

DATA I/O CORP  
Form DEF 14A  
April 03, 2014

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.:
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# **DATA I/O CORPORATION**

**NOTICE OF 2014**

**ANNUAL MEETING**

**and**



**DATA I/O CORPORATION**

April 2, 2014

**To Our Shareholders:**

You are cordially invited to attend the 2014 Annual Meeting of Data I/O Corporation, which will be held at Data I/O's headquarters at 6464 18<sup>th</sup> Ave NE, Suite 101, Redmond, Washington 98052. The meeting will begin at 10:00 a.m. Pacific Daylight Time on Monday, May 19, 2014.

Officers of Data I/O will be attending and will respond to questions after the meeting. Formal business will include the election of directors, ratification of the continued appointment of Grant Thornton LLP as Data I/O's independent auditors, and an advisory vote on executive compensation.

Please read the proxy materials carefully. Your vote is important. Data I/O appreciates you considering and acting on the proposals presented. We look forward to seeing you on May 19, 2014.

Sincerely,

Anthony Ambrose

President and Chief Executive Officer

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**DATA I/O CORPORATION**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS - May 19, 2014**

**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 10:00 a.m. Pacific Daylight Time, on Monday, May 19, 2014, at Data I/O’s principal offices, 6464 185<sup>th</sup> 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) 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, 2014.

**(3) Say on Pay – Advisory Vote on Executive Compensation:**

To consider and vote on an advisory resolution on the compensation of our named executive officers.

**(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 19, 2014. The proxy statement and annual report to security holders are also available at <http://www.dataio.com/company/investorrelations/annualmeeting.aspx>.**

The Board of Directors has fixed the close of business on March 20, 2014, as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the 2014 Annual Meeting and any adjournment or postponement thereof.

By Order of the Board of Directors

/s/ Anthony Ambrose

Anthony Ambrose

President and Chief Executive Officer

Redmond, Washington

April 2, 2014

### **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.investorvote.com/DAIO> or by telephone at 1-800-658-8683, 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 185<sup>th</sup> Ave NE, Suite 101**

**Redmond, Washington 98052**

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**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**May 19, 2014**

**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 Monday, May 19, 2014, at 10:00 a.m. Pacific Daylight Time at Data I/O’s principal offices, 6464 185<sup>th</sup> 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 20, 2014 (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 2013 Annual Report to Shareholders are being mailed to shareholders on or about April 11, 2014.

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.investorvote.com/DAIO>, or by telephone at 1-800-652-8683, 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 Proposal 1 on your proxy card. You may (a) vote “FOR” all of the director nominees as a group, (b) “WITHOLD” 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 Proposal 2 to ratify the continued appointment of Grant Thornton LLP as Data I/O’s

independent auditors for the calendar year ended December 31, 2014, check the appropriate box under Proposal 2 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. To vote on Proposal 3, Say on Pay – Advisory Vote on Executive Compensation, you may vote (a) “FOR” the advisory resolution, (b) “AGAINST” the advisory resolution, or (c) “ABSTAIN” from voting on the advisory resolution on executive compensation.

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 7,788,566 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 and broker non-votes will have no effect on the election of directors because they are not cast in favor of any particular candidate.

The proposal 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 proposal exceeds the number of votes cast against the proposal. Abstentions and broker non-votes on the proposal will have no effect because approval of the proposal is based solely on the votes cast.

Say on Pay – The advisory vote on the compensation of Data I/O’s named executive officers will be approved, if a quorum is present, if the number of votes cast in favor of the advisory resolution exceeds the number of votes cast against the advisory resolution. Abstentions and broker non-votes on the advisory resolution will have no effect because approval of the advisory resolution 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 instruct your broker or bank how to vote if you want it to count in Proposal 1, the election of directors; and Proposal 3, Say on Pay. 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 Proposal 1, election of directors; and Proposal 3, Say on Pay, votes will not be cast on your behalf for these Proposals. Your bank or broker will, however, continue to have discretion to vote any uninstructed shares on Proposal 2, ratification of the appointment of Data I/O’s independent auditors. If you are a shareholder of record and you do not cast your vote, votes will not be cast on your behalf on 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 20, 2014, was \$2.75 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 20, 2014. 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
Penbrook Management, LLC	579,550	(1) 7.4%

AnKap Partners, L.P.

AnKap, LLC

Robert S. Anderson, Ralph Kaplan

Barbara Burke DiCostanzo

Ward Anderson

570 Lexington Avenue, 12<sup>th</sup> Floor

New York, NY 10022

(1) The holding shown is as of December 31, 2013 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 January 17, 2013) Schedule 13G/A filed pursuant to Rule 13d-1 under the Securities Exchange Act of 1934. The Schedule 13G/A indicates that Penbrook Management has sole dispositive power of 579,500 shares and disclaims beneficial ownership of them; AnKap Partners has sole voting power and dispositive power for 100,000 shares; AnKap, LLC has sole voting power and dispositive power for 100,000 shares and disclaims beneficial ownership of them; Robert S. Anderson has sole voting and dispositive power for 51,300 shares, shared voting power for 100,000 shares and shared dispositive power for 525,150 shares, with an aggregate amount of 576,450 shares, however disclaiming beneficial ownership of shares managed by Penbrook Management and AnKap Partners; Ralph Kaplan has shared voting power for 100,000 shares and shared dispositive power for 525,150 shares, with an aggregate amount of 525,150 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 100,000 share and shared dispositive power for 525,150 shares; with an aggregate amount of 527,250 shares, however disclaiming beneficial ownership of shares managed by Penbrook Management and AnKap Partners; and Ward Anderson has sole voting and dispositive power for 1,000 shares and shared voting power for 0 shares and shared dispositive power for 472,800 shares, with an aggregate amount of 473,850 shares, however disclaiming beneficial ownership of these shares managed by Penbrook Management.

**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 20, 2014. 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>
Anthony Ambrose	95,146 (1)	1.2%
Joel S. Hatlen	256,776 (2)	3.3%
Rajeev Gulati	18,750 (3)	(10)
Douglas W. Brown	49,900 (4)	(10)
Kenneth B. Myer	27,400 (5)	(10)
Brian T. Crowley	22,550 (6)	(10)
Alan B. Howe	12,050 (7)	(10)
Mark J. Gallenberger	12,050 (8)	(10)
All current directors and executive officers	494,622 (9)	6.4%

as a group (8 persons)

- (1) Includes options to purchase 75,000 shares exercisable within 60 days.
- (2) Includes options to purchase 108,750 shares exercisable within 60 days.
- (3) Includes options to purchase 18,750 shares exercisable within 60 days.
- (4) Includes options to purchase 27,500 shares exercisable within 60 days.
- (5) Includes options to purchase 10,000 shares exercisable within 60 days.
- (6) Includes options to purchase 8,750 shares exercisable within 60 days.
- (7) Includes options to purchase 6,250 shares exercisable within 60 days.
- (8) Includes options to purchase 6,250 shares exercisable within 60 days.
- (9) Includes options to purchase 261,250 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 at [www.dataio.com/company/investorrelations/corporategovernance.aspx](http://www.dataio.com/company/investorrelations/corporategovernance.aspx). All of these Charters are consistent with the applicable requirements of United States security laws and our NASDAQ listing standards.

### **Code of Ethics**

Our Code of Ethics is posted on the corporate governance page of our website at [www.dataio.com/company/corporategovernance.aspx](http://www.dataio.com/company/corporategovernance.aspx). Data I/O's Code of Ethics apply 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](http://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 LLC.

## **Risk Oversight**

Our Board of Directors consists of four independent directors, 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**

Messrs. Crowley, Gallenberger, Howe and Brown are independent directors, as defined by applicable NASDAQ listing standards. Mr. 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; however he will not be standing for reelection. Mr. Ambrose, 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 Chairman, Mr. Brown functions as our lead independent director and Mr. Ambrose is our Chief Executive Officer, President and Director.

## **PROPOSAL 1: ELECTION OF DIRECTORS**

At the 2013 Annual Meeting, the shareholders elected six directors to serve until the next Annual Meeting or until such director's successor has been qualified and elected or such director's earlier death, resignation or removal. On February 25, 2014, the Board decided to reduce the number of directors to five effective at the 2014 Annual Meeting of Shareholders. Mr. Myer will not be standing for reelection. For the 2014 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.

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

**Anthony Ambrose**, age 52, was appointed a director of Data I/O effective October 25, 2012. He joined Data I/O October 25, 2012 and has served as President and Chief Executive Officer (“CEO”). Prior to Data I/O, Mr. Ambrose was Owner and Principal of Cedar Mill Partners, LLC, a strategy consulting firm since 2011. From 2007 to 2011, he was Vice President and General Manager at RadiSys Corporation, a leading provider of embedded wireless infrastructure solutions, where he led three product divisions and worldwide engineering. At RadiSys, he established the telecom platform business and grew it to over \$125M in annual revenues. Until 2007, he was general manager and held several other progressively responsible positions at Intel Corporation, where he led development and marketing of standards based telecommunications platforms, and grew the industry standard server business to over \$1B in revenues. Mr. Ambrose has a Bachelors of Science in Engineering from Princeton University.

Mr. Ambrose has extensive semiconductor and mobile broadband networks industry operating experience. He has significant executive experience in strategy development, business management, marketing, engineering and new product development. His role as our President and CEO gives him knowledge as well as unique insight into our challenges, opportunities and operations that the Board of Directors believes qualifies him to serve as a director of Data I/O.

**Douglas W. Brown**, age 58, was appointed a director of Data I/O effective April 1, 2011. Mr. Brown is the President and CEO 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, he provided governance and interim executive services, with engagements as President or Board member of venture backed clients. From 1998 to 2003, he was a Board member of GoAhead Software and was appointed its President in 2001. From 1993 to 1999, he was a President of a Seattle-area manufacturing company which became a Division of Leggett & Platt in 1996. Prior to that time, he was the Chief Financial Officer (“CFO”) 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 a Bachelors degree in Business from University of Idaho.



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

**Brian T. Crowley**, age 53, was appointed a director of Data I/O effective June 5, 2012. Mr. Crowley is currently Vice President of Snupi Technologies, a sensor to cloud startup he joined in 2014. Mr. Crowley is also an Executive in Residence at the University of Washington Center for Technology Commercialization. From July 2003 to September 2013, Mr. Crowley served as the President and CEO for BSquare Corporation (NASDAQ: BSQR) in Bellevue, Washington, the leading provider of embedded solutions, engineering services and production ready software products for the smart device market. Previously, he had served as Vice President, Product Development since joining Bsquare in April 2002. From April 1999 to December 2001, Mr. Crowley was with DataChannel, a developer of enterprise portals where he held executive positions including Vice President of Engineering and Vice President of Marketing. From December 1997 to April 1999, he was Director of Development at Sequel Technology, a network solutions provider. From 1986 to December 1997, he held various positions at Applied Microsystems Corporation, including Vice President and General Manager of the Motorola products and quality assurance divisions. He serves on the Western Washington University Business School Deans Advisory Board. Mr. Crowley has a Bachelors of Science in Electrical Engineering from Arizona State University.

Mr. Crowley has experience as a CEO and public company director, as well as prior executive management experience in industries related to ours in product development, engineering, technology, and mergers and acquisitions that the Board of Directors believes qualifies him to serve as a director of Data I/O.

**Mark J. Gallenberger**, age 50, was appointed a director of Data I/O effective January 31, 2013. He serves as the Senior Vice President, Chief Financial Officer, Chief Operating Officer and Treasurer of LTX-Credence Corporation (NASDAQ: LTXC), a manufacturer of semiconductor test equipment, which he joined in 2000. For the six years prior, he was Vice President/Senior Manager with Ernst & Young (Cap Gemini) in their consulting practice, establishing the Deals & Acquisitions Group. Previously, he held management and technical positions with Digital Equipment Corporation. He has a Masters of Business Administration from Northwestern University and a Bachelors of Science – Electrical Engineering from Rochester Institute of Technology.

Mr. Gallenberger has extensive semiconductor equipment industry, mergers & acquisition, capital markets, engineering technical, financial, and CFO experience that the Board of Directors believes qualifies him to serve as a director of Data I/O.

**Alan B. Howe**, age 52, was appointed a director of Data I/O effective January 31, 2013. He has served as the Co-founder and Managing Partner of Broadband Initiatives LLC, a boutique corporate advisory and consulting firm, since 2001. Currently, he also has a consulting arrangement as Interim Chief Executive Officer at Sunrise Telecom,

Inc. since August 2012. Sunrise sold all of its operating assets in June of 2013. He served as Vice President of Strategic and Wireless Business Development for Covad Communications, Inc., a national broadband telecommunications company from May 2005 to October 2008. He served as CFO and Vice President of Corporate Development for Teletrac, Inc. from April 1995 to April 2001. Previously, he held various executive management positions for Sprint PCS, and Manufacturers Hanover Trust Company. He is currently a board member and Vice Chairman of Selectica, Inc. (NASDAQ: SLTC) and a board member of Qualstar (NASDAQ: QBAK) and has served on a number of private and public boards including in the past five years former reporting companies Ditech Networks Inc., Altigen Communications, Inc., Proxim Wireless Corporation, and Crossroads Systems, Inc. He has a Masters of Business Administration in Finance from Indiana University and a Bachelors of Science – Business Administration and Marketing from University of Illinois.

Mr. Howe has extensive wireless, business development, financial, CEO, CFO and board level experience that the Board of Directors 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 185<sup>th</sup> 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, 2013, there were six meetings of the Board of Directors. Each of the incumbent directors who was on the Board of Directors during 2013 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. Ambrose and Mr. Brown attended our 2013 Annual Meeting and Mr. Howe attended via telephone. 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 2013: the Corporate Governance and Nominating Committee, the Audit Committee, and the Compensation Committee. Each committee comprised solely of independent directors during 2013, as defined by applicable NASDAQ listing standards and the Sarbanes-Oxley Act of 2002, except for Mr. Myer on the Corporate Governance and Nominating Committee. During 2013 and through the date of this Proxy Statement the committees were composed as shown in the following table:

Director	Audit Committee	Compensation Committee	Corporate Governance and Nominating Committee	Comments
M=member				
X= former member				
William Walker	X – Chair to 1/31/13	X	X	Retired 1/31/2013
Steve Quist	X	X – Chair to 1/31/13	X	Retired 1/31/2013
Doug Brown	M – Chair on 1/31/13 to 2/25/13	M	M	Chairman of the Board
Ken Myer			M – Chair	Will not stand for reelection in 2014
Brian Crowley	X – until 4/25/13	M– Chair on 1/31/13 to 2/25/13		
Alan Howe	M – Chair on 2/25/13		M	Joined Board 1/31/2013
Mark Gallenberger	M – starting 2/25/13	M– Chair on 2/25/13	M	Joined Board 1/31/2013
Anthony Ambrose				President & CEO

### 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 until March 8, 2012 when the CGNC charter was amended, recommended 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 six times in 2013. Under the current CGNC charter, as long as Mr. Myer is not an independent director and is on the CGNC, the CGNC continues to seek qualified candidates, but the CNGC may not recommend the director nominees to the Board of Directors. Instead, director nominees are 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. The independent directors of the Board identify, evaluate, and recommend director nominees using the same methods employed by the CGNC, which are described in greater detail below.

### **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 applicable NASDAQ listing standards and the Sarbanes-Oxley Act of 2002. During 2013 and through the date of this Proxy statement, all Audit Committee members have been "audit committee financial experts" as defined by the applicable Securities and Exchange ("SEC") rules adopted pursuant to the Sarbanes-Oxley Act of 2002. The Audit Committee met five times during 2013. See the "Report of the Audit Committee" for additional information.

## **Compensation Committee**

The Compensation Committee is composed entirely of independent directors, as defined by applicable NASDAQ listing standards. The Compensation 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 Compensation 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 six times during 2013.

As authorized by the Compensation Committee charter, the Compensation Committee may retain consultants or other advisors to assist in carrying out its responsibilities. No compensation consultants were engaged for 2013.

## **Consideration of Director Nominees**

The Corporate Governance and Nominating Committee as part of its succession plan developed, and the Board has approved, Board Responsibilities and Director Recruitment Objectives, which further outline our directors roles and responsibilities and desired traits, characteristics, experience and criteria for selection. 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, in light of the Board Responsibilities and Director Recruitment Objectives, the relevant management and/or technology industry experience of potential director candidates (such as experience as chief executive, operations or financial officer, or similar positions); business development, mergers and acquisitions experience, public/corporate board experience, diversity, 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 and evaluates these candidates in light of the Board Responsibilities and Director Recruitment Objectives. 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 2015 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 CGNC 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 2014 Annual Meeting of Shareholders, shareholders were required to deliver nominations for proposed director nominees to Data I/O by February 20, 2014. While no formal candidate nominations were made by shareholders for election at the 2014 Annual Meeting, candidates added in 2013 were identified and recommended by shareholders and included in the selection process for new nominations. Mr. Brown and Mr. Crowley were initially identified by members of the Board of Directors and management. Mr. Howe and Mr. Gallenberger were initially identified by discussions with significant shareholders and the Board.

## **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 posted on the corporate governance page of our website at [www.dataio.com/company/investorrelations/corporategovernance.aspx](http://www.dataio.com/company/investorrelations/corporategovernance.aspx). Under our Code of Ethics, 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 2013, no related party transactions that were significant or material occurred.

## **BOARD COMPENSATION**

Employee directors (Anthony Ambrose) do not receive additional compensation for serving on the Board of Directors. During 2013, non-employee directors received a cash retainer of \$7,750 for each quarter of service. Data I/O paid additional quarterly compensation to the non-employee directors who served 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 \$2,000 for Chairman of the Corporate Governance and Nominating Committee. Fees are prorated based on time served for changes in directors and assignments.

In addition, each non-employee Board of Directors member as of May 20, 2013, was granted a restricted stock award for 5,800 shares of Data I/O stock. New non-employee members who join the Board of Directors are granted 15,000 nonqualified stock options as an initial grant. The stock options are 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.

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 at least equal to three times the annual director cash retainer fee based on Data I/O’s then current share price. Non-employee directors have five years from their initial election or appointment to meet the ownership target requirement. Amounts that count toward meeting the target requirement include: shares owned; shared ownership (shares owned or held in trust by immediate family); and the gain amount from in-the-money vested options. If the stock ownership target requirement has not been met by any non-employee director, until such time as such director

reaches the target requirement, 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, none of the current non-employee directors met the stock ownership target requirement, but they have from 3 to 5 years to meet the stock ownership target requirement.

At the February 24, 2011 meeting of the Board of Directors, the Board determined that the Chief Executive Officer (“CEO”) will be required to achieve ownership of Data I/O stock of at least two times the base pay of the CEO based on Data I/O’s then current share price. The CEO has five years from appointment to meet the ownership target requirement. Amounts that count toward meeting the target requirement are the same as for the Board of Directors. If the stock ownership target requirement has not been met by the CEO, until such time as the CEO reaches the requirement amount, 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). Because the CEO was recently appointed, as of the Record Date the CEO did not meet the stock ownership target requirement, but he has 4 years to meet the target stock ownership requirement.



**DIRECTOR COMPENSATION**

The following table shows compensation paid by Data I/O to non-employee directors during 2013.

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)
	Steven M. Quist (4)	\$3,358	\$7,203	\$0	\$0	\$0	\$0
William R. Walker(4)	\$3,530	\$7,203	\$0	\$0	\$0	\$0	\$10,733
Douglas W. Brown (1)(2)	\$46,000	\$12,151	\$0	\$0	\$0	\$0	\$58,151
Kenneth B. Myer (1)(2)(3)	\$39,000	\$12,151	\$0	\$0	\$0	\$0	\$51,151
Brian T. Crowley (1)(2)	\$32,861	\$12,151	\$0	\$0	\$0	\$0	\$45,012
Alan B. Howe (1)(2)(5)	\$35,257	\$12,151	\$10,762	\$0	\$0	\$0	\$58,170
Mark J. Gallenberger (1)(2)(5)	\$33,889	\$12,151	\$10,762	\$0	\$0	\$0	\$56,802

(1) Each outside director elected at the annual meeting in 2013 was awarded 5,800 shares of restricted stock with a fair value of \$12,151 on May 21, 2013 vesting in one year or the next annual meeting, if earlier. Quist and Walker had vesting of 4,200 restricted stock awards accelerated on January 31, 2013.

(2) Each outside director had the following aggregate number of option awards outstanding at December 31, 2013: Brown, 27,500; Myer, 17,500; Crowley, 15,000, Gallenberger 15,000 and Howe 15,000.

(3) Mr. Myer was appointed as a director effective March 8, 2012. 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.

(4) Mr. Quist and Mr. Walker retired from the Board on January 31, 2013.

(5) Mr. Howe and Mr. Gallenberger were appointed as directors January 31, 2013. On being appointed a director, an initial option grant of 15,000 shares was made to Mr. Howe and Mr. Gallenberger on January 31, 2013, with a 6 year

life and 3 year quarterly vesting.

### **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 2013, except a Form 4 by Messrs. Hatlen, Ambrose, Bluechel, Gallenberger, Howe, and Myer that each was filed one day late for a grant transaction.

### **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 PCAOB AU Section 380 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 non-audit 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 2013, of which four were attended by Data I/O's independent auditors.

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, 2013 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

Douglas W. Brown

Brian T. Crowley

Alan B. Howe (Chair)

April 2, 2014

## **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, 2013 and 2012 and for review of the financial statements included in each of Data I/O's quarterly reports on Form 10-Q during each of the years ended December 31, 2013 and 2012, were approximately \$176,978 and \$194,650 respectively.

*Audit Related Fees:* No aggregate fees were billed for the years ended December 31, 2013 and 2012 for assurance and subsidiary 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 for the years ended December 31, 2013 and 2012 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 for the years ended December 31, 2013 and 2012 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 2013, all services provided by the independent auditors were pre-approved.

## EXECUTIVE COMPENSATION

### Shareholder Vote

At our 2013 Annual Meeting of Shareholders, our shareholders approved, in an advisory vote, the compensation of our Named Executive Officers, as disclosed in the Executive Compensation discussion and analysis, the compensation tables and the related disclosures in our proxy statement. The proposal was approved by our shareholders with 90.0 percent of the votes cast voting “for” approval and 10.0 percent voting “against” approval. In light of the level of approval by our stockholders, the Compensation Committee did not make changes to our compensation policies or practices specifically in response to the stockholder vote.

Our shareholders approved, in an advisory vote, the frequency selection of annually approving on an advisory basis the compensation of our Named Executive Officers. The vote by our shareholders was as follows with votes cast “for” a frequency of: one year by 84.3 percent; two years by 1.3 percent; and three years by 14.4 percent. Accordingly, the proposal will be submitted annually.

### 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 company revenue ranges 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 July 1, 2012 base salary adjustments were made for executive officers and employees. In 2013, no base salary adjustments were made for executive officers as part of cost control measures.

- **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 2012 and 2013 MICP Target percentages for our executive officers were as follows: Mr. Hatlen 40% of base salary; Mr. Gulati 45% of base salary for 2013; and Mr. Bluechel 30% of base salary. Mr. Ambrose was provided a signing bonus of \$25,000 in lieu of 2012 MICP participation and 60% of base salary target percentage for 2013 MICP participation. The MICP payout can range from 0% to 200% of each executive's MICP Target. If the maximum target measures in the applicable year's MICP Variable Compensation Matrix were achieved under the MICP measures, the Chief Executive Officer, Mr. Ambrose, would earn a cash bonus of 120% of his base salary; Mr. Gulati would earn 90% of his base salary; Mr. Hatlen would earn 80% of his base salary; and Mr. Bluechel would have earned 60% of his base salary.

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. See below for the 2012 MICP Variable Compensation Matrix. 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 for 2012 were quarterly with 15% of the incentive opportunity allocated to each quarter and 40% to annual results.

The Compensation Committee determined that for 2013 and 2014 it will be critical to emphasize returning to profitability and cash preservation, as well as completion of key development projects and corporate cost and spending objectives to deliver future new revenue and profitability. They have established two measures; one for Financial Performance (“FP”) is based on achievement of various levels of operating income as percentage of revenue. See below for the Financial Performance Matrix. The second measure for Product and Spending Performance (“PSP”) is based on the completion of key development projects and product cost reductions and spending reduction objectives. The PSP is based upon an incentive compensation pool allocated among project development goals related to delivery, cost, milestones, pilot customer, and releases, as well as spending goals related to certain product cost reduction targets and spending reduction targets. The achieved PSP result is prorated among participants based on their at target percentage incentive compensation. The PSP pool for 2013 was set such that up to approximately 30% of target percentage incentive compensation can be achieved by this measure. For 2013 and 2014, only an annual measurement period applies and the payout is the higher of the two (FP & PSP) measures.

The Compensation Committee believes that for 2012, 2013 and 2014, the applicable 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 as the Board determines appropriate. For 2012 the MICP payout was 0% of target. For 2013 the MICP payout was approximately 20% of target with payout achieved only under the PSP measure.

**Data I/O Corporation 2012 MICP Variable Compensation Matrix**  
**Range of Payouts** (actual results interpolated) factor times 100%

(The two matrix measures are: Percentage Revenue Increase over 2011 and Operating Profit as a Percentage of Revenue)



**Data I/O Corporation 2013 MICP Variable Compensation Matrix**  
**Range of Payouts** (actual results interpolated)

The 2013 MICP Variable Compensation Matrix consists of two possible alternative measures. Project and Spending Performance (PSP) and Financial Performance (FP) with the payout based upon the higher of the two measures achieved.

Project and Spending Performance (PSP) An incentive compensation pool set to allow achievement of up to 30% of target payout with points allocated among project development goals related to delivery, cost, milestones, pilot customer, and releases, as well as spending goals related to certain product cost reduction targets and spending reduction targets.

<u>Financial Performance Matrix (FP)</u>			Target Payout		Target 200% Payout
Operating Profit as a % of Revenue	0.0%	2.5%	5.0%	7.5%	10.0%
FP matrix payout as a % of Target	0%	50%	100%	150%	200%

• **Long-Term Equity Incentives.** The Compensation Committee approves grants under the Data I/O Corporation 2000 Plan (“the Plan”). This is Data I/O’s only long-term incentive plan. The primary purpose of the Plan is to make a significant element of executive pay a reward for taking actions which maximize shareholder value over time. Generally, new options or stock awards are granted under the 2000 Plan, except the inducement grant of options and restricted stock to Mr. Ambrose and the inducement grant of options to Mr. Gulati, which were awarded on their employment under the terms of the 2000 Plan, but consisted of unregistered Data I/O shares as permitted for inducement grants.

Award Criteria

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 2011 and 2012 were based on these criteria.

Exercise Price

Historically, all options 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 granted to employees vest at a rate of 6.25% per quarter and have a six year term. Options granted to non-employee Directors are also non-qualified options and vest quarterly over a three year period. Restricted stock grants to employees vest annually over a 4 year period. Restricted stock grants to non-employee Directors vest in one year or on the next annual meeting date, if earlier. All grants are subject to acceleration of vesting in connection with certain events leading to a change in control of Data I/O or in the advent in a change in control 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 generally 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 or restricted stock awards at other dates, except for grants/awards to new employees based on their first date of employment or in specific circumstances approved by the Compensation Committee. The grant/award date is established when the Compensation Committee approves the grant/award and all key terms have been determined. If at the time of any planned 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 grant/award. In such an event, as soon as practical after material information is made public, the Compensation Committee would authorize the delayed grant/award.

- **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 Roth or pre-tax basis. Data I/O will match up to 4% of pay contributed. Matching contributions in any year require employment on December 31, except in the case of retirement per the plan, and vest after three years of service credit.

- **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 2011 or 2012, except in connection with his hiring and relocation Mr. Ambrose was provided temporary living and relocation expenses of \$5,746 in 2012 and \$50,661 in 2013. Mr. Gulati was provided temporary living and relocation expenses of \$5,828 in 2013 with a remaining relocation allowance of up to \$19,172 available in 2014.

- **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 are reviewed annually by the Compensation Committee. 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 reviewed 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, MICP participation, stock option grants, restricted stock awards, and other benefits for Mr. Ambrose, President and Chief Executive Officer, based on the Committee's perception of his qualifications for the position and his ability to affect future shareholder value, as well as during the hiring process in 2012 based on compensation surveys, advice from Korn Ferry, and the competitive conditions in the market. No base pay adjustment was made in 2013 for Mr. Ambrose.

**Consideration of Risk in Compensation**

The Compensation Committee believes that promoting the creation of long-term value discourages behavior that leads to excessive risk. The Compensation Committee believes that the following features of our compensation programs provide incentives for the creation of long-term shareholder value and encourage high achievement by our executive officers without encouraging inappropriate or unnecessary risks:

-