Independence," our Board of Directors has determined that the relationship between CyberOptics and Key Tronic is immaterial to the gross revenues of CyberOptics, and that Mr. Gates is an independent director.

PROPOSAL 2—APPROVAL OF AMENDMENTS TO NON-EMPLOYEE DIRECTOR STOCK PLAN

Proposed Amendments

On February 24, 2017, our Board of Directors informally approved certain amendments (the “Plan Amendments”) to our Non-Employee Director Stock Plan (the “Plan”) that would eliminate the annual grant of options to acquire shares of the Company’s Common Stock to non-employee directors and subject the annual award of shares of Common Stock to non-employee directors to vesting restrictions. Effective March 27, 2017, the directors formally approved, subject to shareholder approval, the Plan Amendments pursuant to a unanimous written action.

The purpose of the Non-Employee Director Plan is to promote the interests of CyberOptics by enhancing its ability to attract and retain the services of non-employee directors without cash outlay and by encouraging the accumulation of shares of the Company’s Common Stock in order to align the interests of our non-employee directors with the Company’s shareholders and incentivize our directors to put forth maximum efforts for the success of the Company’s business.

Currently, under the Plan, each non-employee director of the Company is automatically granted, on the date of each annual meeting of shareholders at which such director is elected to serve on the Board of Directors, (a) a stock option to purchase 4,000 shares of Common Stock and (b) 2,000 shares of Common Stock that are not subject to vesting restrictions. If the Plan Amendments are approved by our shareholders, the stock option award provided for in the Plan will be eliminated. In addition, the 2,000 shares of Common Stock annually granted to each non-employee director will be subject to certain vesting restrictions. The 2,000 shares of Common Stock would vest in four increments of 500 shares on each of the dates three months, six months, nine months and 12 months after the grant date (or, in the case of the fourth vesting date, through the date of the annual meeting of shareholders held approximately one year after the date on which the shares were granted) so long as the non-employee director who received the Common Stock grant remains a director on such vesting date.

Our Board of Directors adopted the Plan Amendments upon the recommendation of our Compensation Committee. Prior to making its recommendation, the Compensation Committee reviewed the amount of equity-based compensation provided to our non-employee directors in relation to the equity-based compensation received by non-employee directors of comparable companies. Based on this review, the Compensation Committee determined that, due in large part to the significant recent increase in the trading price of our Common Stock, the equity-based compensation currently provided under the Plan has resulted in stock compensation for our non-employee directors that is generally substantially greater than the equity compensation provided to non-employee directors by comparable companies. **The Plan Amendments would substantially reduce the value of equity awards received annually by our non-employee directors, and would also significantly decrease the Company’s annual stock compensation expense.**

Summary of Non-Employee Director Plan As Amended

Under the Plan, 100,000 shares of Common Stock have been authorized for issuance pursuant to the Plan. If there is any change in the Common Stock through merger, consolidation, reorganization, recapitalization, stock dividend, stock split or other change in corporate structure, appropriate adjustments in the number of shares of Common Stock to be issued under the Plan will be made.

The Plan originally became effective on May 20, 2016, the date of approval of the Plan by our shareholders at the 2016 Annual Meeting of Shareholders, and will terminate on the 10th anniversary of the date of the 2016 annual meeting. The Plan may be terminated by the Board of Directors at any time, but the Plan may not be amended without shareholder approval.

Under the Plan as amended, each non-employee director of the Company automatically will be granted 2,000 shares of Common Stock on the date of each annual meeting of shareholders at which such director is elected to serve on the Board of Directors (beginning with the 2017 Annual Meeting of Shareholders). The shares granted will be subject to vesting restrictions. The 2,000 shares of Common Stock will vest in four increments of 500 shares

on each of the dates three months, six months, nine months and 12 months after the grant date (or, in the case of the fourth vesting date, through the date of the annual meeting of shareholders held approximately one year after the date on which the shares were granted) so long as the non-employee director who received the Common Stock grant remains a director on such vesting date. However, if a non-employee director ceases to be a member of our Board of Directors due to his or her disability or death prior to the vesting of all shares of Common Stock subject to each annual award, any unvested shares will automatically become fully vested on the date such non-employee director's membership on the Board is terminated. The shares a non-employee director receives will not be assignable or transferable until the shares are vested, other than by will or the laws of descent and distribution. If the proposed Plan Amendments are not approved by shareholders at our 2017 Annual Meeting of Shareholders, our non-employee directors will continue to receive automatic annual grants of (a) a stock option to purchase 4,000 shares of Common Stock and (b) 2,000 shares of Common Stock that are not subject to vesting restrictions on the date of each annual meeting at which the non-employee directors are elected.

If the Plan Amendments are approved at the 2017 Annual Meeting of Shareholders, each of Mr. Cimoichowski, Ms. Qualters, Mr. Selzer and Mr. Gates will receive 2,000 shares of our Common Stock that will be subject to the vesting restrictions described above.

Federal Income Tax Consequences

The grant of shares of our Common Stock subject to vesting restrictions to our non-employee directors generally will not result in any taxable income to the directors on the date of grant. When a portion of the Common Stock vests and shares of Common Stock are delivered to the non-employee director, the director will be required to recognize ordinary income in an amount equal to the fair market value on the vesting date of any shares of Common Stock received, and CyberOptics will be entitled to a tax deduction in a corresponding amount.

The preceding discussion is based on U.S. federal tax laws and regulations presently in effect, which are subject to change, and the discussion does not purport to be a complete description of the U.S. federal income tax aspects of the Plan or the shares of Common Stock that may be granted under the Plan. A non-employee director may also be subject to state and local taxes in connection with the grant of shares of Common Stock under the Plan.

The affirmative vote of the holders of a majority of the shares of Common Stock represented and entitled to vote at the meeting is required to approve the Plan Amendments. Proxies solicited by the Board of Directors will, unless otherwise directed, be voted in favor of the Plan Amendments. Our Board recommends a vote FOR the amendments to our Non-Employee Director Plan as described above.

EXECUTIVE COMPENSATION

Executive Officers

We describe in this section the executive compensation paid to our two current executive officers, Dr. Kulkarni and Jeffrey A. Bertelsen.

Subodh Kulkarni, our President and Chief Executive Officer, serves on our Board of Directors and his background is described above under the heading "Proposal 1—Election of Directors."

Jeffrey A. Bertelsen, 54, joined CyberOptics as Vice President—Finance and Chief Financial Officer in 2005. On February 21, 2014, Mr. Bertelsen was appointed Chief Operating Officer, and also retained his positions as Vice President—Finance and Chief Financial Officer. Mr. Bertelsen also was appointed Secretary in February 2016. 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 10 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.

Compensation

We provide three principal forms of compensation to our executive officers: (1) an annual cash salary; (2) an annual cash incentive plan under which bonuses are paid if certain financial performance goals are achieved; and (3) long-term equity-based compensation in the form of stock options and restricted stock units. Our Compensation Committee, consisting solely of independent directors, determines the compensation of our executive officers. We have not historically employed a compensation consultant and did not use a consultant in setting executive compensation for 2015 or 2016. Although our President and Chief Executive Officer participates in formulating compensation for other employees, the Compensation Committee approves all executive officer compensation, and, in the case of the President and Chief Executive Officer, approves Dr. Kulkarni's compensation without his participation.

Salaries. For 2016, we increased Dr. Kulkarni's salary by 3.9% to \$343,000 to better align his base compensation with chief executive officers of public companies having annual revenues under \$50 million. Mr. Bertelsen's salary for 2016 was increased by 2.9% to \$228,500.

Annual Incentive Compensation. Our Compensation Committee established an annual cash incentive plan for fiscal 2016, which was finalized in February 2016. The cash incentive plan for 2016 provided for incentive pay based on the achievement of financial targets, including revenue, operating earnings and cash balances. The 2016 Plan provided that Dr. Kulkarni could earn up to 49.6% of his salary (\$170,000) if the Company's performance was at the target level, and Mr. Bertelsen could earn up to 32.8% of his salary (\$75,000) if the Company's performance was at the target level. The following table sets forth the payout, as a percentage of salary, at threshold performance, target performance and maximum performance levels with respect to financial goals that were established in February in 2016 and that were actually achieved for 2016:

	Financial Goals			
	Threshold¹	Target²	Maximum³	Pay-out
Dr. Kulkarni⁴				
Revenue	3.5%	17.4%	34.7%	34.7%
Operating Profit	3.5%	17.4%	34.7%	34.7%
Cash Balance	2.9%	14.8%	29.8%	29.8%
	<u>9.9%</u>	<u>49.6%</u>	<u>99.2%</u>	<u>99.2%</u>
Mr. Bertelsen⁴				
Revenue	2.3%	11.5%	23.0%	23.0%
Operating Profit	2.3%	11.5%	23.0%	23.0%
Cash Balance	2.0%	9.8%	19.6%	19.6%
	<u>6.6%</u>	<u>32.8%</u>	<u>65.6%</u>	<u>65.6%</u>

¹ Threshold was set at revenue of \$46.3 million, an operating profit of \$0.1 million and cash of \$16.2 million.

² Target was set at revenue of \$51.3 million, an operating profit of \$2.2 million and cash of \$19.4 million.

³ Maximum was set at revenue of \$56.3 million, an operating profit of \$4.3 million and cash of \$22.6 million.

⁴ The maximum payable for Dr. Kulkarni was 99.2% of salary, and for Mr. Bertelsen was 65.6% of salary.

Both Dr. Kulkarni and Mr. Bertelsen earned the maximum possible bonus under our executive incentive compensation plan for 2016 because actual financial performance exceeded the maximum threshold level for each of the metrics set forth above.

Long-Term Equity Incentive. We typically grant stock options and restricted stock units to management employees as long-term compensation in December of each year, with both stock options and restricted stock units vesting over a four-year period from date of grant, and options having a seven-year term. Consistent with our standard policy, we granted stock options and restricted stock units to Dr. Kulkarni and Mr. Bertelsen in December 2016 at the same time we granted equity incentives to other management employees.

Other Benefits. We do not maintain a pension plan and do not provide our executives with non-qualified deferred compensation. We have historically matched employee contributions to our 401(k) plan in an amount equal to 50%, up to contributions by each employee not exceeding 6% of his or her annual compensation. The 401(k) plan benefits received by our executive officers are the same as those offered to all employees participating in the plan.

Employment and Severance Agreements. We have an employment agreement with Dr. Kulkarni and a severance pay agreement with Mr. Bertelsen. Dr. Kulkarni's employment agreement provides for participation in our annual cash incentive compensation plan at 50% of salary if target performance is achieved, for severance of one times salary if his employment is terminated prior to a change of control without cause, and for severance pay equal to twice his salary if his employment is terminated within one year after a change of control by the Company without cause or by Dr. Kulkarni for good reason. Dr. Kulkarni has agreed in the employment agreement to assign to the Company any intellectual property he develops while an employee of the Company and to refrain from competing with us, or from soliciting our employees, for a period of one year after his employment terminates.

Under our severance pay agreement with Mr. Bertelsen, the Company would be obligated to pay him one times his annual compensation averaged over the three-year period preceding his termination of employment, and accelerate the vesting of the restricted stock units and stock options he holds, if we terminate his employment without cause or he terminates his employment with good reason within two years 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 Company to assign the executive responsibilities comparable to his existing responsibilities, a relocation of the Company's offices 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 Common 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 2016 and 2015, the total compensation that we paid or accrued for our executive officers. The value of the stock awards and option awards reflected in the table represent the grant date value of the awards. No discretionary bonuses were paid in the years presented.

	<u>Year</u>	<u>Salary</u>	<u>Stock Awards¹</u>	<u>Option Awards¹</u>	<u>Non-Equity Incentive Compensation²</u>	<u>All Other Compensation³</u>	<u>Total</u>
Subodh Kulkarni President and Chief Executive Officer	2016	\$ 343,000	\$ 79,200	\$ 135,847	\$ 340,000	\$ 7,950	\$ 905,997
	2015	330,000	62,825	150,700	–	7,950	551,475
Jeffrey A. Bertelsen Vice President, Chief Financial Officer, Chief Operating Officer and Secretary	2016	228,500	39,600	62,263	150,000	6,852	487,215
	2015	222,000	32,310	71,240	–	7,950	333,500

¹ Represents the grant date fair market value as determined using the Black-Scholes valuation model for stock options, and the market value of our Common Stock for restricted stock units. See Note 6 to our consolidated financial statements included as Item 8 to our Annual Report on Form 10-K for a description of the calculation of grant date fair market value.

² Payment based on Company performance under our annual cash incentive plan for 2016. See "Executive Compensation-Compensation-Annual Incentive Compensation."

³ Consists of contributions by the Company to our 401(k) plan.

Outstanding Equity Awards at Fiscal Year-End

The following table lists the options and restricted stock units held by Dr. Kulkarni and Mr. Bertelsen at December 31, 2016. All of the options become exercisable, to the extent not already vested, in annual increments of one-quarter of the number of shares subject to the options on the first four anniversaries of the date of grant and 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 ¹ (\$)
Dr. Kulkarni	40,000	40,000 ²	6.97	1/14/21		
	19,375	19,375 ³	9.62	12/5/21		
	13,750	41,250 ⁴	7.18	12/11/22		
	–	12,000 ⁷	26.40	12/9/23		
					10,000 ²	261,000
					3,125 ³	81,563
					6,562 ⁴	171,268
					3,000 ⁷	78,300
Mr. Bertelsen	10,000		8.71	12/10/17		
	23,333		7.30	1/6/19		
	16,667		7.48	12/14/19		
	12,563	4,187 ⁵	5.39	12/6/20		
	5,000	5,000 ⁶	7.70	2/21/21		
	9,250	9,250 ³	9.62	12/5/21		
	6,500	19,500 ⁴	7.18	12/11/22		
	–	5,500 ⁷	26.40	12/9/23		
					687 ⁵	17,931
					1,600 ³	41,760
					3,375 ⁴	88,088
					1,500 ⁷	39,150

¹ Based on the closing price of our Common Stock on December 31, 2016 of \$26.10 per share.

² Vests with respect to 50% of such shares on January 14, 2017 and 2018.

³ Vests with respect to 50% of such shares on December 5, 2017 and 2018.

⁴ Vests with respect to 33% of such shares on December 11, 2017, 2018 and 2019.

⁵ Vests on December 6, 2017.

⁶ Vests with respect to 50% of such shares on February 21, 2017 and 2018.

⁷ Vests with respect to 25% of such shares on December 9, 2017, 2018, 2019 and 2020.

Equity Compensation Plan Information

The following table summarizes information regarding our equity compensation plans as of December 31, 2016:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted- average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding those reflected in column (a))
Equity compensation plans approved by security holders			
1998 Stock Incentive Plan, as Amended and Restated ¹	568,174	\$ 8.37	427,739
Stock Option Plan for Non-Employee Directors	9,000	12.89	–
Non-Employee Director Stock Plan	16,000	16.97	76,000
Employee Stock Purchase Plan ²	N/A	N/A	59,276
Total	593,174	\$ 8.67	563,015

¹ In addition to stock options, shares may be issued pursuant to stock appreciation rights, restricted stock and restricted stock unit awards, performance awards and dividend equivalents.

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

PROPOSAL 3—ADVISORY APPROVAL OF EXECUTIVE COMPENSATION

As described in more detail under the heading “Executive Compensation” in this Proxy Statement, the compensation we pay our executive officers generally reflects our results of operations. Our Board selects salary levels for executives adequate to compensate them relative to executives of our peer group companies, annually creates a cash incentive program for all management employees that is based primarily upon our revenue, operating profit and cash balances, and provides long-term equity-based awards designed to align executive officer compensation with our long-term strategic operating and financial goals. Our Board believes these compensation policies achieve the objective of aligning compensation with Company performance and the interests of our shareholders. Consistent with requirements of the federal securities law, we are asking our shareholders, on an advisory basis, to approve the compensation of our executive officers by adopting the following resolution:

RESOLVED, that the shareholders approve the compensation of our executive officers as described in the Summary Compensation Table, the other executive compensation tables and the related disclosure contained in the Proxy Statement dated April 7, 2017.

Our Board of Directors recommends a vote “FOR” this resolution. The affirmative vote of the holders of the shares of Common Stock present and entitled to vote at the meeting on this item of business is required for approval of this proposal. Proxies solicited by the Board of Directors, unless otherwise directed, will be voted in favor of this proposal. Your vote is advisory and will not be binding upon our Compensation Committee. However, the Compensation Committee will take into account the outcome of the vote when considering future compensation arrangements.

BENEFICIAL OWNERSHIP

The following table provides information at February 28, 2017 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 executive officers and directors as a group:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership¹</u>	<u>Percent of Class</u>
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, Texas 78746 ²	560,023	8.1%
Renaissance Technologies LLC and Renaissance Holdings Corporation, 800 Third Avenue New York, New York 10022 ³	461,100	6.7%
Jeffrey A. Bertelsen	146,891	2.1%
Alex B. Cimochoowski ⁴	23,015	*
Craig D. Gates	10,000	*
Subodh Kulkarni	121,553	1.7%
Irene M. Qualters	20,294	*
Michael M. Selzer, Jr.	22,275	*
All executive officers and directors as a group (6 persons)	344,028	4.8%

*Less than 1%

¹ Includes 85,813 shares for Mr. Bertelsen, 4,000 shares for Mr. Cimochoowski, 4,000 shares for Mr. Gates, 8,500 shares for Ms. Qualters, 8,500 shares for Mr. Selzer, 93,125 shares for Dr. Kulkarni and 203,938 shares for all officers and directors as a group, purchasable upon exercise of options exercisable within 60 days of February 28, 2017.

² Based on an amendment to a Schedule 13G filed on February 9, 2017. Represents shares held by investment companies over which Dimensional Fund Advisors has sole power of disposition, and includes 551,553 shares over which it has sole voting power. Dimensional Fund Advisors disclaims beneficial ownership of such shares.

³ Based on a Schedule 13G filed on February 14, 2017. Represents shares held by Renaissance Technologies LLC and Renaissance Holding Corporation, and includes 442,068 shares over which Renaissance Technologies LLC has sole voting power.

⁴ Includes 4,500 shares held by a spouse or in trust for children.

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 (the "SEC"). 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, 2016. Based upon information provided by officers and directors, all of our officers and directors filed all reports on a timely basis in the 2016 fiscal year. Based on Schedule 13G reports filed by our shareholders, we do not have any 10% shareholders.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of the Board of Directors is comprised of three independent directors and operates under a written charter, which can be viewed on our website located at www.cyberoptics.com. Management is responsible for our consolidated financial statements and financial reporting process, including designing and maintaining an effective system of internal control over financial reporting. Grant Thornton LLP, our independent registered public accounting firm (“Grant Thornton”), is responsible for performing an independent audit of our consolidated financial statements and expressing opinions as to their conformity with accounting standards generally accepted in the United States (“GAAP”) and on management’s assessment of the effectiveness of our internal control over financial reporting. In addition, Grant Thornton has expressed its own opinion on the effectiveness of our internal control over financial reporting. The Audit Committee’s responsibility is to monitor and oversee these processes.

In this context, the Audit Committee has met and held discussions with management and Grant Thornton. Management represented to the Audit Committee that our consolidated financial statements were prepared in accordance with GAAP, and the Audit Committee has reviewed and discussed with management and Grant Thornton the consolidated financial statements, management’s assessment of the effectiveness of our internal control over financial reporting and Grant Thornton’s evaluation of our internal control over financial reporting. The Audit Committee discussed with Grant Thornton matters required to be discussed under applicable auditing standards, including Auditing Standard No. 16, *The Auditor’s Communication with Audit Committees*. Grant Thornton also provided to the Audit Committee, and the Audit Committee has received, the written disclosures required by applicable requirements of the Public Company Accounting Oversight Board (U.S.) regarding Grant Thornton’s communications with the Audit Committee concerning independence, and the Audit Committee reviewed the fees disclosed below and discussed with Grant Thornton that firm’s independence.

Based upon the Audit Committee’s discussion with management and Grant Thornton and the Audit Committee’s review of the representation of management and the report of Grant Thornton, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC.

Members of the Audit Committee

Alex B. Cimoichowski
Craig D. Gates
Irene M. Qualters

INDEPENDENT ACCOUNTANTS AND PAYMENT OF FEES

Grant Thornton has audited our financial statements since 2009. The following is a summary of the fees billed to us by Grant Thornton for professional services rendered for the years ended December 31, 2016, and December 31, 2015:

<u>Fee Category</u>	<u>2016 Fees</u>	<u>2015 Fees</u>
Audit Fees	\$ 292,350	\$ 202,500
Audit-Related Fees	—	—
Tax Fees	50,193	57,778
All Other Fees	—	—
Total Fees	<u>\$ 342,543</u>	<u>\$ 260,278</u>

Audit Fees consist of fees billed for professional services rendered for the audit of our annual consolidated financial statements and reviews of the interim consolidated financial statements included in our quarterly reports, and services that are normally provided by our independent public accounting firm in connection with statutory and regulatory filings or engagements.

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

Tax Fees consist of fees billed for professional services for corporate tax return preparation and filing, compliance, tax advice and tax planning. 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.

PROPOSAL 4 — RATIFY THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Audit Committee is asking shareholders to ratify its appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2017, in order to ascertain the views of our shareholders on this appointment. In the event the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of CyberOptics and its shareholders.

Representatives of Grant Thornton will be present at the Annual Meeting of Shareholders and will have the opportunity to make a statement if they desire to do so. These representatives will also be available to respond to appropriate questions after the meeting.

The affirmative vote of the holders of a majority of the shares of Common Stock present and entitled to vote at the meeting on this item of business is required for the approval of the proposal. The Audit Committee of the Board of Directors recommends that the shareholders vote FOR the ratification of the appointment of Grant Thornton LLP to serve as our independent registered public accounting firm for the year ending December 31, 2017. Proxies solicited by the Board of Directors will, unless otherwise directed, be voted for the ratification of the appointment.

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 Secretary at our principal executive offices, 5900 Golden Hills Drive, Minneapolis, Minnesota 55416, no later than December 15, 2017.

Our Bylaws provide that a shareholder may nominate from the floor a person for election as a director or present from the floor a shareholder proposal at an annual meeting if proper written notice is received by our Secretary at our principal executive offices in Minneapolis, Minnesota at least 120 days in advance of the date that is one year after the date of the proxy statement for the prior year's annual meeting. For the 2018 annual meeting, notices of director nominations and shareholder proposals to be made from the floor must be received on or before December 15, 2017. The notice must contain the specific information required by our Bylaws, including information regarding the director nominee or a description of the business desired to be brought before the meeting. Director nominations and shareholder proposals for which notice is received by us after December 15, 2017 may not be presented in any manner at the 2018 annual meeting.

Our management will use discretionary authority to vote against any shareholder proposal or director nominee not made by management and presented at the 2018 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 set forth above by December 15, 2017; 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 2017 Annual Meeting of Shareholders. 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



Jeffrey A. Bertelsen
Secretary

Dated: April 7, 2017

