DATA I/O CORP
Form DEF 14A
April 03, 2009

DATA I/O CORPORATION

NOTICE OF 2009

ANNUAL MEETING

and

PROXY STATEMENT

DATA I/O CORPORATION

March 27, 2009

To Our Shareholders:

You are cordially invited to attend the 2009 Annual Meeting of Data I/O Corporation, which will be held at Data I/O's headquarters at 6464 185th Ave NE, Suite 101, Redmond, Washington 98052. The meeting will begin at 2:00 p.m. Pacific Daylight Time on Thursday, May 14, 2009.

Officers of Data I/O will be attending and would be pleased to respond to questions after the meeting. We will review the business operations of Data I/O for 2008 and the first quarter of 2009 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 14th.

Sincerely,

Frederick R. Hume
President and Chief Executive Officer

DATA I/O CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS - May 14, 2009

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 14, 2009, 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 four 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 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.

(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, 2009.

(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 14, 2009. The proxy statement and annual report to security holders are available at http://www.dataio.com/corporate/filings.asp.

The Board of Directors has fixed the close of business on March 16, 2009, as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the 2009 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 27, 2009

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 14, 2009

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 14, 2009, 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 16, 2009 (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 2009 Annual Report to Shareholders are being mailed to shareholders on or about April 15, 2009.

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, 2009, 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 8,873,051 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 four 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. There can be no broker non-votes on the election of directors because brokers who hold shares for the accounts of their clients have discretionary authority to vote such shares with respect to the election of directors. The proposals 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 BNY Mellon Shareowner Services, an independent business entity not affiliated with Data I/O.

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 16, 2009, was $2.59 per share.

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 16, 2009. 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 (3)
Leviticus Partners, L.P.	789,445	(1)	8.90%
Adam M. Hutt			
AMH Equity LLC			
Parameter Partners LLC			
30 Park Avenue			
Suite 12F			
New York, NY 10016			
Wellington Capital	733,195	(2)	8.26%
75 State Street			
Boston, Massachusetts 02109			

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(1) The holding shown is as of April 20, 2005 as jointly reported by Leviticus Partners, L.P. (“Leviticus”); AMH Equity, LLC (“AMH”); Adam Hutt; and Parameter Partners, LLC (“Parameter”), on the most recent Schedule 13G filed pursuant to Rule 13d-1(b) or 13d-2(b) under the Securities Exchange Act of 1934. The Schedule 13D/A indicates Leviticus holds sole voting and dispositive power with respect to 750,000 shares; Parameter holds a sole voting and dispositive power with respect to 39,445 shares; AMH is the general partner of Leviticus and Parameter; and Adam Hutt is the controlling person of AMH. AMH and Adam Hutt each are deemed to be the beneficial owner of 639,445 shares and each disclaim any beneficial ownership of these shares.

(2) The holding shown is as of February 17, 2009, as reported by Wellington Capital, on the most recent Schedule 13G filed pursuant to Rule 13d-1(b) or 13d-2(b) under the Securities Exchange Act of 1934. The Schedule 13G indicates that Wellington holds sole voting and dispositive power with respect to 733,195 shares.

(3)

The holding reported on February 3, 2009, by Royce & Associates LLC, on Schedule 13G filed pursuant to Rule 13d-1(b) or 13d-2(b) under the Securities Exchange Act of 1934 indicates that Royce & Associates holds sole voting and dispositive power with respect to 376,600 shares and no longer holds 5% or more.

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 16, 2009. Data I/O is not aware of any family relationships between any director, director nominee or executive officer of Data I/O.

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Name	Amount and Nature of Beneficial Ownership		Percent of Shares Outstanding
Frederick R. Hume	270,511	(1)	3.05%
Joel S. Hatlen	201,969	(2)	2.28%
Paul A. Gary	109,600	(3)	1.24%
Harald A. Weigelt*	83,015	(4)	(11)
Dan A. DiLeo**	54,316	(5)	(11)
William R. Walker	51,000	(6)	(11)
Edward D. Lazowska**	48,108	(7)	(11)
Steven M. Quist	46,517	(8)	(11)
Gordon B. Bluechel	17,959	(9)	(11)
All current directors and executive officers as a group (9 persons)	882,995	(10)	9.95%

*No longer an executive officer of Data I/O as of November 17, 2008 and will no longer be an employee after March 31, 2009

**Not standing for re-election at 2009 Annual Meeting of Shareholder of Data I/O

(1) Includes options to purchase 136,876 shares exercisable within 60 days.
(2) Includes options to purchase 81,876 shares exercisable within 60 days.
(3) Includes options to purchase 43,500 shares exercisable within 60 days.
(4) Includes options to purchase 58,126 shares exercisable within 60 days.
(5) Includes options to purchase 43,500 shares exercisable within 60 days.
(6) Includes options to purchase 51,000 shares exercisable within 60 days.
(7) Includes options to purchase 36,000 shares exercisable within 60 days.
(8) Includes options to purchase 36,000 shares exercisable within 60 days.
(9) Includes options to purchase 15,407 shares exercisable within 60 days.
(10) Includes options to purchase 502,285 shares exercisable within 60 days.

(11) 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

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/corporate/governance.asp. All of these Charters are consistent with the applicable requirements of the Sarbanes-Oxley Act of 2002 and our NASDAQ listing standards. The current Audit Committee charter is also attached to this Proxy Statement as Appendix A.

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/corporate/governance.asp. In the unlikely event that the Board of Directors approves any sort of 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.

Director Independence

Daniel A. DiLeo, Paul A. Gary, Edward D. Lazowska, Steven M. Quist, and William R. Walker are independent directors, as defined in Rule 4200 (a)(15) of the National Association of Securities Dealers listing standards (the “NASD Rules”).

PROPOSAL 1: ELECTION OF DIRECTORS

The Board of Directors consisted of six directors during 2008. In an effort to further reduce expenses in this difficult economic environment, the Board of Directors on March 4, 2009, determined it would be in the best interest of Data I/O to reduce the size of the Board of Directors to four directors and expects to take further actions necessary to make this reduction effective on the date of the 2009 Annual Meeting. At the Annual Meeting, the shareholders will vote on the election of four 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. The Board of Directors has approved the four 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.

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

Paul A. Gary, age 67, has been a director of Data I/O since March 1998 and was named Chairman of the Board in May 1999. From 1987 until his retirement in 1996, Mr. Gary worked for ATT Microelectronics as Vice President of the High Performance IC and NETCOM business units. From 1981 to 1987, he held various leadership positions with (the former) Western Electric Company, including Director of Engineering and Manufacturing and General Manager. From 1967 to 1981, Mr. Gary worked for Bell Laboratories, finishing there as Laboratory Director. Mr. Gary is also a director of TriQuint Semiconductors, Inc.

Frederick R. Hume, age 66, 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.

Steven M. Quist, age 63, was appointed to the Board of Directors on March 2001. Mr. Quist has been the Principal of Blackmore Peak Partners, a management consulting firm since 2003. He was President and Chief Executive Officer of CyberOptics Corporation, from 1998 until 2003 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. Mr. Quist has been a Director of Rimage Corporation since 2000. Also, Mr. Quist is a director of three privately held companies: ILX Lightwave Corporation, S2 Corporation, and Nervonix, Inc.

William R. Walker, age 67, has been a director of Data I/O since October 2003. Since 1997, Mr. Walker has been 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.

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, 2008, there were eight meetings of the Board of Directors. Each of the incumbent directors who were on the Board of Directors during 2008 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. Gary attended our Annual Meeting held on May 19, 2008. No other member of our Board of Directors attended our 2008 Annual Meeting because our Board of Directors did not have a meeting scheduled for that day.

The Board of Directors had three standing Committees during 2008, each comprised solely of independent directors 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. DiLeo, Quist, and Walker (Chair) throughout 2008. The Compensation Committee consisted of Messrs. DiLeo, Walker, and Quist (Chair) throughout 2008. The Nominating Committee consisted of Messrs.

Gary, Lazowska (Chair), and Quist during the first quarter of 2007. The Corporate Governance and Nominating Committee consisted of Messrs. DiLeo (Chair), Gary, Lazowska, Quist, and Walker throughout 2008.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee develops, recommends to the Board of Directors, and monitors a set of corporate governance principles applicable to Data I/O. The Corporate Governance and Nominating Committee seeks qualified candidates to serve on the Board of Directors, 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 Corporate Governance and Nominating Committee met three times in 2008.

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 a financial expert, William R. Walker, as defined in the Securities and Exchange ("SEC") rules adopted pursuant to the Sarbanes-Oxley Act of 2002. Mr. Walker also has the financial sophistication required by Rule 4350(d)(2) of the NASD Rules. The Audit Committee met four times during 2008. 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 two times during 2008.

Consideration of Director Nominees

The Corporate Governance and Nominating Committee, in evaluating and determining whether to recommend a person as a candidate for election as a director, considers relevant management and/or technology experience; 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; and an absence of conflicts of interest with Data I/O.

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 Committee 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 Committee considers various potential candidates for director which may come to the Committee's attention through current Board members, professional search firms, shareholders, or other persons. These candidates are evaluated at regular or special meetings of the Committee, 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 2010 Annual Meeting of Shareholders." Following verification of the shareholder status of persons proposing candidates, the Committee 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 Committee, a potential candidate nominated by a shareholder is treated like any other potential candidate during the review process by the Committee. For eligible shareholder nominees to be placed on the ballot for the 2009 Annual Meeting of Shareholders, shareholders were required to deliver nominations for proposed director nominees to Data I/O by February 17, 2009. Shareholders did not propose any candidates for election at the 2009 Annual Meeting.

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.

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 for 2008 of $3,750 for each quarter of service, plus $1,500 for each full Board of Directors meeting attended and $750 for each teleconference Board of Directors 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; and $1,250 for our Committee chairs. In addition, each non-employee Board of Directors member as of May 17, 2008, was granted an option for 9,000 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 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.

At the April 2008 Board of Directors Meeting, the Board determined that 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 four 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). At the time the guideline was established all directors met the stock ownership target guideline. Due to the decline in the Data I/O stock price, as of the Record Date one of the five non-employee directors met the stock ownership target guideline.

DIRECTOR COMPENSATION

The following table shows compensation paid by Data I/O to non-employee directors during 2008.

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Nonqualified Deferred Compensation Earnings (f)	All Other Compensation ($) (g)	Total ($) (h)
Daniel A. DiLeo	$ 29,000	$-	$ 24,480	$-	$-	$-	$ 53,480
Paul A. Gary	39,000	-	24,480	-	-	-	63,480

Edward D. Lazowska	24,000		24,480	-	-	-	48,480
Steven M. Quist	29,000	-	24,480	-	-	-	53,480
William R. Walker	29,000	-	24,480	-	-	-	53,480

(1) Each outside director was granted 9,000 stock options with a grant date fair value under FAS 123R of $53,820 on May 19, 2008 with a 6 year life and 3 year quarterly vesting.

(2) Each outside director had the following aggregate number of option awards outstanding at December 31, 2008: Dileo 56,500; Gary 56,500; Lazowska 49,000; Quist 49,000; and Walker 64,000.

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 written representations that no other reports were required, all Section 16(a) filing requirements applicable to its officers and directors were complied with during 2008.

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 four meetings during 2008.

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, 2008 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

Daniel A. DiLeo

Steven M. Quist

William R. Walker

March 27, 2009

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, 2008 and 2007 and for review of the financial statements included in each of Data I/O's Form 10-Q, were approximately $193,735 and $227,826 respectively.

Audit Related Fees: Aggregate fees billed for each of the years ended December 31, 2008 and 2009 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 pension plan audit and accounting treatment consultations, were approximately $0 and $ 1,142, respectively.

Tax Fees: Aggregate fees billed for each of the years ended December 31, 2008 and 2007 for professional services rendered by Grant Thornton LLP for tax compliance, tax advice, tax examination support, and tax planning, were approximately $0 and $0, respectively.

All Other Fees: Aggregate fees billed for each of the years ended December 31, 2008 and 2007 for all other products and services provided by Grant Thornton LLP that are not otherwise disclosed above, were approximately $0 for 2008 and 2007.

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 2008, 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 (" 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. Consideration of Data I/O's executive management normal 2008 annual base salary adjustments was deferred indefinitely for executive officers as part of Data I/O's short-term cost control efforts. Effective March 1, 2009 Mr. Hume voluntarily reduced his base salary by $50,000 per year.

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MICP. The MICP offers each executive officer a performance-based opportunity to earn additional 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 worse than or average historical or expected financial performance. The percentages of base salary targeted for MICP payout ("the MICP Guideline") for specific executive officers for a given year are generally the same as the previous year, but can be changed by the Compensation Committee early in the year.

For 2007 and 2008, the Compensation Committee determined that revenue growth combined with profitability was critical for Data I/O and would affect near term and long-term shareholder value. Therefore, for 2007 and 2008 the MICP payout was a function of two measures: Data I/O's revenue growth percentage; and Data I/O's EBITDA as a percentage of revenue. Given the uncertain economic conditions, the Compensation Committee determined that profitability is critical for 2009. Therefore, the 2009 MICP payout will be a function of Data I/O's EBITDA as a percentage of revenue and the MICP payout can range from 0% to 200% of each executive's MICP Guideline. The Compensation Committee believes that for 2009 this measure of key results for Data I/O will affect near-term and long-term shareholder value.

Data I/O Corporation 2007 MICP Bonus Matrix
Range of Bonus Payouts (actual results interpolated)

Revenue	27%	100%	125%	150%	175%	200%
	22%	75%	100%	125%	150%	175%
Growth	17%	50%	75%	100%	125%	150%
	12%	25%	50%	75%	100%	125%
Percentage	7%	0%	25%	50%	75%	100%
	2%	4%	6%	8%	10%	12%
		EBITDA as a Percentage of Revenue				

Data I/O Corporation 2008 MICP Bonus Matrix
Range of Bonus Payouts (actual results interpolated)

Revenue	14%	100%	125%	150%	175%	200%
Growth	11%	75%	100%	125%	150%	175%
Percentage	8%	50%	75%	100%	125%	150%
	5%	25%	50%	75%	100%	125%
	~	0%	25%	50%	75%	100%
		2%	4%	6%	8%	10%
		EBITDA as a Percentage of Revenue				

The 2007 and 2008 MICP Targets for our executive officers were as follows: Mr. Hume 50% of base salary; Mr. Hatlen 40% of base salary; Mr. Bluechel 30% of base salary; and Mr. Weigelt 45% of base salary. If the maximum revenue growth and EBITDA percent 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; Mr. Bluechel would earn 60% of his base salary and Mr. Weigelt would earn 90% of his base salary. A greater or lesser percentage of MICP Guideline is to be paid based on Data I/O's actual achievement of these two measures. For 2007, Data I/O did not achieve the minimum threshold for these two measures, so there was no MICP payout based on 2007 financial results. For 2008 the MICP payout was 116% of target. For 2009, given the uncertain economic conditions, it is expected to be difficult to achieve MICP payout of 100% of target.

- **Long-Term Equity Incentives.** The Compensation Committee approves grants under the Data I/O Corporation 1986 Employee Stock Option Plan, as amended and restated (the "1986 Plan") and the 2000 Plan (collectively "the Plans"). These are Data I/O's only long-term incentive plans. The primary purpose of the Plans is to make a significant element of executive pay a reward for taking actions which maximize shareholder value over time. All options granted under the 1986 Plan are fully vested and no additional options are being granted under that Plan. All new options are granted under the 2000 Plan.

<u>Award Criteria</u>

The Compensation Committee grants options or restricted stock awards based primarily on its perception of the executive's ability to affect future shareholder value and secondarily on the competitive conditions in the market for highly-qualified executives who typically command compensation packages which include a significant equity incentive. All options and restricted stock awards granted to our executive officers in 2007 and 2008 were based on these criteria.

Exercise Price

Historically, all options and restricted stock awards granted by Data I/O have been granted with an exercise price equal to the fair market value (an average of the day's high and low selling price) of Data I/O's Common Stock on the date of grant and, accordingly, will only have value if Data I/O's stock price increases. Options granted to employees are non-qualified.

Vesting and Exercise

Options and restricted stock awards granted to employees vest at a rate of 6.25% per quarter and have a six year term. Options granted to Directors are also non-qualified options and vest quarterly over a three year period. All grants are subject to acceleration of vesting in connection with certain events leading to a change in control of Data I/O or at any other time at the discretion of the Compensation Committee. All options granted to executive officers are issued in tandem with limited stock appreciation rights (“SARs”), which become exercisable only in the event of a change in control of Data I/O. See “Change in Control and other Termination Arrangements.”

Award Process

The timing of our typical grant/award is typically determined well in advance, with approval at a scheduled meeting of our Board of Directors or its Compensation Committee with the grant date to be effective on the date of our next Annual Meeting of Shareholders. The Annual Meeting of Shareholders does not coincide with any of our scheduled earning releases. We do not anticipate option grants at other dates, except for grants to new employees based on their first date of employment or in specific circumstances approved by the Compensation Committee. The grant date is established when the Compensation Committee approves the grant and all key terms have been determined. If at the time of any planned option grant/award date any member of our Board of Directors or Executive Officers is aware of material non-public information, the Company would not generally make the planned stock option/award grant. In such an event, as soon as practical after material information is made public, the Compensation Committee would authorize the delayed stock option grant.

- **Benefits.** Executive Officers of Data I/O are eligible for the same benefits as other Data I/O employees. Data I/O has no defined benefit pension programs. Data I/O has a 401(k) tax qualified retirement savings plan in which all U.S. based employees, including U.S. executive officers, are able to contribute the lesser of up to 100% of their annual salary or the limit prescribed by the IRS on a pre-tax basis. Data I/O will match up to 4% of pay contributed. Matching contributions in any year require employment on December 31 and vest after three years of service credit. The Germany retirement government program has a limited company matching provision for elective contributions made by Mr. Weigelt.

- **Perquisites and Other Personal Benefits.** We believe perquisites are not conditioned upon performance, create divisions among employees, undermine morale, and are inconsistent with our compensation philosophy and policy of equitable treatment of all employees based upon their contribution to our business. No executive officer received perquisites valued at $10,000 or more in 2008, except for Mr. Weigelt where in Germany it is customary to provide a company automobile for personal and business purposes.

- **Individual Executive Officers’ Performance.**The base salary of each executive officer is reviewed annually by the President and Chief Executive Officer. This is done on the basis of a review by the President and Chief Executive Officer, evaluating the executive’s prior year performance against their individual job responsibilities and attainment of corporate objectives and Data I/O’s financial performance. In developing executive compensation packages to recommend to the Compensation Committee, the President and Chief Executive Officer considers, in addition to each executive’s prior year performance, the executive’s long-term value to Data I/O, the executive’s pay relative to that for comparable surveyed jobs, the executive’s experience and ability relative to executives in similar positions, and the current year increases in executive compensation projected in industry surveys.

The Compensation Committee then reviews the President and Chief Executive Officer’s recommendations for executive officers’ total compensation and approves final decisions on pay for each executive officer based on the President and Chief Executive Officer’s summary of the executive officers performance and on the other criteria and survey data described above. In this process, the Compensation Committee consults with Data I/O’s President and Chief Executive Officer.

The base salary, total cash compensation, and long term equity incentive compensation for the President and CEO is reviewed annually by the full Board of Directors. This review includes a written evaluation of the CEO’s performance for the previous year. The Compensation Committee meets annually without the President and Chief Executive Officer to evaluate his performance and to develop a recommendation for his compensation for the coming year. In addition to reviewing Data I/O’s financial performance for the prior year, the Committee reviews compensation surveys for chief executive officers and the President and Chief Executive Officer’s individual performance, including development and execution of short- and long-term strategic objectives, Data I/O revenue growth and profitability, the achievement of which is expected to increase shareholder value.

The Compensation Committee determined the compensation package, including salary, bonus, stock option grants, and other benefits for Frederick R. Hume, President and Chief Executive Officer, based on the Committee's perception of his qualifications for the position, his performance results, his ability to affect future shareholder value, compensation surveys, and the competitive conditions in the market.

Accounting and Tax Considerations of our Compensation Program

Options granted to employees are non-qualified options because of the more favorable tax treatment for Data I/O. Our stock option grant policies have been impacted by the implementation of SFAS No. 123R, which was effective on January 1, 2006. Under this accounting pronouncement, we are required to value unvested stock options granted prior to our adoption of SFAS 123 under the fair value method and expense those amounts in the income statement over the stock option's remaining vesting period. During 2006, we reduced the amount of option grants and shifted in part to restricted stock awards with the intended result of limiting the impact of the SFAS 123R expensing provisions on annual earnings. We expect this practice to continue going forward in 2009.

We have structured our compensation program to comply with Internal Revenue Code Sections 162(m) and 409A. Under Section 162(m) of the Internal Revenue Code, a limitation was placed on tax deductions of any publicly-held corporation for individual compensation to the chief executive officer and the four other most highly compensated executive officers exceeding $1,000,000 in any taxable year, unless the compensation is performance-based. The Compensation Committee is aware of this limitation and believes that no compensation to be paid by Data I/O in 2009 will exceed the $1 million limitation, except possibly related to a change of control.

Change in Control and other Termination Arrangements

- **Change in Control Arrangements**. Data I/O has entered into agreements (the "Executive Agreements") with Messrs. Hume and Hatlen which entitle them to receive payments if they are terminated without cause or resign with good reason within specified periods before or after the occurrence of certain events deemed to involve a change in control of Data I/O. Effective December 31, 2008 the Executive Agreements were amended and restated and the term of the Executive Agreements was extended until December 31, 2011. The Executive Agreements were amended and restated to better ensure appropriate incentives were in place for Messrs. Hume and Hatlen to complete any change in control related transaction and transition and to comply with the provisions of Section 409A of the Internal Revenue Code. The amended and restated Executive Agreements deleted the previous provision that reduced any severance payment under the Executive Agreements by any other severance payment received by Messrs. Hume and Hatlen and now state that the resulting additional severance will be calculated under the Executive Agreements based on Data I/O's severance policy in place immediately preceding the date of a change in control. The amended and restated Executive Agreements now provide for continuation and vesting in Data I/O's matching 401(k) contributions through the date of termination after a change in control and include a reimbursement allowance of $20,000 for outplacement services. The amended and restated Executive Agreements also added a transaction closing incentive of one half year's annual salary for Messrs. Hume and Hatlen.

In order to better ensure appropriate incentives were in place for Messrs. Weigelt and Bluechel to complete a change in control related transaction and transition, the Board of Directors at its October 22, 2008 meeting also approved the following change in control arrangements for Messrs. Weigelt and Bluechel:

- a change in control transition incentive of three month's salary at the end of one year following a change in control or involuntary termination, whichever occurs first;
- vesting of stock options on close of change in control transaction;
- up to $10,000 in outplacement services on termination after a change in control;
- continuation of and vesting in Data I/O's matching 401(k) contribution through date of termination after change in control; and
- severance based on Data I/O's severance policy in place immediately preceding the date of a change in control (in the case of Mr. Bluechel) and per his Employment Agreement (in the case of Mr. Weigelt).

Data I/O's option grants and stock awards have been granted pursuant to the Plans. The Change in Control provisions applicable to each Plan are as follows:

1986 Plan

As stated above, all options granted under the 1986 Plan are fully vested and no additional options are being granted under that Plan. Accordingly, the vesting acceleration provisions of the 1986 Plan are not applicable. Upon a Change in Control, options granted under the 1986

Plan are governed by the terms of the agreement for that option. The 1986 Plan does not have any provisions that provide that the 1986 options terminate if not exercised upon a Change in Control.

2000 Plan

The 2000 Plan allows for the granting of options and other restricted stock awards. Subject to any different terms set forth in the award agreement, vesting of “qualifying” options and restricted stock awards may be affected by a Change in Control and as described out in the table below. A “Change in Control” is defined to include (i) a merger or consolidation of the Company in which more than 50% of the voting power of the Company’s outstanding stock after the transaction is owned by persons who are not shareholders immediately prior to such transaction, and (ii) the sale or transfer of all or substantially all of the Company’s assets. A “qualifying” award is defined as an option or award that has been held for at least 180 days as of the Change of Control.

Event	Acceleration of Vesting
The outstanding options do not remain outstanding or are not assumed by the surviving entity or replaced with comparable options.	Subject to certain limitations, the vesting of "qualifying" options or awards are accelerated in full. The option will be exercisable in full prior to the effective date of the Change of Control. The Company's repurchase right with respect to all "qualifying" share awards shall lapse in full.
The outstanding options remain outstanding after a Change of Control or are assumed by the surviving entity or replaced with comparable options.	Subject to certain limitations, the vesting of outstanding "qualifying" options and restricted stock awards will be accelerated to the extent of 25% of the unvested portion thereof. The remaining 75% of the unvested portion will vest in accordance with the vesting schedule set forth in the applicable award agreement.
The outstanding options remain outstanding after a Change of Control or are assumed by the surviving entity or replaced with comparable options, but the holder of a "qualifying" award is terminated involuntarily within 180 days of the Change of Control.	All options and other awards held by such person will be accelerated in full. The options are exercisable in full for a period of 90 days commencing on the effective date of the involuntary termination, or if shorter, the remaining term of the option.
There are no "qualifying" options outstanding at the effective time of the Change of Control, but there are "qualifying" shares.	The vesting of all "qualifying" shares will be accelerated to the extent of 25% of the unvested portion thereof. The remaining 75% of the unvested portion will vest in accordance with the vesting schedule set forth in the applicable award agreement.

In 1983, Data I/O adopted a SAR Plan which allows the Board of Directors to grant to each director, executive officer or holder of 10% or more of the stock of Data I/O a SAR with respect to certain options granted to these parties. A SAR has been granted in tandem with each option granted to an executive officer of Data I/O. SARs granted which have been held for at least six months are exercisable for a period of 20 days following the occurrence of either of the following events: (i) the close of business on the day that a tender or exchange offer by any person (with certain exceptions) is first published or sent or given if, upon consummation thereof, such person would be the beneficial owner of 30% or more of the shares of Common Stock then outstanding; or (ii) approval by the shareholders of Data I/O (or, if later, approval by the shareholders of a third party) of any merger, consolidation, reorganization or other transaction providing for the conversion or exchange of more than 50% of the outstanding shares of Data I/O's Common Stock into securities of a third party, or cash, or property, or a combination of any of the foregoing.

- **Other Termination Arrangements.** Data I/O has a severance policy for U.S. employees that provides for severance payouts for terminations without cause based upon years of service. The formula is 1 week of pay for each year of service up to 5 years; 1.25 weeks of pay for each year of service for those with 5 to 10 years of service; and 1.5 weeks of pay for each year of service for those with 10 or more years of service. Mr. Hume, Mr. Hatlen and Mr. Bluechel had at February 28, 2009 approximately 10 and 17 and 16 years of service, respectively. This severance policy is the minimum amount that would be paid out. Data I/O does not have a formal policy regarding executive severance but has generally provided an amount it believes is consistent with severance typically provided for executives in similar positions and with similar periods of service.

Data I/O entered into a Contract of Employment (the "Employment Agreement") with Mr. Weigelt which was effective December 23, 1999 and has an indefinite term. Either Data I/O or Mr. Weigelt could terminate the Employment Agreement on three (3) months' notice. The Employment Agreement will terminate on March 31, 2009. The Employment Agreement provided that Mr. Weigelt be paid an annual salary and be eligible for incentive compensation as well as be furnished with a company automobile. The Employment Agreement provided Mr. Weigelt a lump sum payment to the officer upon termination of the officer's employment by Data I/O without cause. The amount of the lump sum payment was equal to a five (5) months base salary at the time of termination, plus 5/12 of the incentive pay for the preceding year. Mr. Weigelt was no longer an executive officer of Data I/O as of November 17, 2008 and will no longer be an employee after March 31, 2009. Data I/O anticipates paying these amounts to Mr. Weigelt following his termination. The Employment Agreement included confidentiality and non-competition provisions.

Change in Control and Other Termination Arrangements

Name	Termination without cause and Change in Control not applicable	Termination without cause and Change in Control applicable		Change in Control applicable without termination	
	Compensation (3)	Compensation (2)	Option/SAR Vesting	Compensation (4)	Option/SAR Vesting
Frederick R. Hume	$90,865	$643,782	66,249	$157,500	66,249
Joel S. Hatlen	$87,019	$402,070	31,874	$88,725	31,874