

DATA I/O CORP
Form DEF 14A
April 03, 2012

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:

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

Data I/O Corporation
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x No fee required
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 - 2) Form, Schedule or Registration Statement No.:
 - 3) Filing Party:
 - 4) Date Filed:
-

DATA I/O CORPORATION

NOTICE OF 2012

ANNUAL MEETING

and

PROXY STATEMENT

DATA I/O CORPORATION

March 31, 2012

To Our Shareholders:

You are cordially invited to attend the 2012 Annual Meeting of Data I/O Corporation, which will be held at Data I/O's headquarters at 6464 18th Ave NE, Suite 101, Redmond, Washington 98052. The meeting will begin at 2:00 p.m. Pacific Daylight Time on Thursday, May 10, 2012.

Officers of Data I/O will be attending and will respond to questions after the meeting. We will review the business operations of Data I/O for 2011 and the first quarter of 2012 and provide a business update. Formal business will include the election of directors, consideration of a proposal to amend Data I/O's 2000 Stock Compensation Plan and ratification of the continued appointment of Grant Thornton LLP as Data I/O's independent auditors.

Please read the proxy materials carefully. Your vote is important. Data I/O appreciates you considering and acting on the proposals presented. I am looking forward to seeing you on May 10th or if you cannot attend, see our website for details regarding a webcast of our meeting.

Sincerely,

Frederick R. Hume

President and Chief Executive Officer

DATA I/O CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS - May 10, 2012

To the Shareholders of Data I/O Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Data I/O Corporation (the “Company” or “Data I/O”) will be held at 2:00 p.m. Pacific Daylight Time, on Thursday, May 10, 2012, at Data I/O’s principal offices, 6464 185th Ave NE, Suite 101, Redmond, Washington 98052, for the following purposes:

(1) **Election of Directors:**

To elect five directors, each to serve until the next annual meeting of shareholders or until his or her successor is elected and qualified or until such director’s earlier death, resignation, or removal.

(2) **2000 Stock Compensation Incentive Plan:**

To consider and vote on a proposal to amend and restate the Data I/O Corporation 2000 Stock Compensation Incentive Plan (the “2000 Plan”) and to increase the number of shares reserved for issuance under the 2000 Plan by an additional 300,000 shares of common stock.

(3) **Ratification of Independent Auditors:**

To ratify the continued appointment of Grant Thornton LLP as Data I/O’s independent auditors for the calendar year ended December 31, 2012.

(4) **Other Business:**

To consider and vote upon such other business as may properly come before the meeting or any adjournments or postponements thereof.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 10, 2012. The proxy statement and annual report to security holders are also available at [http://www.dataio.com/company/ investorrelations/annualmeeting.aspx](http://www.dataio.com/company/investorrelations/annualmeeting.aspx).

The Board of Directors has fixed the close of business on March 12, 2012, as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the 2012 Annual Meeting and any adjournment or postponement thereof.

By Order of the Board of Directors

/s/ Frederick R. Hume

Frederick R. Hume

President and Chief Executive Officer

Redmond, Washington

March 31, 2012

YOUR VOTE IS IMPORTANT

Whether or not you expect to attend the meeting in person, we urge you to sign, date and return the accompanying proxy card at your earliest convenience, or you may vote by the internet at <http://www.proxyvoting.com/daio> or by telephone, as provided in the instructions on the proxy card. This will ensure the presence of a quorum at the meeting. **Promptly returning a signed and dated proxy card, or voting by the internet or by telephone, will save Data I/O the extra expense of additional solicitation.** Your proxy is revocable at your request any time before it is voted. If you attend the meeting, you may vote in person if you wish even if you have previously returned your proxy card. If you vote by mail, an addressed, postage-paid envelope is provided in order to make certain that your shares will be represented at the Annual Meeting.

DATA I/O CORPORATION

6464 185th Ave NE, Suite 101

Redmond, Washington 98052

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

May 10, 2012

INFORMATION REGARDING PROXY

This Proxy Statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors (“Board of Directors”) of Data I/O Corporation (the “Company” or “Data I/O”) for use at the Annual Meeting of Shareholders to be held on Thursday, May 10, 2012, at 2:00 p.m. Pacific Daylight Time at Data I/O’s principal offices, 6464 185th Ave NE, Suite 101, Redmond, Washington 98052, and at any adjournment of the meeting (the “Annual Meeting”). Shareholders of record at the close of business on March 12, 2012 (the “Record Date”) are entitled to notice of, and to vote, at the Annual Meeting. This Proxy Statement and a copy of Data I/O’s 2011 Annual Report to Shareholders are being mailed to shareholders on or about April 13, 2012.

A proxy card is enclosed for your use. *You are requested on behalf of the Board of Directors to sign, date, and return the proxy card in the accompanying envelope*, which is postage-paid if mailed in the United States or Canada, or you may vote by the internet at <http://www.proxyvoting.com/daio>, or by telephone, as provided in the instructions on the proxy card. If you vote by the internet or by telephone, you do not need to mail back the proxy card.

A proxy in the accompanying form, which is properly signed, dated and returned and not revoked, will be voted in accordance with its instructions. To vote on the election of directors, check the appropriate box under Item No. 1 on your proxy card. You may (a) vote for all of the director nominees as a group, (b) withhold authority to vote for all director nominees as a group, or (c) vote for all director nominees as a group except those nominees indicated to the contrary. To vote on a proposal to amend the Data I/O Corporation 2000 Stock Compensation Incentive Plan (the “2000 Plan”) to increase the number of shares reserved for issuance under the 2000 Plan by an additional 300,000 shares

of common stock, check the appropriate box under Item No. 2 on your proxy card. You may (a) vote “FOR” approval of the amendment to the 2000 Plan, (b) vote “AGAINST” approval of the amendment to the 2000 Plan, or (c) “ABSTAIN” from voting on the approval of the amendment to the 2000 Plan. To vote on the proposal to ratify Grant Thornton LLP as Data I/O’s independent auditors for the calendar year ended December 31, 2012, check the appropriate box under Item No. 3 on your proxy card. You may (a) vote “FOR” approval of the ratification of Grant Thornton LLP as Data I/O’s independent auditors, (b) vote “AGAINST” approval of the ratification of Grant Thornton LLP as Data I/O’s independent auditors, or (c) “ABSTAIN” from voting on the ratification of Grant Thornton LLP as Data I/O’s independent auditors. Proxies which are returned to Data I/O without instructions will be voted as recommended by the Board of Directors. Any shareholder who returns a proxy may revoke it at any time prior to voting on any matter (without, however, affecting any vote taken prior to such revocation) by (i) delivering written notice of revocation to the Secretary of Data I/O at Data I/O’s principal offices, (ii) executing and delivering to Data I/O another proxy dated as of a later date, or (iii) voting in person at the Annual Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS

The only outstanding voting securities of Data I/O are shares of common stock (the “Common Stock”). As of the Record Date, there were 8,510,897 shares of Common Stock issued and outstanding, and each such share is entitled to one vote at the Annual Meeting. The presence in person or by proxy of holders of record of a majority of the outstanding shares of Common Stock is required for a quorum for transacting business at the Annual Meeting. Shares of Common Stock underlying abstentions will be considered present at the Annual Meeting for the purpose of calculating a quorum. Under Washington law and Data I/O’s charter documents, if a quorum is present, the five nominees for election to the Board of Directors who receive the greatest number of affirmative votes cast at the Annual Meeting will be elected directors. Abstentions will have no effect on the election of directors because they are not cast in favor of any particular candidate. The proposals to approve the amendment and restatement of the 2000 Plan and to ratify the continued appointment of Grant Thornton as Data I/O’s independent auditors will be approved, if a quorum is present, if the number of votes cast in favor of the proposals exceeds the number of votes cast against the proposals. Abstentions and broker non-votes on the proposals will have no effect because approval of the proposals is based solely on the votes cast. Proxies and ballots will be received and tabulated by Computershare Shareowner Services LLC, an independent business entity not affiliated with Data I/O.

Effect of Not Casting Your Vote

If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of Directors (Item No. 1 of this Proxy Statement) or the proposal to amend and restate the Data I/O Corporation 2000 Stock Compensation Incentive Plan (Item No. 2 of this Proxy Statement). In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of directors, your bank or broker was allowed to vote those shares on your behalf in the election of directors as they felt appropriate. Recent changes in regulations no longer allow your bank or broker to vote your uninstructed shares in the election of directors on a discretionary basis. If you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of directors or the approval of the amendment and restatement of the 2000 Plan, no votes will be cast on your behalf in either of these matters. Your bank or broker will, however, continue to have discretion to vote any uninstructed shares on the ratification of the appointment of Data I/O's independent auditors (Item No. 3 of this Proxy Statement). If you are a shareholder of record and you do not cast your vote, no votes will be cast on your behalf of any of the items of business at the Annual Meeting.

The Common Stock is traded on the NASDAQ Capital Market under the symbol "DAIO". The last sale price for the Common Stock, as reported by the NASDAQ Capital Market on March 12, 2012, was \$3.90 per share.

Principal Holders of Data I/O's Common Stock

The following table sets forth information for to all shareholders known by Data I/O to be the beneficial owners of more than five percent of its outstanding Common Stock as of March 12, 2012. Except as noted below, each person or entity has sole voting and investment powers with for the shares shown.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Shares Outstanding
Wellington Management Company, LLP	883,100 (1)	10.38%
Wellington Trust Company, NA 75 State Street Boston, Massachusetts 02109		
Nicusa Capital Partners, LP	889,817 (2)	10.46%
Nicusa Capital LLC		

Nicusa Investment Advisors

17 State Street, suite 1650

New York, NY 10004

Penbrook Management, LLC	661,250	(3)	7.77%
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AnKap Partners, L.P.

AnKap, LLC;

Robert S. Anderson, Ralph Kaplan

Barbara Burke DiCostanzo

Ward Anderson

570 Lexington Avenue, 12th Floor

New York, NY 10022

Leviticus Partners, L.P.	674,982	(4)	7.93%
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AMH Equity LLC

60 East 42nd Street, suite 901

New York, NY 10165

(1) The holding shown is as of December 31, 2011, as reported by Wellington Management Company, LLP on the most recent (dated February 14, 2012) Schedule 13G filed pursuant to Rule 13d-1(b) under the Securities Exchange Act of 1934 . The Schedule 13G indicates that Wellington Management holds shared voting and dispositive power with respect to 883,100 shares. Wellington Management filed this 13G, in its capacity as investment advisor, for shares that are owned by clients.

No Wellington client is known to have rights or powers with respect to more than 5% of this security, except for Wellington Trust Company, NA.

The holding shown is as of December 31, 2011, as reported by Wellington Trust Company, NA on the most recent (dated February 14, 2012) Schedule 13G filed pursuant to Rule 13d-1(b) under the Securities Exchange Act of 1934. The Schedule 13G indicates that Wellington Trust holds shared voting and dispositive power with respect to 883,100 shares. Wellington Trust filed this 13G, in its capacity as investment advisor, for shares that are owned by clients. No Wellington Trust client is known to have rights or powers with respect to more than 5% of this security.

(2) The holding shown is as of December 31, 2011, as reported by Nicusa Capital Partners, L.P. on the most recent (dated February 22, 2012) Schedule 13G filed pursuant to Rule 13d-1(c) under the Securities Exchange Act of 1934. The Schedule 13G indicates that Nicusa Capital Partners, L.P. holds shared voting and dispositive power with respect to 889,817 shares. Nicusa Capital Partners, L.P. and Nicusa Investment Advisors, LLC (NIA) filed this 13G. NIA serves as investment advisor to Nicusa Capital Partners, L.P. and for the accounts of various third parties unaffiliated with Nicusa Capital Partners, L.P. The statement pertains to all of the shares held by both Nicusa Capital Partners, L.P. and the other accounts managed by NIA.

(3) The holding shown is as of December 31, 2011 as jointly reported by Penbrook Management, LLC; AnKap Partners, L.P.; AnKap, LLC; Robert S. Anderson; Ralph Kaplan; Barbara Burke DiCostanzo; and Ward Anderson, on the most recent (filed February 2, 2012) Schedule 13G filed pursuant to Rule 13d-1(c) under the Securities Exchange Act of 1934. The Schedule 13G indicates that Penbrook Management has sole dispositive power of 479,250 shares and disclaims beneficial ownership of them; AnKap Partners has sole voting power and dispositive power for 185,000 shares; AnKap, LLC has sole voting power and dispositive power for 185,000 shares and disclaims beneficial ownership of them; Robert S. Anderson has sole voting and dispositive power for 51,300 shares, shared voting power for 185,000 shares and shared dispositive power for 609,850 shares; with an aggregate amount of 661,250 shares, however disclaiming beneficial ownership of shares managed by Penbrook Management and AnKap Partners; Ralph Kaplan has shared voting power for 185,000 shares and shared dispositive power for 609,850 shares; with an aggregate amount of 609,850 shares, however disclaiming beneficial ownership of shares managed by Penbrook Management and AnKap Partners; Barbara Burke DiCostanzo has sole voting and dispositive power for 2,100 shares and shared voting power for 185,000 share and shared dispositive power for 609,850 shares; with an aggregate amount of 611,950 shares, however disclaiming beneficial ownership of shares managed by Penbrook Management and AnKap Partners. Ward Anderson has sole voting and dispositive power for 1,000 shares and shared voting power for 0 shares and shared dispositive power for 424,850 shares; with an aggregate amount of 425,850 shares, however disclaiming beneficial ownership of these shares managed by Penbrook Management.

(4) The holding shown is as of July 28, 2011 as jointly reported by Leviticus Partners, L.P. ("Leviticus") and AMH Equity, LLC ("AMH") on the most recent Schedule 13G/A filed pursuant to Rule 13d-i(c) under the Securities Exchange Act of 1934. The Schedule 13G/A indicates Leviticus holds sole voting and dispositive power with respect to 628,500 shares; AMH Equity, LLC holds a sole voting and dispositive power with respect to 46,482 shares; AMH is the general partner of Leviticus; and Adam Hutt is the managing member of AMH. The aggregate amount

beneficially owned by the reporting parties is 674,982 shares.

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Directors' and Officers' Share Ownership

The following table indicates ownership of Data I/O's Common Stock by each director of Data I/O, each executive officer named in the compensation tables appearing later in this Proxy Statement, and by all directors and executive officers as a group, all as of March 12, 2012. Data I/O is not aware of any family relationships between any director, director nominee or executive officer of Data I/O.

<u>Name</u>	<u>Amount and Nature of Beneficial Ownership</u>		<u>Percent of Shares Outstanding</u>
Frederick R. Hume	350,825	(1)	4.12%
Joel S. Hatlen	229,282	(2)	2.69%
Paul A. Gary	123,170	(3)	1.45%
William R. Walker	83,709	(4)	(10)
Steven M. Quist	71,061	(5)	(10)
Gordon B. Bluechel	57,445	(6)	(10)
Douglas W. Brown	8,125	(7)	(10)
Kenneth B. Myer	2,500	(8)	(10)
All current directors and executive officers as a group (7 persons)	926,117	(9)	10.88%

(1) Includes options to purchase 166,250 shares exercisable within 60 days.

(2) Includes options to purchase 83,126 shares exercisable within 60 days.

(3) Includes options to purchase 53,709 shares exercisable within 60 days.

(4) Includes options to purchase 53,709 shares exercisable within 60 days.

(5) Includes options to purchase 53,709 shares exercisable within 60 days.

(6) Includes options to purchase 53,204 shares exercisable within 60 days.

(7) Includes options to purchase 8,125 shares exercisable within 60 days

(8) Includes options to purchase 2,500 shares exercisable within 60 days

(9) Includes options to purchase 474,332 shares exercisable within 60 days

(10) Less than 1 percent each.

Data I/O is not aware of any arrangement the operation of which may at a subsequent date result in a change of control of Data I/O.

CORPORATE GOVERNANCE

Board Charters

The Board of Directors has adopted Corporate Governance and Nominating Committee, Audit Committee and Compensation Committee Charters. All our charters are reviewed and updated periodically and the current versions are posted on the corporate governance page of our website. The corporate governance page can be accessed on our website at www.dataio.com/company/investorrelations/corporategovernance.aspx. All of these Charters are consistent with the applicable requirements of the Sarbanes-Oxley Act of 2002 and our NASDAQ listing standards.

Code of Ethics

Our updated Code of Ethics is also posted on the corporate governance page of our website. Data I/O's Code of Ethics applies to all directors, officers and employees of Data I/O, including the named executive officers. The key principles of the Code are to act legally, and with integrity in all work for Data I/O. We will post any amendments to our Code of Ethics on the corporate governance page of our website at www.dataio.com/company/investorrelations/corporategovernance.aspx. In the unlikely event that the Board of Directors approves any waiver to the Code of Ethics for our executive officers or directors, information concerning such waiver will also be posted on our website. In addition to posting information regarding amendments and waivers on our website, the same information will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting of such amendments or waivers is permitted by the rules of The NASDAQ Stock Market, Inc.

Risk Oversight

Because our Board of Directors consists of four independent directors, who are on all of our Board Committees, and two non-independent directors, our Chief Executive Officer and Mr. Myer, risk oversight is generally handled by our entire Board of Directors, although certain risk oversight areas such as internal control and compensation are handled by our Audit Committee and Compensation Committee, respectively.

Director Independence

Paul A. Gary, Steven M. Quist, William R. Walker and Douglas W. Brown are independent directors, as defined in Rule 4200 (a)(15) of the National Association of Securities Dealers listing standards (the "NASD Rules"). Kenneth B. Myer served as a consultant to the company from February 2011 to October 2011 during which he received consulting fees of \$123,750 and had been granted 5,000 stock options vesting over a one year period of which half vested and half were forfeited. As a result of this compensation, Mr. Myer is not an independent director. Mr. Hume, our Chief Executive Officer, is not an independent director.

Leadership Structure

Data I/O has separated our Chairman and Chief Executive Officer positions to emphasize the independent roles of the Chairman of our Board and the executive role of our Chief Executive Officer. We believe this separation more clearly supports the Board of Director's independence, as opposed to a structure that combines the Chairman and Chief Executive Officer roles. Our current Chairman, Paul A. Gary, (Douglas W. Brown Chairman effective April 1, 2012) functions as our lead independent director and Frederick R. Hume is our Chief Executive Officer, President and Director.

PROPOSAL 1: ELECTION OF DIRECTORS

The Board of Directors consisted of five directors through March 8, 2012 when Kenneth Myer was added as a Director. The Board of Directors determined it would be in the best interest of Data I/O to increase the size of the Board of Directors to six directors temporarily as a transition from the retiring director, Mr. Gary, to the nominated five directors, and to add experience and other attributes that Mr. Myer adds as a director. At the 2011 Annual Meeting, the shareholders elected five directors to serve until the next Annual Meeting or until his or her successor has been qualified and elected or such director's earlier death, resignation or removal. For the 2012 Annual Meeting the Board of Directors has approved the five nominees named below. All the nominees are currently members of the Board of Directors. Each of the nominees has indicated that they are willing and able to serve as directors. However, should one or more of the nominees not accept the nomination, or otherwise be unwilling or unable to serve, it is

intended that the proxies will be voted for the election of a substitute nominee or nominees designated by the Board of Directors. With the planned retirement of Mr. Hume during 2012, it is expected that his successor will be appointed to the Board of Directors. Mr. Hume has agreed to resign from the Board of Directors, at the time Mr. Hume's retirement becomes effective.

Recommendation: The Board of Directors recommends a vote FOR each of the director nominees.

Frederick R. Hume, age 69, became President and Chief Executive Officer of Data I/O on February 23, 1999. He has been a director of Data I/O since January 1999. From 1988 until his retirement in 1998, Mr. Hume was Vice President and General Manager of Keithley Instruments in Cleveland, Ohio. From 1972 to 1988, he held various management positions at John Fluke Manufacturing, including Group Vice President for Manufacturing and Research and Development.

Mr. Hume has extensive test and measurement and programming industry operating, executive leadership, public company experience as well as experience as a director of various companies. He has a strong background in creating, communicating, executing and sustaining strategic initiatives. Additionally, Mr. Hume's role as our Chief Executive Officer gives him extensive knowledge of Data I/O as well as unique insights into our challenges, opportunities and operations, that the Board of Directors believes qualifies him to serve as a director of Data I/O.

Steven M. Quist, age 66, was appointed as a director of Data I/O in 2001. Mr. Quist has been the Principal of Blackmore Peak Partners, a management consulting firm since 2003. From 1998 until 2003, he was President and Chief Executive Officer of CyberOptics Corporation, and a Director of CyberOptics Corporation from 1991 to 2004. From 1992 to 1998 he was President of Rosemount Inc., a subsidiary of Emerson Electric Co. (NYSE: EMR). Since 2000, Mr. Quist has been a director of Rimage Corporation. Also, Mr. Quist is a director of two privately held companies: S2 Corporation, and Nervonix, Inc.

Mr. Quist has held a variety of senior management positions, in 28 years at Emerson Electric and has served as a Chief Executive Officer of a public company for 5 years. Mr. Quist has significant business management experience, which includes extensive

experience in technology and new product development, marketing, compensation and human resources, board, and corporate governance matters that the Board of Directors' believes qualifies him to serve as a director of Data I/O.

William R. Walker, age 70, has been a director of Data I/O since October 2003. From 1997 to 2009, Mr. Walker was the Chief Financial Officer, Secretary, Vice President of Hi/fn, Inc., a manufacturer of integrated circuits and software for storage and network infrastructure developers. From 1996 to 1997, he was the Chief Financial Officer, Secretary, Vice President of MMC Networks, Inc. From 1984 to 1996, Mr. Walker was Senior Vice President and Chief Financial Officer of Zilog, Inc.

Mr. Walker has extensive semiconductor financial, executive leadership and public company experience; experience as a director on various boards; CFO and financial expert experience; and extensive knowledge of Data I/O that the Board of Directors' believes qualifies him to serve as a director of Data I/O.

Douglas W. Brown, age 56, has been a director of Data I/O since April 1, 2011. Mr. Brown is the President and Chief Executive Officer of All Star Directories, Inc. in Seattle, Washington a Web-based publisher of post-secondary online and career school directories, which he joined in 2005. From 2003 to 2005, Mr. Brown provided governance and interim executive services, with engagements as President or Board member of venture backed clients. From 1998 to 2003, Mr. Brown was a Board member of GoAhead Software and was appointed its President in 2001. From 1993 to 1999, Mr. Brown was a President of a Seattle-area manufacturing company which became a Division of Leggett & Platt in 1996. Prior to that time, Mr. Brown was the Chief Financial Officer of Oculon and Seattle Silicon, and Executive Vice President, Finance and Operations at Phamis. He started his career as a Certified Public Accountant at Arthur Young & Co, now Ernst & Young in Seattle.

Mr. Brown has extensive software, financial, CEO and board level experience that the Board of Directors believes qualifies him to serve as a director of Data I/O.

Kenneth B. Myer, age 54, was appointed a director of Data I/O effective March 8, 2012. Mr. Myer is the interim President and CEO of Yapta, the leading provider of travel price assurance solutions. Since April 2010 Mr. Myer has been a strategy consultant and interim executive to technology companies and has been an entrepreneur-in-residence at the University of Washington's Center for Commercialization, in Seattle, Washington. From February 2011 to October 2011 he served as a consultant to Data I/O in the role of General Manager of the Azido Initiative and from November 2006 to March 2010, Mr. Myer was President and CEO of the Washington Technology Industry Association (WTIA). Mr. Myer served from 2005 to 2006 as Sr. Vice President of TeleSym, from 2002 to 2004 as co-founder and CEO of Interval Systems, and from 1999 to 2002 as Executive Vice President of Active Voice. Mr. Myer previously spent 15 years with IBM in various executive positions with his last role being General Manger of the Northwest & Intermountain regions.

Mr. Myer has extensive sales, marketing, software industry, technology senior management and CEO level experience as well as extensive experience as a director of various boards and in working with Data I/O's team and the Azido Initiative that the Board believes qualifies him to serve as a director of Data I/O.

THE BOARD OF DIRECTORS

Communications with the Board of Directors

Shareholders may communicate with the Board of Directors by sending an email or by sending a letter to Data I/O Corporation Board of Directors, c/o the Secretary, 6464 185th Ave NE, Suite 101, Redmond, WA 98052. The Secretary will receive the correspondence and forward it to the Chairman of the applicable Board of Directors Committee or to any individual director or directors to whom the communication is directed.

BOARD COMMITTEES

During the year ended December 31, 2011, there were eight meetings of the Board of Directors. Each of the incumbent directors who was on the Board of Directors during 2011 attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which he served during his term of service on the Board of Directors. Data I/O does not have a policy requiring members of the Board of Directors to attend the Annual Meeting, although we typically encourage our Board of Directors to attend. Mr. Hume and Mr. Brown attended our 2011 Annual Meeting and no other Director attended as our Board of Directors did not have a meeting scheduled for that day.

The Board of Directors had three standing Committees during 2011, each comprised solely of independent directors during 2011 as defined by NASDAQ standards and the Sarbanes-Oxley Act of 2002: the Corporate Governance and Nominating Committee, the Audit Committee, and the Compensation Committee. The Audit Committee consisted of Messrs. Gary, Quist, Brown (from July 20, 2011 on) and Walker (Chair).

The Compensation Committee consisted of Messrs. Gary, Walker, Brown (from July 20, 2011) and Quist (Chair). The Corporate Governance and Nominating Committee consisted of Messrs. Gary (Chair until July 20, 2011), Brown (Chair July 20, 2011 to March 8, 2012), Myer (a non-independent director was added and became Chair March 8, 2012), Walker and Quist.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee, or “CGNC”, develops, recommends to the Board of Directors, and monitors a set of corporate governance principles applicable to Data I/O. The CGNC seeks qualified candidates to serve on the Board of Directors, and during 2011 until March 8, 2012 when the CGNC charter was amended, recommends them for the Board of Directors’ consideration for election as directors at the Annual Meeting of Shareholders and proposes candidates to fill vacancies on the Board of Directors. The CGNC met five times in 2011. Under the current CGNC charter, as long as Mr. Myer is not an independent director and is on the CGNC, the Committee may not recommend the director nominees to the Board of Directors. Instead, director nominees will be recommended for the Board’s selection by a majority of the independent directors of the Board in a Board vote in which only independent directors participate.

Audit Committee

The Audit Committee appoints, oversees, evaluates, and engages independent certified public accountants for the ensuing year and approves the compensation and other terms of such engagement; reviews the scope of the audit; periodically reviews Data I/O’s program of internal control and audit functions; receives and reviews the reports of the independent accountants; and reviews the annual financial report to the directors and shareholders of Data I/O. Each member of the Audit Committee is an independent director, as defined by the NASDAQ listing standards and the Sarbanes-Oxley Act of 2002. The Audit Committee includes three financial experts, William R. Walker, Douglas W. Brown and Steven M. Quist, as defined in the Securities and Exchange (“SEC”) rules adopted pursuant to the Sarbanes-Oxley Act of 2002. Mr. Walker has the financial sophistication required by Rule 4350(d)(2) of the NASD Rules. The Audit Committee met five times during 2011. See the “Report of the Audit Committee.”

Compensation Committee

The Compensation Committee of the Board of Directors (the “Committee”) is composed entirely of independent outside directors. The Committee is responsible for setting and administering the policies which govern all of the compensation programs of Data I/O.

The Compensation Committee makes recommendations to the Board of Directors concerning the compensation of Data I/O's executive officers. The committee administers Data I/O's long-term equity incentive plans. The Compensation Committee reviews all employee benefit programs and approves significant changes in major programs and all new programs. The Compensation Committee met four times during 2011.

As authorized by the Compensation Committee charter, the Compensation Committee may retain consultants or other advisors to assist in carrying out its responsibilities. The Compensation Committee engaged Milliman, Inc, one of the world's largest independent consulting and actuarial firms, as compensation consultant to assist in evaluating Data I/O's Board of Directors', executive officers' and certain senior managers' compensation. Milliman, Inc. provided survey market data and advice on cash retainer, base salary and incentive compensation in 2010 and non-cash equity compensation in 2011 for Board of Directors, executive officers, and certain senior managers positions identified by the Compensation Committee. The Compensation Committee did not provide Milliman, Inc. with any direction as to the expected results of Milliman's work for the Compensation Committee.

Consideration of Director Nominees

The Corporate Governance and Nominating Committee, or the independent members of the Board of Directors as applicable, in evaluating and determining whether to recommend a person as a candidate for election as a director, consider relevant management and/or technology industry experience (such as experience as chief executive, operations or financial officer, or similar positions); knowledge of Data I/O; educational experience; commitment to maximizing shareholder value; certain values such as integrity, accountability, judgment and adherence to high performance standards; independence pursuant to applicable guidelines; ability and willingness to undertake the required time commitment to Board functions; shareholder input; and an absence of conflicts of interest with Data I/O.

Director Diversity

The Corporate Governance and Nominating Committee also considers issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. The CGNC does not have a formal policy

on Board diversity; however, the CGNC believes that it is important for Board members to represent diverse viewpoints. In considering candidates for the Board, the CGNC considers the entirety of each candidate's credentials in the context of these standards. With respect to evaluating the nomination of continuing directors for re-election, the individual's contributions to the Board are also considered.

Identifying Director Nominees; Consideration of Nominees of the Shareholders

The Corporate Governance and Nominating Committee may employ a variety of methods for identifying and evaluating nominees for director. The CGNC regularly assesses the size of the Board, the need for particular expertise on the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the CGNC considers various potential candidates for director which may come to the CGNC's attention through current Board members, professional search firms, shareholders, or other persons. These candidates are evaluated at regular or special meetings of the CGNC, and may be considered at any point during the year.

The Corporate Governance and Nominating Committee will consider candidates recommended by shareholders, when the nominations are properly submitted, under the criteria summarized above in "Consideration of Director Nominees" and in accordance with the procedures described below in "Shareholder Nominations and Proposals for the 2013 Annual Meeting of Shareholders." Following verification of the shareholder status of persons proposing candidates, the CGNC makes an initial analysis of the qualifications of any candidate recommended by shareholders or others pursuant to the criteria summarized above to determine if the candidate is qualified for service on the Data I/O Board of Directors before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a shareholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the Committee as part of its review. Other than the verification of compliance with procedures and shareholder status, and the initial analysis performed by the CGNC, a potential candidate nominated by a shareholder is treated like any other potential candidate during the review process by the CGNC. For eligible shareholder nominees to be placed on the ballot for the 2012 Annual Meeting of Shareholders, shareholders were required to deliver nominations for proposed director nominees to Data I/O by February 17, 2012. While no formal candidate nominations were made by shareholders for election at the 2012 Annual Meeting, candidates were identified and recommended by shareholders and included in the selection process for new nominations. Mr. Myer was identified by members of the Board of Directors and management.

Certain Relationships and Related Transactions

Our Audit Committee is charged with monitoring and reviewing issues involving potential conflicts of interest, and reviewing and approving related party transactions as set forth in the Code of Ethics, which is located on our website at www.dataio.com. Under our Code of Conduct our directors, officers and employees are expected to avoid conflicts of interest with Data I/O and are required to report any such conflicts of interest to our Chief Executive Officer or

Chief Financial Officer, or to the Chair of our Audit Committee. Our Audit Committee reviews all such transactions and relationships by our directors and executive officers that come to its attention either through the director and officer questionnaires or otherwise, and considers whether to approve or take other appropriate action with respect to such transactions or relationships. During 2011, no such transactions occurred.

BOARD COMPENSATION

Employee directors (Frederick R. Hume) do not receive additional compensation for serving on the Board of Directors. Non-employee directors received a cash retainer of \$6,000 for each quarter of service, plus \$1,500 for each full Board of Directors meeting attended and \$500 for each teleconference Board of Directors or separate Committee meeting attended. Data I/O paid additional quarterly compensation to the non-employee directors for serving as Chairman of the Board of Directors or as a Committee chair: \$3,750 for Chairman of the Board of Directors; \$2,500 for Chairman of the Audit Committee; \$2,000 for Chairman of the Compensation Committee; and \$750 for Chairman of the Corporate Governance and Nominating Committee until July 20, 2011 when it became \$2,000. Effective October 19, 2011, to enhance additional communication at no cost to the Company, the Board determined that no meeting or teleconference fees would be paid for additional Board or committee meetings beyond those previously scheduled. Effective for 2012, separate meeting and teleconference fees were eliminated and an equivalent amount was made part of the cash retainer, resulting in a scheduled cash retainer of \$7,750 for each quarter of service.

In addition, each non-employee Board of Directors member as of May 17, 2011, was granted an option for 12,500 shares of Data I/O stock. New members who join the Board of Directors are granted 15,000 shares as an initial grant. The stock options were granted under the provisions and terms of the Amended and Restated 2000 Stock Compensation Incentive Plan ("2000 Plan"). Data I/O also reimburses non-employee directors for actual travel and out-of-pocket expenses incurred in connection with service to Data I/O. For the 2012 equity grant, which will be effective immediately following the election of the Board of Directors, the Board is evaluating the use of restricted stock as an alternative to stock options to better align the interests of the Board of Directors and Data I/O's shareholders.

At the January 25, 2012 Board of Directors Meeting, the Board determined that, with the revised cash retainer amount, each Data I/O non-employee member of the Board of Directors will be required to achieve ownership of Data I/O stock of at least equal to three times the annual director cash retainer fee. Non-employee directors have five years from their initial election to meet the target guideline. Amounts that count toward meeting the target guideline include: shares owned; shared ownership (shared owned or held in trust by immediate family); and the gain amount from in-the-money vested options. If the stock ownership target guideline has not been met by any non-employee director, until such time as such Director reaches the guideline, he or she will be required to retain any Data I/O shares issued by Data I/O to such director (other than those disposed of to pay for the exercise and associated taxes on those shares). As of the Record Date, Mr. Gary and Mr. Walker of the current non-employee directors met the stock ownership target guideline, Mr. Quist, Mr. Brown and Mr. Myer did not meet the stock ownership target guideline and have 1, 4 and 5 years to meet the target ownership guideline.

At the February 24, 2011 meeting of the Board of Directors, the Board determined that the Chief Executive Officer will be required to achieve ownership of Data I/O stock of at least two times the base pay of the CEO. The CEO has five years from appointment to meet the target guideline. Amounts that count toward meeting the target guideline are the same as for the Board of Directors. If the stock ownership target guideline has not been met by any non-employee director or the Chief Executive Officer, until such time as such Director or Chief Executive Officer reaches the guideline, he or she will be required to retain any Data I/O shares issued by Data I/O (other than those disposed of to pay for the exercise and associated taxes on those shares). As of the Record Date the CEO met the stock ownership target guideline.

DIRECTOR COMPENSATION

The following table shows compensation paid by Data I/O to non-employee directors during 2011.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
(a)	(\$) (b)	(\$) (c)	(\$) (d)	(\$) (e)	(\$) (f)	(\$) (g)	(\$) (h)
Paul A. Gary (1) (2)	47,663	-	32,591	-	-	-	80,254
Steven M. Quist (1) (2)	39,000	-	32,591	-	-	-	71,591
William R. Walker (1) (2)	41,000	-	32,591	-	-	-	73,591
Douglas W. Brown (1)(2)	26,565	-	72,589	-	-	-	99,154
Kenneth B. Myer (3)							

- (1) Each outside director elected in 2011 was granted 12,500 stock options with a grant date fair value under Black Scholes of \$- on May 17, 2011 with a 6 year life and 3 year quarterly vesting. In addition, Mr. Brown received an initial option grant of 15,000 shares on being appointed a director on April 1, 2011 with a 6 year life and 3 year quarterly vesting.
- (2) Each current outside director had the following aggregate number of option awards outstanding at December 31, 2011: Gary 68,000; Quist 68,000; Walker 68,000 and Brown 27,500.
- (3) Mr. Myer was added as a director effective March 8, 2012 and received no 2011 amounts as a Director. In connection with his previous consulting engagement with Data I/O during 2011, he received consulting fees of \$123,750 and a February 24, 2011 grant of 5,000 options at a grant price of \$5.975 per share, vesting quarterly over one year, with a life and exercise period of 3 years. He vested in 2,500 of those options and forfeited 2,500 at the end of his engagement in October 2011.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Data I/O's directors, certain officers and persons who own more than ten percent (10%) of Data I/O's Common Stock ("Reporting Persons") to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of Data I/O. Reporting Persons are required by SEC regulations to furnish Data I/O with copies of all Section 16(a) reports.

To Data I/O's knowledge, based solely on its review of copies of such reports furnished to Data I/O and representations that no other reports were required, all Section 16(a) filing requirements applicable to its Reporting Persons were complied with during 2011.

Report of the Audit Committee

The Audit Committee oversees Data I/O's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the consolidated financial statements and the reporting process, including the systems of internal controls.

Audit Committee members are not professional accountants, or auditors and their functions are not intended to duplicate or to certify the activities of management or the independent auditors. In fulfilling its oversight responsibilities, the Committee reviewed the audited consolidated financial statements in the Annual Report (Form 10-K) with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited consolidated financial statements with generally accepted accounting principles in the United States, their judgments as to the quality, not just the acceptability, of Data I/O's accounting principles and such other matters as are required to be discussed by SAS 61 with the Committee under generally accepted auditing standards. In addition, the Committee has discussed with the independent auditors the auditors' independence from management and Data I/O including the matters in the written disclosures and the letter provided by the independent auditors, as required by the applicable requirements of the Public Company Oversight Board for independent auditor communications with Audit Committees concerning independence, and considered the compatibility of nonaudit services with the auditors' independence.

The Committee selects and engages Data I/O's independent auditors and discusses the overall scope and plans for their audits. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of Data I/O's internal controls, and the overall quality of Data I/O's financial reporting. The Committee held five meetings during 2011.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited consolidated financial statements be included in Data I/O's Annual Report (Form 10-K) for the year ended December 31, 2011 for filing with the Securities and Exchange Commission. The Committee has selected Grant Thornton LLP as Data I/O's auditors for the current year.

Respectfully submitted,

AUDIT COMMITTEE

Paul A. Gary

Steven M. Quist

William R. Walker

Douglas W. Brown

March 31, 2012

PRINCIPAL ACCOUNTANT'S FEES AND SERVICES

Audit Fees: Aggregate fees billed by Grant Thornton LLP for professional services rendered for the audit of Data I/O's financial statements for each of the years ended December 31, 2011 and 2010 and for review of the financial statements included in each of Data I/O's Form 10-Q, were approximately \$189,655 and \$191,397 respectively.

Audit Related Fees: Aggregate fees billed for the years ended December 31, 2011 and 2010 were \$5,300 and \$0 respectively for assurance and related services by Grant Thornton LLP that are reasonably related to the performance of the audit or review of Data I/O's financial statements that are not reported under the caption "Audit Fees" above, including accounting treatment consultations.

Tax Fees: No aggregate fees were billed to Data I/O for each of the years ended December 31, 2011 and 2010 for professional services rendered by Grant Thornton LLP for tax compliance, tax advice, tax examination support, and tax planning.

All Other Fees: No aggregate fees were billed to Data I/O for each of the years ended December 31, 2011 and 2010 for all other products and services provided by Grant Thornton LLP that are not otherwise disclosed above.

Policy on Pre-Approval by Audit Committee of Services Performed by Independent Auditors

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, non-audit services, tax services and other services. Pre-approval is detailed as to the particular service or category of service and is subject to a specific engagement authorization.

During the year, circumstances may arise when it may become necessary to engage the independent auditors for additional services not contemplated in the original pre-approval. In those circumstances, the Audit Committee has delegated pre-approval authority to the Chair of the Audit Committee for those instances when pre-approval is needed prior to a scheduled Audit Committee meeting. These additional approvals should be reported at the next scheduled Audit Committee meeting.

For 2011, all services provided by the independent auditors were pre-approved.

EXECUTIVE COMPENSATION

Elements of Our Company's Compensation Plan

Annual executive officer compensation consists of the following elements which are described in more detail below:

- Annual base salary;
- Management Incentive Compensation Plan or "MICP";
- Long-term equity incentives;
- Benefits; and
- Perquisites and other perceived benefits.

It is the Compensation Committee's policy to set total executive officer compensation at competitive levels based on compensation surveys with similar positions in similar sized companies and at levels sufficient to attract and retain a strong motivated leadership team. Our philosophy for compensation of executive officers is based on the following two principles:

- i. Executive base compensation levels should be established by comparison of job responsibility to similar positions in comparable companies and be adequate to retain highly-qualified personnel; and
- ii. Variable compensation should be established to provide incentive to improve performance and shareholder value.

• **Annual Base Salary.** The Compensation Committee establishes a base salary structure for each executive officer position. This structure defines the salary levels and the relationship of base salary to total cash compensation. The Compensation Committee reviews the salary structure periodically. Effective March 1, 2009 Mr. Hume voluntarily reduced his base salary by \$50,000 per year. Consideration of Data I/O's executive management normal 2009 and 2010 annual base salary adjustments was deferred indefinitely for executive officers as part of Data I/O's short-term cost control efforts and was readdressed effective July 1, 2010. On July 1, 2010, Mr. Hume's voluntary reduction was rescinded and base salary adjustments were made for all executive officers and employees. On July 1, 2011 base salary adjustments were made for all executive officers and employees.

- **MICP.** The MICP offers each executive officer a performance-based opportunity to earn the variable component of annual cash compensation in an amount tied to a percentage of the executive officer's base salary. The Compensation Committee's philosophy in setting executive MICP percentages and the formulas for MICP payout is to pay above average total compensation for better than average historical or expected financial performance and below average compensation for lower than or average historical or expected financial performance. The percentages of base salary targeted for MICP payout ("the MICP Target") for specific executive officers for a given year are generally the same as the previous year, but can be changed by the Compensation Committee on an annual basis. The 2010 and 2011 MICP Target percentages for our executive officers were as follows: Mr. Hume 50% of base salary; Mr. Hatlen 40% of base salary; and Mr. Bluechel 30% of base salary.

For 2010 and 2011, as well as for 2012, the Compensation Committee determined that it was critical to emphasize revenue, as measured by revenue growth percentage, along with profitability, as measured by operating profit as a percentage of revenue, as the critical measures for the MICP payout. The Compensation Committee retains discretion to adjust the calculation of the two measures for changes outside normal business operations such as acquisitions or asset sales. The measurement periods will be quarterly with 15% of the incentive opportunity allocated to each quarter and 40% to annual results. The MICP payout can range from 0% to 200% of each executive's MICP Target. If the maximum revenue growth and operating profit as percentage of revenue for the applicable year's range matrix were achieved under the MICP measures, the Chief Executive Officer would earn a cash bonus of 100% of his base salary; Mr. Hatlen would earn 80% of his base salary; and Mr. Bluechel would earn 60% of his base salary.

The Compensation Committee believes that for 2010 and 2011, as well as 2012, these measures of key results for Data I/O have affected or will affect near-term and long-term shareholder value. A greater or lesser percentage of MICP Target is to

be paid based on Data I/O's actual achievement of these measures with the payout target typically based on company financial plans aimed at being at approximately 100% or as the Board determines appropriate. For 2010 the MICP payout was 143.6% of target. For 2011 the MICP payout was 39.2% of target.

Data I/O Corporation 2010 MICP Variable Compensation Matrix
Range of Payouts (actual results interpolated) factor times 100%

2010 Revenue \$M-YEAR %	\$19	\$20	\$21	\$22	\$23	\$24	\$25	\$26	\$27	\$28	\$29
Revenue Incr. over 2009 QTRLY O.P. as a % of Rev											
18.5%	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2.0
16.5%	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9
14.5%	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8
12.5%	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7
10.5%	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6
8.5%	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	