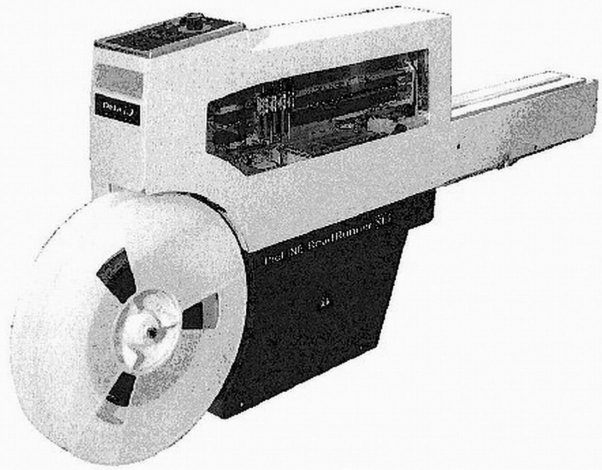
Letter to Shareholders
2008 Annual Report on Form 10-K
Notice of 2009 Annual Meeting
And Proxy Statement



www.dataio.com

Dear Shareholders:

2008 was an extraordinary year. Building on our improvements in gross margins and reductions in operating expenses begun in 2007, as well as the $2.1 million patent sale gain, we drove net income to $5.1 million or 18.6% of sales. Earnings per share were $0.56 and return on invested capital was 24.2%. Cash at the end of the year was $13.3 million, up from $7.6M at the end of 2007.

The wireless handset manufacturers were our largest single customer segment during the year, driven primarily by our success with the manufacturers of Smartphones, such as RIM. Our sales to automotive electronics manufacturers continued to grow, driven by new applications solutions. We also saw growth in our recurring revenue both from consumables and from software. We continued to make progress in moving the company's products away from becoming commodities by adding value and differentiation. This allowed us to sustain prices and margins.

Through the first nine months of 2008, overall sales were up 15% from the same period of 2007. As the result of the new sales structure we put in place just before the start of the year and the addition of new sales channels, particularly in China, Asia rebounded strongly from a weak 2007 with sales up 56% in 2008. The Americas and Europe sales regions also grew and the strength was evenly balanced across both our automated and programmer product lines.

We have several new products we will introduce in 2009. Many of these build on our existing strengths and take our programming solutions to new customers. Recently, we delivered software for protecting intellectual property to a major wireless handset manufacturer. We expect these software products to have substantially higher gross margins than our traditional products.

In the fourth quarter of 2008, we began to see the effects of the global recession that subtracted from the strong growth we achieved earlier in the year. We responded by taking additional actions to bring expenses in line with revenues and lower our revenue break even point. Business forecast visibility is very uncertain in this economic climate but, fortunately, we are financially well positioned to weather the storm. Many of our competitors are suffering in this economic climate, and this provides further opportunity for us to gain market share. While we don't know how long the weak economic environment will continue, we are confident that we will be well positioned when things recover.

Sincerely,

Fred Hume, President & CEO

Paul Gary, Ph.d., Chairman

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2008**

or

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to _____________

Commission file number. **0-10394**

DATA I/O CORPORATION
(Exact name of registrant as specified in its charter)

Washington	91-0864123
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

6464 185th Ave NE, Suite 101, Redmond, Washington, 98052
(425) 881-6444
(Address, including zip code, of registrant's principle executive offices and telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (No Par Value)	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ No_X
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No_X_
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes_X No___
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes _X_ No __
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer __ Accelerated filer___ Non-accelerated filer __ Smaller reporting company ___X_
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes __ No _X_

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2008:

$48,898,970

Shares of Common Stock, no par value, outstanding as of March 16, 2009:
8,873,051

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its May 14, 2009 Annual Meeting of Shareholders are incorporated into Part III of this Annual Report on Form 10-K.

DATA I/O CORPORATION

FORM 10-K
For the Fiscal Year Ended December 31, 2008

INDEX

PART I

Item 1. Business

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on current expectations, estimates and projections about Data I/O® Corporation's industry, management's beliefs and certain assumptions made by management. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward Looking Statements."

General

Data I/O Corporation ("Data I/O") designs, manufactures, and sells programming systems for electronic device manufacturers, specifically targeting high growth areas such as flash and microcontrollers. Virtually every electronic product today incorporates one or more programmable semiconductor devices that contain data and operating instructions essential for the proper operation of the product. Data I/O was incorporated in the State of Washington in 1969 and its business was founded in 1972.

Data I/O's mission is to deliver high-value systems and services to the rapidly expanding programmable semiconductor market by providing a software-rich programming platform for content delivery. These programmable solutions are used in devices such as smart phones, MP3 players, gaming systems and automobile electronics. These solutions, some of which include intellectual property protection, secure content management and flash media duplication, enable Data I/O to address the demanding requirements for the electronic device market, where applications and intellectual property protection are essential to our customer's success. Data I/O's largest customers are heavy users of programmable semiconductor devices and include original equipment manufacturers ("OEMs") in wireless and consumer electronics and automotive electronics, and their electronic manufacturing service ("EMS") contract manufacturers.

Business Restructuring. The business shift to focusing on manufacturing and automation, the geographic shifts in high volume electronics manufacturing, and the economic volatility we have experienced have resulted in ongoing restructuring efforts. During 2004 changes were made to control costs in North America and Europe and address the need to build staff serving China and Eastern Europe. During 2005, we aligned management operations with those changes. We responded to declining margins and operating results during the first half of 2006 with actions to further reduce expenses and improve margins.

The restructuring activities started during the second half of 2006 were continued during the first and second quarters of 2007 to further improve our operating results and the effectiveness of our sales and marketing organization and sales channels. These actions included re-engineering some internal processes, integrating some activities, transferring some activities to our lower cost base of operations in China, reducing resources applied to declining legacy products, moving some engineering positions to production, reducing the number of taxable entities, outsourcing some functions such as payroll, combining some positions, eliminating some functions, and shifting some responsibilities and resources to our sales channels.

As a result of the business downturn we were experiencing in the fourth quarter of 2008 and the uncertain business outlook, we took additional actions to reduce expenses. This resulted in a restructuring charge during the fourth quarter primarily related to severance of $535,000, with a total of $542,000 for the year 2008. Restructuring charges were $725,000 in 2007, $191,000 in 2006, $96,000 in 2005 and $562,000 in 2004.

Industry Background

Data I/O enables companies to improve productivity and reduce costs by providing device programming solutions that allow our customers to take intellectual property (design and data files) and program it into memory, microcontroller and logic devices. Data I/O also provides services related to hardware support, system installation and repair, and device programming. Companies that design and manufacture electronic products that utilize programmable devices purchase these solutions from us.

Our automated programming systems integrate programming and handling functions into one product solution. Quality conscious customers continue to drive this portion of our business, which includes high-volume manufacturing and high-volume programming center customers.

Traditionally, the programming market opportunity focused on the number of semiconductor devices to be programmed but because of the rapid increase in the density of devices, the focus is shifting to the number of bits to be programmed as described in the following table:

Market Characteristics	Data I/O's Traditional Market Model	Data I/O's New Market Model
Primary driver of demand	Number of devices	Number of bits
Primary measure of performance	Devices programmed per hour	Bits programmed per hour
Primary device type	Microcontrollers – 60% of devices	NAND Flash – 71% of content
DAIO business focus	Device programming	Content programming and management
Demand growth	~12% growth in devices	~90% growth in content

Products

In order to accommodate the expanding variety and quantities of programmable devices being manufactured today, Data I/O offers multiple solutions for the numerous types of device mix and volume usage by our customers in the various market segments and applications. We work closely with leading manufacturers of programmable devices to develop our products to meet the requirements of a particular device.

Data I/O's line of programming systems includes a broad range of products, systems, modules, and accessories, which we group into two general categories: automated programming systems and non-automated programming systems. We provide two main categories of automated programming systems: off-line and in-line. Data I/O's automated programming systems and FlashPAK™ share a common programming platform, FlashCORE™ and Data I/O's universal job setup tool, Tasklink®. In addition, we provide device support and service on all of our products. Device support is a critical aspect of our business and consists of writing software algorithms for devices and developing socket adapters to hold and connect to the device for programming.

Data I/O's key product and the customer benefits/key features Data I/O believes are important are described in the following table:

Products	Customer Benefits	Key Features
RoadRunner Series: In-line, (Automated)	• Dramatic reduction in inventory carrying and rework costs • "Zero" footprint • Rapid return on investment ("ROI") realized in a matter of months	• Just-in-time inline programming • Direct integration with placement machine supporting Siemens, Fuji, Panasonic, Assembleon and Universal • Parallel programming • Average Selling Price ("ASP") of $78,000 to $119,000K
PS Series: Off-line Medium/High Volume, High Mix (Automated)	• High throughput/lowest cost-of ownership for high density Flash programming • High flexibility with respect to I/O options (tube, tray, tape), marking labeling, and vision inspection for coplanarity	• Up to 48 programming sites • Supports multiple media types • Superior throughput • ASP of $160,000 to $522,000
FLX500: Off-line, Moderate Volume (Automated)	• Affordable automation • Modular, easy to configure • Small footprint	• Industry's fastest changeover times • Self-learning "plug-and-play" operation • Language-independent graphic user interface • ASP of $83,000 to $116,000

Products	Customer Benefits	Key Features
FLX-FMD: Off-line, Flash Media Duplication (Automated)	• Secure Data Management automating access to customer data files, serial-number handling, and inventory tracking • Eliminates need for dedicated operator	• Programs up to 750 cards per hour • Reduces cost • Improves quality • Provides secure data (content) management • ASP of $79,000 to $110,000
FlashPAK I/II: Off-line, Low Mix, Low Volume (Non-Automated)	• Validate designs before moving down the firmware supply chain • Unmatched ease of use in manual production systems	• Scalability • Network control via Ethernet • Stand-alone operation or PC compatible • Parallel programming • ASP of $9,000
Sprint/Unifamily: Off-line, Low Volume, and Engineering (Non-Automated)	• Universal programmer	• Breadth of device coverage • ASP of $9,000 to $32,000

Customers

Data I/O sells our products to customers worldwide in a broad range of industries, as described in the following table:

Customer Types					
	OEMs			EMS	Programming Centers
	Wireless & Consumer Electronics	Automotive Electronics	Industrial & Control Electronics	Contract Manufacturers	
Notable end customers	Nokia, LG, Motorola, RIM, Sony, HTC, Microsoft, Vestel	TRW, Lear, Delphi, Bosch, Blaupunkt, Continental, Siemens VDO	Allen-Bradley, Square D, ABB, Trane, Grundig, Danfoss, Philips	Flextronics, Celestica, Elcoteq, Jabil, Wistron, Foxconn	Arrow, Avnet, BTW, MSC, HTV, CPS, Liberty, Synchroworks
Programmable devices used	5 billion NOR & NAND flash devices annually; 5 billion microcontrollers	5 billion microcontrollers annually; use of flash growing	2 billion microcontrollers	Same as OEMs they serve	Same as OEMs they serve, and lines they distribute
Business drivers	GPS, Digital Rights Management, security, flash media, video, 3G, features & functionality of converged devices	Safety, navigation, infotainment, drive-by-wire	Higher functionality driven by increasing electronic content	Acquisition of OEM factories, production contract wins	Value-adds services, logistics
Programming equipment drivers	Rollout of new products that incorporate higher functionality, more memory, and new technology, e.g. eSD, eMMC	Process improvement and simplification as well as new product rollouts	Process improvement and simplification as well as new product rollouts	New contracts from OEMs, programming solutions specified by OEMs	Capacity utilization of their installed base of equipment

Customer Types					
	OEMs			**EMS**	**Programming Centers**
	Wireless & Consumer Electronics	**Automotive Electronics**	**Industrial & Control Electronics**	**Contract Manufacturers**	
Buying criteria	Throughput, technical capability to support evolving technology, global support, intellectual property protection, robust algorithms	Quality, reliability configuration control, traceability, global support, intellectual property protection	Quality, reliability configuration control, traceability	Lowest equipment procurement cost, global support	Flexibility, lowest life-cycle cost-per programmed-part, low changeover time; use of multiple vendors provides negotiating leverage

Data I/O's solutions address a large growing market. In 2007, there were 17 billion programmable devices shipped and of that 17 billion, NAND and NOR flash and microcontrollers represented 23%, 31%, and 40%, respectively.

Addressing High Growth, High Volume Markets. Data I/O's device programming solutions currently target two high growth, high volume markets: flash for mobile devices and microcontrollers for automotive electronics.

<u>Growth drivers of NAND flash in Mobile Devices</u>

- Flash unit volume experiencing explosive growth
- Increasing usage of NAND; replacing NOR due to its lower cost per bit
- Densities continue to increase beyond 8GB driving the need for more advanced and secure programming capabilities
- Higher densities driving new usage models such as the Blackberry and other smart phones

<u>Growth drivers of microcontrollers in Automotive</u>

- Consumers desire advanced car features requiring higher levels of sophistication (e.g., infotainment: audio, radio, satellite, navigation, wireless connectivity, increased safety features and optimized engine functionality)
- ~60 microcontrollers per vehicle
- Proliferation of programmable microcontrollers to support the next-generation electronic car systems
- Increasing use of high-density flash to provide memory for advanced applications that need to be programmed

Increasingly, OEMs are outsourcing their device programming needs to EMS contract manufacturers to reduce capital expense and maximize profit margins. At the same time, these OEMs are also increasing their proprietary software content to accelerate new product introductions, with more feature-rich, application-specific features. While the outsourcing of manufacturing processes is essential to maximizing an OEM's profit margin, maintaining the integrity and control of the software, the OEM's core intellectual property, is increasingly complex in this outsourced environment, especially given the global nature of the manufacturing supply chain. This need drove Data I/O to develop its comprehensive programming solution that can manage, monitor, audit and secure the software supply chain.

During 2008, we sold products to over 958 customers throughout the world. During 2008, there were no customers that accounted for more than 10% of our 2008 net sales. In 2007, there were no customers that accounted for more than 10% of our 2007 net sales. In 2006 there was one customer, Bright Faith Global Limited (our former sales agents in China), that represented approximately 10.6% of our 2006 net sales. As of December 31, 2008 the combined subsidiaries accounts receivable of one customer represented 13.3% of our total consolidated accounts receivable balance and there were no other customers that represented 10% or more. In 2007, there were no customers that represented 10% or more of our total consolidated accounts receivable balance as of December 31, 2007. In 2006, there were three customers, two of which were distributors, that represented 10.1%, 10.2%, and 12.0% of our total consolidated accounts receivable balance at December 31, 2006, respectively.

Geographic Markets and Distribution

Data I/O markets and sells our products through a combination of direct sales, internal telesales, and indirect sales representatives and distributors. We continually evaluate our sales channels against our evolving markets and customers.

U.S. Sales

We market our products throughout the U.S. using a variety of sales channels, including our own field sales management personnel, independent sales representatives, and a direct telesales organization. Our U.S. independent sales representatives obtain orders on an agency basis, with shipments made directly to the customer by Data I/O. Net sales in the United States for 2008, 2007, and 2006 were $4,070,000, $4,925,000, and $6,407,000, respectively.

Foreign Sales

Foreign sales represented approximately 85%, 82%, and 78%, of net sales of our programming systems in 2008, 2007, and 2006, respectively (see Note 14 of "Notes to Consolidated Financial Statements"). We make foreign sales through our wholly-owned subsidiaries in Germany, China, and Canada, as well as through independent distributors and sales representatives located in 35 other countries. Our independent foreign distributors purchase Data I/O products in U.S. Dollars for resale and we recognize the sale at the time of shipment to the distributor. As with U.S. sales representatives, sales made by international sales representatives are on an agency basis with shipments made directly to the customer by us.

Net foreign sales for 2008, 2007, and 2006 were $23,527,000, $21,827,000, and $22,386,000, respectively. We determine total foreign sales by the international geographic area into which the products are sold and delivered, and include not only sales by foreign subsidiaries but also export sales from the U.S. to our foreign distributors and to our representatives' customers. Foreign sales do not include transfers between Data I/O and our foreign subsidiaries. Export sales are subject to U.S. Department of Commerce regulations. We have not, however, experienced difficulties to date as a result of these requirements.

Fluctuating exchange rates and other factors beyond our control, such as international monetary stability, tariff and trade policies, and U.S. and foreign tax and economic policies, affect the level and profitability of foreign sales. We cannot predict the effect of such factors on our business, but we try to consider and respond to changes in these factors, particularly as the majority of our costs are USA based while the vast majority of our sales are international.

Competition

The competition in the programming systems market is highly fragmented with a large number of smaller organizations offering inexpensive solutions. While we are not aware of any published industry market information covering the programming systems market, according to our inside analysis of competitors, we estimate that for the 2007 and 2008 that Data I/O has had revenues at least twice the size of the next largest direct competitor and approximately five times the size of the second largest direct competitor.

Data I/O primarily focuses on automated programming solutions and believes its solutions offer numerous advantages over alternative solutions as described in the following table:

Benefit Comparison	Data I/O Automated Solutions	Alternative Solutions		
		In-System Programming with ATE	Outsourced Programming	Manual Programming*
Eliminates production bottlenecks	x		x	
Requires few internal engineering resources	x		x	x
Programs large files quickly	x		x	
Supports multiple devices per board easily	x		x	x
Supports multiple boards per panel easily	x		x	x
Ensures minimum yield loss	x	x		
Enables intellectual property protections	x	x		
Automates quality tracking	x	x		
Ensures traceability and configuration control	x	x		
Minimize risk of human error	x	x		
No inventory at risk from software changes	x	x		
Just-in-time programming	x	x		

* Data I/O also offers manual programming solutions.

Manufacturing, Raw Materials, and Backlog

Data I/O primarily assembles and tests our products at our principal facility in Redmond, Washington and we outsource our circuit board manufacturing and fabrication. We have transferred most of our FlashCORE adapter production to China. We use a combination of standard components, proprietary custom ICs and fabricated parts manufactured to Data I/O specifications. Two significant outside suppliers of Data I/O proprietary products are located in Germany: Haberer Electronic manufactures our Sprint non-automated programming systems and Yamaichi manufactures specialty sockets. Most components used are available from a number of different suppliers and subcontractors but certain items, such as some handler and programmer subassemblies, custom integrated circuits, hybrid circuits and connectors, are purchased from single sources. We believe that additional sources can be developed for present single-source components without significant difficulties in obtaining supplies. We cannot be sure that single-source components will always continue to be readily available. If we cannot develop alternative sources for these components, or if we experience deterioration in relationships with these suppliers, there may be delays or reductions in product introductions or shipments, which may materially adversely affect our operating results.

In accordance with industry practices, generally all orders are subject to cancellation prior to shipment without penalty, except for contracts calling for custom configuration. To date, such cancellations have not had a material effect on our sales volume. To meet customers' delivery requirements, we manufacture certain products based upon a combination of backlog and anticipated orders. Most orders are scheduled for delivery within 1 to 60 days after receipt of the order. Our backlog of pending orders was approximately \$2 million, \$2.1 million, and \$2.2 million, as of December 31, 2008, 2007, and 2006, respectively. The size of backlog at any particular date is not necessarily a meaningful indicator of the trend of our business.

Research and Development

Data I/O believes that continued investment in research and development is critical to our future success. We continue to develop new technologies and products and enhance existing products. Future growth is to a large extent dependent upon the timely development and introduction of new products, as well as the development of algorithms to support the latest programmable devices. We are currently focusing our research and development efforts on strategic growth markets, namely new programming technology and automated handling systems for the manufacturing environment, including new programmer technologies, support for the latest FLASH memories and microcontrollers, additional platforms and improvements for ProLINE-RoadRunner, and enhancements for the FLX500. We continue to also focus on increasing our capacity and responsiveness for new device support requests from customers and programmable integrated circuit manufacturers by revising and enhancing our internal processes and tools. During this past year, our research and development resulted in our newest product ProLINE-RoadRunner XLF.

During 2008, 2007, and 2006, we made expenditures for research and development of \$4,464,000, \$4,716,000, and \$5,577,000, respectively, representing 16.2%, 17.6%, and 19.4%, of net sales, respectively. Research and development costs are expensed as incurred.

Patents, Copyrights, Trademarks, and Licenses

Data I/O relies on a combination of patents, copyrights, trade secrets and trademarks to protect our intellectual property, as well as product development and marketing skill, to establish and protect our market position. We have continued to add new patents to our patent portfolio over the past few years as we developed strategic technologies like the FLX500 that are critical to our Connected Strategy.

In March 2008 we closed the sale of selected patents and patent applications to Leannoux Properties AG L.L.C. for net proceeds of approximately \$3.3 million and reported a net gain of approximately \$2.1 million. The patents and patent applications sold relate primarily to technology used in Data I/O's ProLINE-RoadRunner product line. Data I/O retains a non-exclusive, royalty-free license to use the technology covered by these patents and applications. Additional payments are due to Data I/O upon license or transfer of these patents and patent applications to certain third parties. However, Data I/O does not currently anticipate receiving any such payments.

Most of the patents sold relate to technology that Data I/O has been using for a number of years. The sale monetizes the value of these patents, avoids future annual maintenance and patent defense expenses, and allows Data I/O royalty-free use of these patents. The sale does not include technology related to the firm's most recent development programs.

We attempt to protect our rights in proprietary software products, including TaskLink and other software products, by retaining the title to and copyright of the software and documentation, by including appropriate contractual restrictions on use and disclosure in our licenses, and by requiring our employees to execute non-disclosure agreements. Our software products are not normally sold separately from sales of programming systems. However, on those occasions where software is sold separately, revenue is recognized when a sales agreement exists, when delivery has occurred, when the fee is fixed or determinable, and when collectibility is probable.

Because of the rapidly changing technology in the semiconductor, electronic equipment and software industries, portions of our products might possibly infringe upon existing patents or copyrights, and we may, be required to obtain licenses or discontinue the use of the infringing technology. We believe that any exposure we may have regarding possible infringement claims is a reasonable business risk similar to that assumed by other companies in the electronic equipment and software industries. However, any claim of infringement, with or without merit, could be costly and a diversion of management's attention, and an adverse determination could adversely affect our reputation, preclude us from offering certain products, and subject us to substantial liability.

Employees

As of December 31, 2008, we had a total of 93 employees, of which 38 were located outside the U.S. and 6 of which are part time. We also utilize independent contractors for specialty work, primarily in research and development, and utilize temporary workers to adjust capacity to fluctuating demand or for special projects. Many of our employees are highly skilled and our continued success will depend in part upon our ability to attract and retain employees who can be in great demand within the industry. None of our employees are represented by a collective bargaining unit and we believe relations with our employees are favorable. In foreign countries we have employment agreements or, in China, the Shanghai Foreign Services Co., Ltd. ("FSCO") labor agreement.

Environmental Compliance

Our facilities are subject to numerous laws and regulations concerning the discharge of materials or otherwise relating to the environment. Compliance with environmental laws has not had, nor is it expected to have, a material effect on our capital expenditures, financial position, results of operations or competitive position. However, see Item 3, Legal Proceedings, regarding the Rowley Properties, Inc. claim.

Executive Officers of the Registrant

Set forth below is certain information concerning the executive officers of Data I/O as of March 16, 2009:

Name	Age	Position
Frederick R. Hume	66	President and Chief Executive Officer
Joel S. Hatlen	50	Vice President, Finance Chief Financial Officer Secretary and Treasurer
Gordon B. Bluechel	46	Vice President, Operations and Administration

Frederick R. Hume joined Data I/O as President and Chief Executive Officer in February 1999. He was appointed to the Board of Directors of Data I/O in January 1999. From 1988 until his retirement in 1998, Mr. Hume served as Vice President and General Manager of Keithley Instruments in Cleveland, Ohio. From 1972 to 1988, he held various management positions at Fluke Corporation, including Group Vice President for Manufacturing and Research and Development.

Joel S. Hatlen joined Data I/O in September 1991 and became Chief Accounting Officer and Corporate Controller in February 1997. In January 1998, he was promoted to Vice President of Finance and Chief Financial Officer, Secretary and Treasurer. He began his career at Data I/O as a Senior Tax Accountant and became Tax Manager in December 1992 and Corporate Controller in December 1993. From September 1981 until joining Data I/O, Mr. Hatlen was employed by Ernst & Young LLP, where his most recent position was Senior Manager.

Gordon Bluechel joined Data I/O in November 1992 and was named an executive officer on November 17, 2008. He currently serves as the Vice President of Operations and Administration. Prior to his current role he served as Vice President/ Director of Operations since 2007, Director of Operations during 2005-2007, General Manager of In-System Programming during 2004-2005, Director of Americas Sales and Service during 2002-2004, Director of Worldwide Service during 2001-2002, General Manager of Sprint Operations in Germany during 2000-2001 and prior management and staff positions.

Item 1A. Risk Factors

Cautionary Factors That May Affect Future Results

Data I/O's disclosure and analysis in this Annual Report contains some forward-looking statements. Forward-looking statements include our current expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. In particular, these include statements relating to future action, prospective products, new technologies, establishing foreign operations, future performance or results of current and anticipated products, sales efforts, expenses, outsourcing of functions, outcome of contingencies, impact of regulatory requirements, restructure actions and financial results.

Any or all of the forward-looking statements in this Annual Report or in any other public statement made may turn out to be wrong. They can be affected by inaccurate assumptions we might make, or known or unknown risks and uncertainties can affect these forward-looking statements. Many factors -- for example, product competition and product development -- will be important in determining future results. Moreover, neither Data I/O nor anyone else assumes responsibility for the accuracy and completeness of these forward-looking statements. Actual future results may materially vary.

We undertake no obligation to publicly update any forward-looking statements after the date of this Annual Report, whether as a result of new information, future events or otherwise. The reader should not unduly rely on our forward-looking statements. The reader is advised, however, to consult any future disclosures Data I/O makes on related subjects in our 10-Q, 8-K and 10-K reports to the SEC and press releases. Also, note that Data I/O provides the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause Data I/O's actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect Data I/O. This discussion is permitted by the Private Securities Litigation Reform Act of 1995.

RISK FACTORS

A decline in economic and market conditions may result in decreased capital spending by delayed /non payments from our customers.

Our business is highly impacted by capital spending plans and other economic cycles that affect the users and manufacturers of integrated circuits. These industries are highly cyclical and are characterized by rapid technological change, short product life cycles, and fluctuations in manufacturing capacity and pricing and gross margin pressures. As we experienced in recent years and are currently experiencing, our operations may in the future reflect substantial fluctuations from period-to-period as a consequence of these industry patterns, general economic conditions affecting the timing of orders from major customers, and other factors affecting capital spending. In addition, in the current difficult economic climate it may take us longer to receive payments from our customers and some of our customers' business may fail, resulting in non-payment. These factors could have a material adverse effect on our business and financial condition.

Delays in development, introduction and shipment of new products or services may result in a decline in sales.

Data I/O develops new engineering and automated programming systems and services. Significant technological, supplier, manufacturing or other problems may delay the development, introduction or production of these products or services.

For example, we may encounter these problems:

- technical problems in the development of a new programming system platform or the robotics for new automated handing systems
- inability to hire qualified personnel
- delays or failures to perform by third parties involved in our development projects
- development of new services that are not accepted by the market

Delays in the development, completion and shipment of new products or services, or failure of customers to accept new products, may result in a decline in sales.

Quarterly fluctuations in our operating results may adversely affect our stock price.

Data I/O's operating results tend to vary from quarter to quarter. Our revenue in each quarter substantially depends upon orders received within that quarter. Conversely, our expenditures are based on investment plans and estimates of future revenues. We may, therefore, be unable to quickly reduce our spending if our revenues decline in a given quarter. As a result, operating results for that quarter will suffer. Our results of operations for any one quarter are not necessarily indicative of results for any future periods.

Other factors, which may cause our quarterly operating results to fluctuate, include:

- increased competition
- timing of new product announcements
- product or service releases and pricing changes by us or our competitors
- market acceptance or delays in the introduction of new products or services
- production constraints
- quality issues
- labor or material shortages
- the timing of significant orders
- the sales channel mix of direct vs. indirect distribution
- war or terrorism
- health issues (such as SARS)
- customers' budgets
- adverse movements in exchange rates, interest rates or tax rates
- cyclical nature of demand for our customers' products
- general economic conditions in the countries where we sell products
- expenses and obtaining authorizations in setting up new operations or locations

Due to all of the foregoing factors, it is possible that in some future quarters, our operating results will be below expectations of analysts and investors.

Failure to adapt to technology trends in our industry may hinder our competitiveness and financial results.

Product and service technology in Data I/O's industry evolves rapidly, making timely product innovation essential to success in the marketplace. Introducing products and services with improved technologies or features may render our existing products obsolete and unmarketable. Technological advances that may negatively impact our business include:

- new device package types, densities, and technologies requiring hardware and software changes in order to be programmed by our products
- electronics equipment manufacturing practices, such as widespread use of in-circuit programming
- customer software platform preferences different from those on which our products operate
- more rigid industry standards, which would decrease the value-added element of our products and support services

If we cannot develop products or services in a timely manner in response to industry changes, or if our products or services do not perform well, our business and financial condition may be adversely affected. Also, our new products or services may contain defects or errors that give rise to product liability claims against us or cause our products to fail to gain market acceptance. Our future success depends on our ability to successfully compete with other technology firms in attracting and retaining key technical personnel.

We have a history of recent operating losses and may be unable to generate enough revenue to achieve and maintain profitability.

We have incurred operating losses in two of the last five years. We will continue to examine our level of operating expense based upon our projected revenues. Any planned increases in operating expenses may result in larger losses in future periods if projected revenues are not achieved. As a result, we may need to generate greater revenues than we have recently to achieve and maintain profitability. However, we cannot provide assurance that our revenues will increase and our strategy may not be successful, resulting in future losses.

Our restructuring activities may have a negative impact on our future operations.

Our restructuring plans may yield unanticipated consequences, such as increased burden on our administrative, operational, and financial resources and increased responsibilities for our management personnel. As a result, our ability to respond to unexpected challenges may be impaired and we may be unable to take advantage of new opportunities.

In addition, many of the employees that were terminated as a part of our restructuring possessed specific knowledge or expertise, and that knowledge or expertise may prove to have been important to our operations. In that case, their absence may create significant difficulties, particularly if our business experiences significant growth. Also, the reduction in workforce related to our restructuring may subject us to the risk of litigation, which could result in substantial cost. Any failure by us to properly manage this rapid change in workforce could impair our ability to efficiently manage our business, to maintain and develop important relationships with third-parties, and to attract and retain customers. It could also cause us to incur higher operating cost and delays in the execution of our business plan or in the reporting or tracking of our financial results.

We may need to raise additional capital and our future access to capital is uncertain.

Our past revenues have been and our future revenues may continue to be insufficient to support the expense of our operations and any expansion of our business. We may therefore need additional equity or debt capital to finance our operations. If we are unable to generate sufficient cash flows from operations or to obtain funds through additional debt or equity financing, we may have to reduce some or all of our development and sales and marketing efforts and limit the expansion of our business.

We believe our existing cash and cash equivalents will be sufficient to meet our working capital requirements for at least the next twelve months. Thereafter, depending on the development of our business, we may need to raise additional cash for working capital or other expenses. We may also encounter opportunities for acquisitions or other business initiatives that require significant cash commitments, or unanticipated problems or expenses that could result in a requirement for additional cash before that time.

Therefore, we may seek additional funding through public or private debt or equity financing or from other sources. We have no commitments for additional financing, and given the current economic climate may experience difficulty in obtaining funding on favorable terms, if at all. Any financing we obtain may contain covenants that restrict our freedom to operate our business or may require us to issue securities that have rights, preferences or privileges senior to our Common Stock and may dilute your ownership interest.

We may face increased competition and may not be able to compete successfully with current and future competitors.

Technological advances have reduced the barriers of entry into the programming systems market. We expect competition to increase from both established and emerging companies. If we fail to compete successfully against current and future sources of competition, our profitability and financial performance will be adversely impacted.

If our relationship with semiconductor manufacturers deteriorates, our business may be adversely affected.

We work closely with most semiconductor manufacturers to ensure that our programming systems comply with their requirements. In addition, many semiconductor manufacturers recommend our programming systems for use by users of their programmable devices. These working relationships enable us to keep our programming systems product lines up to date and provide end-users with broad and current programmable device support. Our business may be adversely affected if our relationships with semiconductor manufacturers deteriorate.

Our reliance on a small number of suppliers may result in a shortage of key components, which may adversely affect our business, and our suppliers may experience financial difficulties which could effect their ability to service Data I/O's needs.

Certain parts used in our products are currently available from either a single supplier or from a limited number of suppliers. If we cannot develop alternative sources of these components, if sales of parts are discontinued by the supplier, if we experience deterioration in our relationship with these suppliers, or if these suppliers require financing which is not available there may be delays or reductions in product introductions or shipments, which may materially adversely affect our operating results.

Because we rely on a small number of suppliers for certain parts, we are subject to possible price increases by these suppliers. Also, we may be unable to accurately forecast our production schedule. If we underestimate our production schedule, suppliers may be unable to meet our demand for components. This delay in the supply of key components may materially adversely affect our business. Over estimation of demand will lead to excess inventories that may become obsolete.

The non-automated programming system products we acquired when we acquired SMS in November 1998 are currently manufactured to our specifications by a third-party foreign contract manufacturer. We may not be able to obtain a sufficient quantity of these products if and when needed, which may result in lost sales.

<u>If we are unable to attract and retain qualified third-party distributors, our business may be adversely affected.</u>

Data I/O has an internal sales force and also utilizes third-party representatives, and distributors. Therefore, the financial stability of these representatives and distributors is important: Their ability to timely pay Data I/O and to acquire any necessary financing may be affected by the current economic climate. Highly skilled professional engineers use most of our products. To be effective, third-party distributors must possess significant technical, marketing and sales resources and must devote their resources to sales efforts, customer education, training and support. These required qualities limit the number of potential third-party distributors. Our business will suffer if we cannot attract and retain a sufficient number of qualified third-party distributors to market our products.

<u>Our international operations may expose us to additional risks that may adversely affect our business.</u>

International sales represented 85% and 82% of our net revenue for the fiscal year ended December 31, 2008 and December 31, 2007, respectively. We expect that international sales will continue to be a significant portion of our net revenue. International sales may fluctuate due to various factors, including:

- migration of manufacturing to low cost geographies
- unexpected changes in regulatory requirements
- tariffs and taxes
- difficulties in establishing, staffing and managing foreign operations
- longer average payment cycles and difficulty in collecting accounts receivable
- fluctuations in foreign currency exchange rates
- compliance with applicable export licensing requirements
- product safety and other certification requirements
- difficulties in integrating foreign and outsourced operations
- political and economic instability

Because we have customers located throughout the world, we have significant foreign receivables. We may experience difficulties in collecting these amounts due to payment practices of certain foreign customers, the availability and reliability of foreign credit information, and potential difficulties in enforcing collection terms.

The European Community and European Free Trade Association ("EU") has established certain electronic emission and product safety requirements ("CE"). Although our products currently meet these requirements, failure to obtain either a CE certification or a waiver for any product may prevent us from marketing that product in Europe. The EU also has directives concerning the Reduction of Hazardous Substances ("RoHS") from which Data I/O is relying on an exemption for test and measurement companies. China is implementing similar requirements. Failure to meet applicable directives or qualifying exemption may prevent us from marketing certain products in Europe or other territories with similar requirements.

We have subsidiaries in Germany, China, Hong Kong, Brazil, and Canada. Our business and financial condition is sensitive to currency exchange rates or any other restrictions imposed on their currencies. Currency exchange fluctuations in Canada, China, Hong Kong, Brazil and Germany may adversely affect our investment in our subsidiaries.

<u>If we are unable to protect our intellectual property, we may not be able to compete effectively or operate profitably.</u>

Data I/O relies on patents, copyrights, trade secrets and trademarks to protect our intellectual property, as well as product development and marketing skill to establish and protect our market position. We attempt to protect our rights in proprietary software products, including TaskLink our intellectual property software and other software products, by retaining the title to and copyright of the software and documentation, by including appropriate contractual restrictions on use and disclosure in our licenses, and by requiring our employees to execute non-disclosure agreements.

Because of the rapidly changing technology in the semiconductor, electronic equipment and software industries, portions of our products might possibly infringe upon existing patents or copyrights, and we may be required to obtain licenses or discontinue the use of the infringing technology. We believe that any exposure we may have regarding possible infringement claims is a reasonable business risk similar to that assumed by other companies in the electronic equipment and software industries. However, any claim of infringement, with or without merit, could be costly and a diversion of management's attention, and an adverse determination could adversely affect our reputation, preclude us from offering certain products, and subject us to substantial liability.

<u>We may pursue business acquisitions that could impair our financial position and profitability.</u>

We may pursue acquisitions of complementary technologies, product lines or businesses. Future acquisitions may include risks, such as:

- burdening management and our operating teams during the integration of the acquired entity
- diverting management's attention from other business concerns
- failing to successfully integrate the acquired products
- lack of acceptance of the acquired products by our sales channels or customers
- entering markets where we have no or limited prior experience
- potential loss of key employees of the acquired company
- additional burden of support for an acquired programmer architecture

Future acquisitions may also impact Data I/O's financial position. For example, we may use significant cash or incur additional debt, which would weaken our balance sheet. We may also capitalize goodwill and intangible assets acquired, the impairment of which would reduce our profitability. We cannot guarantee that future acquisitions will improve our business or operating results.

<u>The loss of key employees may adversely affect our operations.</u>

We have employees located in the U.S., Germany, and China. We also utilize independent contractors for specialty work, primarily in research and development, and utilize temporary workers to adjust capacity to fluctuating demand. Many of our employees are highly skilled and our continued success will depend in part upon our ability to attract and retain employees who can be in great demand within the industry. None of our employees are represented by a collective bargaining unit and we believe relations with our employees are favorable though no assurance can be made that this will be the case in the future. In China, our workers are "leased" with the arrangements made under the Shanghai Foreign Services Co., Ltd. ("FSCO") labor agreement and we could be adversely affected if we were unable to continue that arrangement. Refer to the section captioned <u>"Our restructuring activities may have a negative impact on our future operations</u>" above.

<u>Failure to comply with regulatory requirements may adversely affect our stock price and business.</u>

As a public company, we are subject to numerous governmental and stock exchange requirements, with which we believe we are in compliance. The Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission (SEC) have requirements that we may fail to meet by the required deadlines or we may fall out of compliance with, such as the internal controls auditor attestation required under Section 404 of the Sarbanes-Oxley Act of 2002, with which we are not yet required to comply as we are not an accelerated filer. Data I/O assumes it will continue to have the status of a smaller reporting company based on the aggregate market value of the voting and non-voting shares held as of June 30, 2008. During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act of 2002 for compliance with the requirements of Section 404. We may also incur additional costs in order to comply with Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly. Our failure to meet regulatory requirements and exchange listing standards may result in actions such as the delisting of our stock impacting our stock's liquidity; SEC enforcement actions; and securities claims and litigation.

Our stock price may be volatile and, as a result, you may lose some or all of your investment.

The stock prices of technology companies tend to fluctuate significantly. We believe factors such as announcements of new products or services by us or our competitors and quarterly variations in financial results may cause the market price of Data I/O's Common Stock to fluctuate substantially. In addition, overall volatility in the stock market, particularly in the technology company sector, is often unrelated to the operating performance of companies. If these market fluctuations continue in the future, they may adversely affect the price of Data I/O's Common Stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

On February 28, 2006, Data I/O entered into a termination agreement for the Redmond headquarters facility lease and entered into a five year lease agreement for a 40,000 square foot office space also located in Redmond, Washington. The lease commenced and the move occurred during the third quarter of 2006. The lease base annual rental payments during 2008 were approximately $556,000. The new lease requires base annual rental payments of approximately $573,000 for 2009. See Note 8 of "Notes to Consolidated Financial Statements." We also entered into a new lease agreement during the second quarter of 2006 for our offices in Shanghai, China. During the fourth quarter of 2007, Data I/O terminated the leases for two China sales offices and moved to a new location for one, as a result of the restructure actions to lower costs.

In addition to the Redmond facility, approximately 14,000 square feet is leased at four foreign locations, including our German sales, service and engineering operations located in Munich, Germany, and two sales, service, and engineering offices located in China.

Item 3. Legal Proceedings

As of December 31, 2008, Data I/O was not a party to any legal proceedings, the adverse outcome of which in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

As previously disclosed, on January 22, 2008, our former landlord, (now known as Rowley Properties, Inc.), filed a Complaint in the Superior Court of Washington for King County (No. 08-2-03518-2 SEA) against Data I/O, Robert/Barbara Hiester and Steven/Jane Doe Hiester. The claims against Data I/O include breach of agreement, waste, and an environmental remediation claim for contribution under RCW 70.105D.080. No claim amount was specified in the Complaint. The claims relate to a former circuit board fabrication business that Data I/O operated from 1978 to October 1988. We sold that business to Circuit Partners whose officers and principal shareholders were Robert and Barbara Hiester. In March 2009, we agreed to settle this case with Rowley Properties, Inc with the settlement amount to be paid by our insurer. Rowley Properties, Inc. and Data I/O expect to enter into a mutual release and settlement agreement in which they release each other from claims related to this case and Rowley Properties, Inc indemnifies Data I/O against any claims from the other defendants related to this case.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted for a vote of shareholders of Data I/O during the fourth quarter of the fiscal year ended December 31, 2008.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following table shows, for the periods indicated, the high and low price information for Data I/O's Common Stock as reported by the NASDAQ Capital Market (NASDAQ symbol is DAIO). The closing price was $2.40 on December 31, 2008.

	Period	High	Low
2008	Fourth Quarter	$4.46	$1.87
	Third Quarter	6.90	3.00
	Second Quarter	6.16	4.25
	First Quarter	6.65	3.87
2007	Fourth Quarter	$6.74	$3.97
	Third Quarter	3.71	3.12
	Second Quarter	4.41	3.22
	First Quarter	4.09	3.52

The approximate number of shareholders of record as of March 16, 2009 was 589.

Except for a special cash dividend of $4.15 per share paid on March 8, 1989, Data I/O has not paid cash dividends on our Common Stock and does not anticipate paying regular cash dividends in the foreseeable future.

No sales of unregistered securities were made by Data I/O during the periods ended December 31, 2008, December 31, 2007 and December 31, 2006.

See Item 12 for the Equity Compensation Plan Information.

Share Repurchase Program

On December 16, 2008, Data I/O's board of directors authorized a stock repurchase program of up to 1 million shares of common stock. The shares will be purchased in the open market, by block purchases or in private transactions, based on prevailing market conditions and price limits, and the stock repurchase program is authorized for the year 2009. The program may be suspended or discontinued at any time. The shares repurchased will be available for re-issuance to satisfy employee stock plans and for other corporate purposes. The board also approved entering into a Rule 10b5-1 trading plan, which allows the company to repurchase the company's common stock in the open market during periods in which stock trading is otherwise closed for the company. The discretionary repurchase provisions and the 10b5-1 provisions of the program will be effective starting January 5, 2009. As of December 31, 2008 no shares have been repurchased under this program.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about themselves as long as they identify these statements as forward-looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact made in this Annual Report on Form 10-K are forward-looking. In particular, statements herein regarding economic outlook, industry prospects and trends; future results of operations or financial position; breakeven revenue point; integration of acquired products and operations; market acceptance of our newly introduced or upgraded products or services; development, introduction and shipment of new products or services; changing foreign operations; and any other guidance on future periods are forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Although Data I/O believes that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or other future events. Moreover, neither Data I/O nor anyone else assumes responsibility for the accuracy and completeness of these forward-looking statements. Data I/O is under no duty to update any of these forward-looking statements after the date of this Annual Report. The Reader should not place undue reliance on these forward-looking statements. The following discussions and the section entitled "Risk Factors – Cautionary Factors That May Affect Future Results" describes some, but not all, of the factors that could cause these differences.

OVERVIEW

We continued to focus on our primary goal of managing the business to achieve profitable operations, while developing, launching and enhancing products to drive revenue and earnings growth. Our challenge continues to be operating in a cyclical and challenging industry environment.

In response to losses in the first half of 2006, we launched an initiative during the third quarter of 2006 to lower the quarterly revenue breakeven point. We again experienced losses during the first half of 2007 with declining revenues and gross margins and, as such, we decided to take additional expense reductions to lower our expected quarterly revenue breakeven point to below $5.3 million when fully implemented during 2007. During the fourth quarter of 2007, we successfully completed these actions consisting of a combination of margin improvements and expense reductions. We have taken actions to improve the effectiveness of our sales and marketing organization. We have reduced expenses by reducing personnel costs, re-engineering some internal processes, and transferring some activities to our lower cost base of operations in China. These restructuring actions taken in the first half of 2007, resulted in our financial operation for the five following quarters at approximately our business model.

We experienced in the fourth quarter of 2008 a significant decline in business, which together with an uncertain economic outlook caused us to determine that additional cost and expense reduction measures were necessary. We took a restructuring charge of $535,000 in the fourth quarter of 2008, primarily related to severance, to further lower the revenue breakeven point for Data I/0. We are continuing our efforts to balance business geography shifts, increasing costs and strategic investments in our business with the level of demand and mix of business we expect. Tempering these efforts is the current economic uncertainty regarding forecast business in certain geographic and customer segments.

We are focusing our research and development efforts in our strategic growth markets, namely new programming technology, and automated programming systems for the manufacturing environment. We continue to focus on extending the capabilities and support for our FlashCORE architecture, and the ProLINE-RoadRunner, FLX, PS, and FlashPAK product lines. Our applications innovation strategy provides complete solutions to target customer's business problems. These solutions generally have a larger software element, may involve third-party components, and in many cases, will be developed to address a specific customer's requirements. We believe by adding these features to our strategic product platforms, we will be able to set ourselves apart from other product suppliers and elevate our relationships with our customers to a partner level.

Our customer focus has been on strategic high volume manufacturers in key market segments like wireless, automotive, industrial controls and programming centers and supporting NAND Flash and microcontrollers on our newer products to gain new accounts and in newer areas, such as microcontrollers for the automotive market with our new ProLINE-RoadRunner XLF. We have continued to expand our China operations to take advantage of the growth of manufacturing in China and to operate close to our customers. We continue to address the effectiveness of our sales and marketing organization and sales channels by adding and changing channels during 2007 and 2008. We recognized the need to diversify our customer base and are continuing to take steps to broaden our channels of distribution and representation to reach a greater number of customers. This decision, in regard to our China sales operations, made at the end of the first quarter of 2007, included eliminating some China direct selling expenses and increasing the use of agents that have established relationships with the desired customers. We have also added additional Asian sales channel management to drive Asia sales and manage this important region. We believe these changes helped us more rapidly grow our business in China and Asia during 2008 and convert some of our fixed selling expenses to variable. In the second half of 2008 and early 2009 we have further focused on broadening our sales coverage in the Americas and have added, and plan to add, additional sales representative channels again expanding the use of a variable cost model.

On March 18, 2008, the Company completed the sale of selected patents and patent applications to Leannoux Properties AG L.L.C. Net proceeds were approximately $3.3 million with a net gain of approximately $2.1 million.

BUSINESS RESTRUCTURING PROGRESS

The restructuring activities started during the second half of 2006 to reduce expenses and improve margins were continued during the first and second quarters of 2007, to further improve our operating results and the effectiveness of our sales and marketing organization and sales channels. During the first quarter of 2007, we recorded restructuring charges of approximately $200,000 primarily related to severance charges. During the second quarter of 2007, we recorded an additional $632,000 of restructuring charges. These actions included re-engineering some internal processes, integrating some activities, transferring some activities to our lower cost base of operations in China, reducing resources applied to declining legacy products, moving some engineering positions to production, reducing the number of taxable entities, outsourcing some functions such as payroll, combining some positions, eliminating some functions, and shifting some responsibilities and resources to our channels. During the third quarter of 2007, we recorded a net expense reversal of $107,000 comprised of $54,000 of additional expense, primarily relating to facilities, and a reversal of $161,000 of previously accrued severance primarily because certain employees who had been scheduled for termination had their termination notice rescinded.

As a result of the business down turn we were experiencing in the fourth quarter of 2008 and the uncertain business outlook, additional actions to reduce expenses were taken. This resulted in a restructuring charge primarily related to severance during the fourth quarter of $535,000 and total of $542,000 for the year 2008. At December 31, 2008, $390,000 remains accrued and is expected to be largely paid out during the first quarter of 2009.

CRITICAL ACCOUNTING POLICY JUDGMENTS AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires that we make estimates and judgments, which affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, Data I/O evaluates our estimates, including those related to sales returns, bad debts, inventories, investments, intangible assets, income taxes, warranty obligations, restructuring charges, contingencies such as litigation, and contract terms that have multiple elements and other complexities typical in the capital equipment industry. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Data I/O believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements:

Revenue Recognition: Sales of Data I/O's semiconductor programming equipment requiring installation by us that is other than perfunctory were previously recorded when installation was complete, or at the later of customer acceptance or installation, if an acceptance clause is specified in the sales terms. Beginning in the third quarter of 2005, Data I/O began recognizing revenue for these products at the time of shipment. We began recognizing revenue at the time of shipment after we determined that our automated products have reached a point of maturity and stability such that product acceptance can be assured by testing at the factory prior to shipment and that the installation meets the criteria to be considered a separate element. These systems are standard products with published product specifications and are configurable with standard options. The evidence that these systems could be accepted was based upon having standardized factory production of the units, results from batteries of tests of product performance to our published specifications, quality inspections and installation standardization, as well as past product operation validation with customer and the history provided by our installed base of products upon which the current versions were based. When arrangements include multiple elements, we use objective evidence of fair value to allocate revenue to the elements pursuant to EITF 00-21, "Revenue Arrangements with Multiple Deliverables," and recognize revenue when the criteria for revenue recognition have been met for each element according to SAB 104, "Revenue Recognition." The amount of revenue recognized is affected by our judgments as to the collectability of the transaction or whether an arrangement includes multiple elements and if so, whether specific objective evidence of fair value exists for those elements. The measure of standalone fair value of the product versus the service installation value component is determined by the amount Data I/O pays to independent representative service groups or the amount of additional discount given to independent distributors, to provide the service installation. Changes to the elements in an arrangement and the ability to establish specific objective evidence for those elements could affect the timing of the revenue recognition. These conditions could be subjective and actual results could vary from the estimated outcome.

Installation that is considered perfunctory includes any installation that can be performed by other parties, such as distributors, other vendors, or in most cases the customer themselves. This takes into account the complexity, skill, and training needed as well as customer expectations regarding installation. The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment provided that persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, and collectability is reasonably assured.

We record revenue from the sale of service and update contracts as deferred revenue and we recognize it on a straight-line basis over the contractual period, which is typically one year. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items. Data I/O has a stated return policy that customers can return standard products for any reason within 30 days after delivery provided that the returned product is received in its original condition, including all packaging materials, for a refund of the price paid less a restocking charge of 30% of the total amount invoiced for the product returned, unless such restocking charge is waived in writing by Data I/O. In accordance with SFAS 48, “Revenue Recognition When Right of Return Exists,” provisions for revenue recognition, the price is fixed or determinable at the date of the sale. The buyer has paid or is obligated to pay and the obligation is not contingent on resale of the product. The buyer’s obligation would not be changed in the event of theft, physical destruction or damage to the product. The buyer acquiring the product for resale has economic substance apart from Data I/O. We do not have contractual obligations for future performance to directly bring about the resale of the product by the buyer.

Allowance for Doubtful Accounts: We base the allowance for doubtful accounts receivable on our assessment of the collectability of specific customer accounts and the aging of accounts receivable. If there is deterioration of a major customer’s credit worthiness or actual defaults are higher than historical experience, our estimates of the recoverability of amounts due to us could be adversely affected.

Inventory: Inventories are stated at the lower of cost or market (“locom”) with cost being currently adjusted at standard cost which approximates cost on a first-in, first-out basis. We estimate reductions to inventory for obsolete, slow-moving, excess and non-salable inventory by reviewing current transactions and forecasted product demand. We evaluate our inventories on an item by item basis and record locom adjustment accordingly. If there is a significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, Data I/O may be required to increase our inventory adjustments and our gross margin could be adversely affected.

Warranty Accruals: Data I/O accrues for warranty costs based on the expected material and labor costs to fulfill our warranty obligations. If we experience an increase in warranty claims, which are higher than our historical experience, our gross margin could be adversely affected.

Tax Valuation Allowances: Given the uncertainty created by our loss history, as well as the current uncertain economic outlook for our industry and capital spending, Data I/O expects to continue to limit the recognition of net deferred tax assets and accounting for uncertain tax positions and maintain the tax valuation allowances. We expect, therefore, that reversals of the tax valuation allowance will take place only as we are able to take advantage of the underlying tax loss or other attributes in carry forward. The transfer pricing and expense or cost sharing arrangements are complex areas where judgments, such as the determination of arms-length arrangements, can be subject to challenges by different tax jurisdictions.

Share-based Compensation: We accounted for share-based awards made to our employees and directors including employee stock option awards, employee stock purchases made under our Employee Stock Purchase Plan (“ESPP) and restricted and performance share awards using the estimated grant date fair value method of accounting in accordance with SFAS, No. 123 (revised 2004), “Share-Based Payment (SFAS No. 123(R),” which was effective January 1, 2006 for Data I/O. We estimate the fair value using the Black-Scholes valuation model which requires the input of highly subjective assumptions, including the option’s expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using the historical volatility of the Company’s common stock. Changes in the subjective assumptions required in the valuation model may significantly affect the estimated value of the awards, the related stock-based compensation expense and, consequently, our results of operations. Beginning in the second quarter of 2006, restricted stock awards and performance-based stock awards were granted. The vesting of the performance-based stock awards is based on attaining a particular revenue growth target during the three year period ending December 31, 2008. However, during the third quarter of 2007, we reversed the compensation expense related to the performance-based stock awards, based upon the likelihood of not meeting the performance goal for the year ending December 31, 2008. Beginning August 2006, ESPP shares were issued under provisions that do not require expense under SFAS 123(R).

Results of Operations

NET SALES

(in thousands) Net sales by product line:	2008	Change	2007
Automated programming systems	$16,822	0.7%	$16,710
Non-automated programming systems	10,775	7.3%	10,042
Totals	$27,597	3.2%	$26,752
Net sales by location:			
United States	$4,070	(17.4%)	$4,925
% of total	14.7%		18.4%
International	$23,527	7.8%	$21,827
% of total	85.3%		81.6%

For the year ended December 31, 2008 compared to the same period of 2007, sales increased by approximately $845,000 or 3.2% with the increase occurring during the first three calendar quarters of 2008, offset by a decline in the fourth quarter. The increase relates primarily to higher sales of aftermarket adapters as well as RoadRunner, FLX, and FlashPAK product lines Partially offsetting the increase were reduced sales of PS systems, ImageWriter, and our legacy non-automated programmers Unifamily and Sprint. The decline in sales of 11% in our legacy non-automated programmers is a continuing trend for these older product lines. Our backlog was roughly the same at $2.0 million on December 31, 2008 compared to $2.1 million on December 31, 2007.

International sales for the year ended 2008 were 85.3% of sales and increased by approximately 7.8% compared to the same period in 2007. During the year ended 2008, sales in Asia increased by approximately 46% compared to 2007, reflecting the improvements made in our China channels and Asian sales management during the second half of 2007 as well as what we believe to be a continued shift to international markets of manufacturing capacity related demand. The increase in Asia, especially in China, was offset in part by decreases in sales of 4% in Europe and 2% in Americas. Asia sales growth was strong in FLX, adapters, FlashPAK, and PS systems.

During 2008, our development team delivered a new version of RoadRunner the ProLINE-RoadRunner XLF aimed at large sized microcontroller users particularly in automotive electronics. We expect this to be an important product in this market, however the economic climate for capital spending is very uncertain currently in the automotive market. Our FLX-FMD had sales primarily to our initial development partner, a handset manufacturer, but has not been widely adopted at this point. During 2009, we plan to introduce additional new product solutions and product enhancements that provide both vehicles for growth as well as substantial value to our customers. We are also are making changes and increasing territory coverage with new representative sales channels, especially in the U.S.A. We also expect our new products and channels to increase our revenues, however, offsetting these increases are the expected continuing trend of declining sales of our older non-automated product lines and the current market conditions for decreased spending on capital equipment.

GROSS MARGIN

(in thousands)	2008	Change	2007
Gross margin	$16,233	8.2%	$15,007
Percentage of net sales	58.8%		56.1%

Gross margins increased in dollars by approximately $1.2 million and increased as a percentage of sales by 2.6 percentage points for the year ended December 31, 2008 compared to the same period in 2007. The overall gross margin percentage increase relates primarily to savings from restructuring actions taken during the first half of 2007 to lower factory costs; more favorable factory variances including: manufacturing variances of $309,000, and the labor and overhead variance of $171,000; and the effect of higher sales volume relative to fixed manufacturing costs. The current economic climate implications of decreased sales volume would typically imply a resulting lower gross margin percentage. Offsetting this is the potential for new representative sales channels to add sales which typically have a higher gross margin than our sales to distributors, but have an associated selling commission expense.

Research and Development

(in thousands)	2008	Change	2007
Research and development	$4,464	(5.3%)	$4,716
Percentage of net sales	16.2 %		17.6%

Research and development ("R&D") spending for the year ended December 31, 2008 compared to the same period in 2007 decreased in both dollars and as a percentage of sales due to the decreased spending associated with the platform development especially the FLX500. R&D also decreased due to the restructure actions and the re-engineering of internal processes including shifts of engineering work to our China based operations. Data I/O's R&D objectives continue to focus on platform enhancements and application engineering development on the FLX500, PS, ProLINE-RoadRunner and our FlashCORE programmer architecture. Our R&D spending also fluctuates based on the number and the development stage of projects. New products introduced in 2008 include the ProLINE-RoadRunner XLF, a new larger format RoadRunner version.

We believe it is essential to invest in R&D to significantly enhance our existing products and to create new products as markets develop and technologies change. In addition to product development a significant part of R&D spending is on creating software and support for new devices introduced by the semiconductor companies. We are focusing our R&D efforts in our strategic growth markets, namely new programming technology and automated programming systems for the manufacturing environment, particularly extending the capabilities and support for our FlashCORE programmer architecture and automated handling solutions.

Selling, General and Administrative

(in thousands)	2008	Change	2007
Selling, general and administrative	$8,106	(7.9%)	$8,801
Percentage of net sales	29.4%		32.9%

For the year ended December 31, 2008 compared with the same period in 2007, SG&A expenses decreased by approximately $695,000. The expense reduction was due primarily to lower commissions to channels of $665,000 especially due to certain representatives becoming distributors; a decrease in net personnel costs of approximately $307,000 related primarily to the 2008 and 2007 restructure actions; and a decrease in trade show expenses of $148,000. Partially offsetting these expense reductions was 2008 bonus incentive compensation of $580,000 where there was none in 2007. For 2009, increased sales channel territory coverage by new representatives is expected to add variable cost selling commissions for sales that they generate.

Interest

(in thousands)	2008	Change	2007
Interest income	$153	25.4%	$122
Interest expense	($30)	(21.1%)	($38)

Interest income increased by $31,000 for the twelve month period ending December 31, 2008 compared to the same period in 2007 due to the increase in the cash balance. Interest expense decreased for the twelve month period ending December 31, 2008 compared to the same period in 2007 due to paying down the equipment capital lease associated with the move to a new facility during the third quarter of 2006.

Income Taxes

(in thousands)	2008	2007
Income tax (expense) benefit	($79)	($8)

Income tax expense for 2008 relates to federal alternative minimum tax as well as foreign and state income taxes. Impacting the effective tax rate was the usage of previously reserved deferred tax assets like net operating losses in carryforward that we were able to recognize based upon the current year taxable income. For 2007, income tax expense related to foreign and state income taxes. The effective tax rate for 2007 was impacted by the valuation allowances on tax losses. We had income in 2007 in some foreign operations partially offset by losses in other countries.

For financial reporting purposes, Data I/O established tax valuation reserves against our deferred tax assets because of the uncertainty relating to the realization of such asset values. We had valuation allowances of $8.7 million and $9.5 million at December 31, 2008 and 2007, respectively. Given the uncertainty created by our past loss history as well as the current uncertain economic outlook for our industry and capital spending, we expect to continue to limit the recognition of net deferred tax assets and maintain the tax valuation allowances.

Inflation and Changes in Foreign Currency Exchange Rates

Sales and expenses incurred by foreign subsidiaries are denominated in the subsidiary's local currency and translated into U.S. Dollar amounts at average rates of exchange during the year. We recognized foreign currency transaction gains and (losses) of ($153,000) and ($9,000) in 2008 and 2007, respectively. The transaction gains or losses resulted primarily from inter-company sales which were not hedged; sales by our German subsidiary to certain customers, which were invoiced in US dollars; and unhedged Brazilian currency balances. We hedge our foreign currency exposure on sales of inventory to our foreign subsidiaries through the use of foreign currency exchange contracts. See Note 1 of "Notes to Consolidated Financial Statements."

Financial Condition

Liquidity and Capital Resources

(in thousands)	2008	Change	2007
Working capital	$18,715	$5,653	$13,062

At December 31, 2008, Data I/O's principal sources of liquidity consisted of existing cash and cash equivalents. Our working capital increased by $5.7 million and our current ratio increased from 3.5 in 2007 to 4.3 in 2008.

Our cash and cash equivalents increased by $5.7 million during the year ended December 31, 2008 primarily due to the cash received from operating activities totaling approximately $4.6 million. Cash received from operations primarily included net income for the year, excluding the $2.1 million from the patent sale, as well as adding back depreciation and amortization of approximately $1 million.

We added approximately $438,000 of cash from investing activities during the year ended December 31, 2008 including the $2.1 million net proceeds from the patent sale offset by 1.7 million used to purchase property, plant and equipment. We expect that we will continue to make capital expenditures to support our business and anticipate that present working capital will be sufficient to meet our operating requirements. Capital expenditures are expected to be funded by existing and internally generated funds or lease financing.

During 2007, our cash and cash equivalents increased by $5.2 million primarily due to cash received from operating activities totaling approximately $6.5 million which primarily included net income for the year 2007; a $3.5 million decrease in accounts receivable; and depreciation amortization in 2007 of approximately $1.2 million.

As a result of our significant product development, customer support, international expansion and selling and marketing efforts, we require substantial working capital to fund our operations. Over the last several years, we restructured our operations to lower our costs and operating expenditures in certain geographic regions and to lower the level of revenue required for our net income breakeven point, to preserve our cash position and to focus on profitable operations. Offsetting these actions are our investments in expanded operations in China, equipment, and hiring new key personnel. Given our strong cash position of $13 million as of year end, we believe that we have sufficient working capital available under our operating plan to fund our operations and capital requirements through at least December 31, 2009. Any substantial inability to achieve our current business plan could have a material adverse impact on our financial position, liquidity, or results of operations and may require us to reduce expenditures and/or seek additional financing. Given the current economic climate, additional financing may be extremely difficult to obtain.

LONG-TERM DEBT

(in thousands)	2008	Change	2007
Long-term debt	$219	($118)	$337

During the third quarter of 2006, the Company entered into a five year capital lease agreement in the amount of $591,145. The lease was used to fund new equipment and installation associated with our move to the new facility in July of 2006. See Note 16, "Long-Term Debt."

OFF-BALANCE SHEET ARRANGEMENTS

Except as noted in Note 8, "Operating Lease and Other Commitments," Data I/O had no off-balance sheet arrangements.

SHARE REPURCHASE PROGRAM

On December 16, 2008, Data I/O's board of directors authorized a stock repurchase program of up to 1 million shares of common stock. The shares will be purchased in the open market, by block purchases or in private transactions, based on prevailing market conditions and price limits, and the stock repurchase program is authorized for the year 2009. The program may be suspended or discontinued at any time. The shares repurchased will be available for re-issuance to satisfy employee stock plans and for other corporate purposes. The board also approved entering into a Rule 10b5-1 trading plan, which allows Data I/O to repurchase our common stock in the open market during periods in which stock trading is otherwise closed for the company. The discretionary repurchase provisions and the 10b5-1 provisions of the program will be effective starting January 5, 2009. As of December 31, 2008 no shares have been repurchased under this program.

SHARE HOLDER RIGHTS PLAN

Data I/O's Shareholder Rights Plan dated April 4, 1998 was scheduled to expire on April 4, 2008. Data I/O's Board of Directors amended and extended the Shareholder Rights Plan for an additional 10-year term on April 3, 2008.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement was originally effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Data I/O adopted the effective portions of SFAS 157 effective December 1, 2007, which did not have a significant impact on our consolidated financial statements. We are currently evaluating the impact of the remaining portions of SFAS 157-2 on our financial statements and anticipate that the adoption of those remaining portions of the statement will not have a significant impact on the reporting of our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 permits an entity, at specified election dates, to choose to measure certain financial instruments and other items at fair value. The objective of SFAS No. 159 is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for accounting periods beginning after November 15, 2007. Data I/O's adoption of SFAS No. 159 did not have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS 141(R)"), *Business Combinations*. SFAS 141(R) makes significant changes to the accounting and reporting standards for business acquisitions. SFAS 141(R) establishes principles and requirements for an acquirer's financial statement recognition and measurement of the assets acquired; the liabilities assumed, including those arising from contractual contingencies; any contingent consideration; and any noncontrolling interest in the acquiree at the acquisition date. SFAS 141(R) amends SFAS No. 109, *Accounting for Income Taxes*, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable as a result of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. The statement also amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to, among other things, provide guidance for the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS 141(R) is effective for the Company's fiscal year beginning January 1, 2009 and may not be adopted early or applied retrospectively. The adoption of SFAS 141(R) will have an impact on the accounting for, and the effect will depend upon the nature of, business combinations occurring on or after the adoption date.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133,* (SFAS No. 161), which requires companies to provide additional disclosures about its objectives and strategies for using derivative instruments; how the derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related interpretations; and how the derivative instruments and related hedged items affect our financial statements. SFAS No. 161 also requires companies to disclose information about credit risk-related contingent features in their hedged positions. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We do not currently believe adoption will have a material impact on our financial position or operating results.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The Board believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of FASB 162 is not expected to have a material impact on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

See pages 25 through 44.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders,
Data I/O Corporation

We have audited the accompanying consolidated balance sheets of Data I/O Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2008. Our audits of the basic consolidated financial statements included the consolidated financial statement schedule (Schedule II). These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Data I/O Corporation and subsidiaries as of December 31, 2008 and 2007, and the consolidated results of its operations and its consolidated cash flows for each of the two years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

//S//GRANT THORNTON LLP

Seattle, Washington
March 25, 2009

DATA I/O CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31,

(in thousands, except share data)	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$13,304	$7,637
Trade accounts receivable, net of allowance for doubtful accounts of $142 and $130	5,659	5,299
Inventories	5,039	4,980
Other current assets	408	323
TOTAL CURRENT ASSETS	24,410	18,239
Property, plant and equipment – net	2,290	2,257
Other assets	111	124
TOTAL ASSETS	$26,811	$20,620
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$1,005	$1,204
Accrued compensation	1,476	1,025
Deferred revenue	1,541	1,715
Other accrued liabilities	1,100	1,104
Accrued costs of business restructuring	389	8
Income taxes payable	59	3
Current portion long-term debt	125	118
TOTAL CURRENT LIABILITIES	5,695	5,177
Long-term other payables	57	20
Long-term debt	219	337
COMMITMENTS	–	–
STOCKHOLDERS' EQUITY		
Preferred stock - Authorized, 5,000,000 shares, including 200,000 shares of Series A Junior Participating Issued and outstanding, none	–	–
Common stock, at stated value - Authorized, 30,000,000 shares Issued and outstanding, 8,869,245 and 8,765,767 shares	21,331	20,724
Accumulated Deficit and Retained Earnings	(1,301)	(6,429)
Accumulated other comprehensive income	810	791
TOTAL STOCKHOLDERS' EQUITY	20,840	15,086
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$26,811	$20,620

See notes to consolidated financial statements.

DATA I/O CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,	2008	2007
(in thousands, except per share data)		
Net sales	$27,597	$26,752
Cost of goods sold	11,364	11,745
Gross margin	16,233	15,007
Operating expenses:		
Research and development	4,464	4,716
Selling, general and administrative	8,106	8,801
Provision for business restructuring	542	725
Total operating expenses	13,112	14,242
Gain on sale of assets - patents	2,116	-
Operating income (loss)	5,237	765
Non-operating income (expense):		
Interest income	153	122
Interest expense	(30)	(38)
Foreign currency transaction gain (loss)	(153)	(9)
Total non-operating income (loss)	(30)	75
Income (loss) before income taxes	5,207	840
Income tax (expense) benefit	(79)	(8)
Net income (loss)	$5,128	$832
Basic earnings (loss) per share	$0.58	$0.10
Diluted earnings (loss) per share	$0.57	$0.09
Weighted-average basic shares	8,822	8,592
Weighted-average diluted shares	9,053	8,860

See notes to consolidated financial statements

DATA I/O CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	2008	2007
(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$5,128	$832
Adjustments to reconcile income (loss)		
to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,017	986
Write off of property, plant and equipment	0	58
Gain on sale of patents	(2,115)	-
Equipment transferred to cost of goods sold	398	896
Share-based compensation	401	316
Net change in:		
Trade accounts receivable	(467)	3,492
Inventories	(78)	163
Other current assets	(96)	179
Accrued cost of business restructuring	381	6
Accounts payable and accrued liabilities	245	(657)
Deferred revenue	(174)	249
Deposits and other long-term assets	(1)	5
Net cash provided by (used in) operating activities	4,639	6,525
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(1,677)	(1,015)
Net proceeds from sale of patents	2,115	-
Proceeds from maturities of available-for-sale securities	-	-
Cash provided by (used in) investing activities	438	(1,015)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	206	355
Payment of capital lease obligation	(112)	(103)
Cash provided by financing activities	94	252
Increase (decrease) in cash and cash equivalents	5,172	5,762
Effects of exchange rate changes on cash	496	(603)
Cash and cash equivalents at beginning of year	7,637	2,478
Cash and cash equivalents at end of year	$13,304	$7,637

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$32	$39
Income taxes	$23	$12

See notes to consolidated financial statements.

DATA I/O CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Retained Earnings	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	(Deficit)	Income (Loss)	Equity
(in thousands, except share data)					
Balance at December 31, 2006	8,481,563	$20,053	($7,261)	$491	$13,283
Balance at December 31, 2006 as adjusted	8,481,563	20,053	(7,261)	491	13,283
Stock options exercised	273,344	327			327
Stock awards issued net of tax withholding	1,902	(3)			(3)
Issuance of stock through					
Employee Stock Purchase Plan	8,958	31			31
Share-based compensation		316			316
Comprehensive income:					
Net Income			832		832
Translation adjustment				300	300
Total comprehensive income					1,132
Balance at December 31, 2007	8,765,767	20,724	(6,429)	791	15,086
Stock options exercised	96,240	194			194
Stock awards issued net of tax withholding	3,607	(7)			(7)
Issuance of stock through					
Employee Stock Purchase Plan	3,631	19			19
Share-based compensation		401			401
Comprehensive income:					
Net income			5,128		5,128
Translation adjustment				19	19
Total comprehensive income					5,147
Balance at December 31, 2008	8,869,245	$21,331	($1,301)	$810	$20,840

See notes to consolidated financial statements.

DATA I/O CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Data I/O Corporation ("Data I/O") designs, manufactures, and sells programming systems used by designers and manufacturers of electronic products. Our programming system products are used to program integrated circuits ("ICs" or "devices" or "semiconductors") with the specific unique data necessary for the ICs contained in various products, and are an important tool for the electronics industry experiencing growing use of programmable ICs. Customers for our programming system products are located around the world, primarily in the United States, Europe and the Far East. Our manufacturing operations are currently located in the United States, with most of our FlashCORE adapters are manufactured in China. An outside supplier located in Germany currently manufactures our Sprint non-automated programming systems.

Principles of Consolidation

The consolidated financial statements include the accounts of Data I/O Corporation and our wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated at the exchange rate on the balance sheet date. Revenues, costs and expenses of foreign subsidiaries are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are charged or credited to stockholders' equity, net of taxes recognized. Realized and unrealized gains and losses resulting from the effects of changes in exchange rates on assets and liabilities denominated in foreign currencies are included in non-operating expense as foreign currency transaction gains and losses.

Cash and Cash Equivalents

Cash and cash equivalents are highly liquid investments with maturities of three months or less at date of purchase.

Fair Value of Financial Instruments

The carrying value of cash, cash equivalents, marketable securities and forward exchange contracts approximates fair value. The fair value of Data I/O's marketable securities is based upon the quoted market price on the last business day of the fiscal year plus accrued interest, if any.

Accounts Receivable

The majority of Data I/O's accounts receivable are due from companies in the electronics manufacturing industries. Credit is extended based on an evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are typically due within 30 to 60 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts receivable outstanding longer than the contractual payment terms are considered past due. Data I/O determines our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the industry and geographic payment practices involved, Data I/O's previous loss history, the customer's current ability to pay their obligation to Data I/O, and the condition of the general economy and the industry as a whole. Data I/O writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Interest may be accrued, at the discretion of management and according to our standard sales terms, beginning on the day after the due date of the receivable. However, interest income is subsequently recognized on these accounts either to the extent cash is received, or when the future collection of interest and the receivable balance is considered probable by management.

Inventories

Inventories are stated at the lower of cost or market with cost being the currently adjusted standard cost, which approximates cost on a first-in, first-out basis. We estimate changes to inventory for obsolete, slow-moving, excess and non-salable inventory by reviewing current transactions and forecasted product demand. We evaluate our inventories on an item by item basis and record locom (lower of cost or market) adjustment accordingly. See Note 5.

Property, Plant and Equipment

Property, plant and equipment, including leasehold improvements, are stated at cost and depreciation is calculated over the estimated useful lives of the related assets or lease terms on the straight-line basis. We depreciate substantially all manufacturing and office equipment over periods of three to seven years. We depreciate leasehold improvements over the remaining portion of the lease or over the expected life of the asset if less than the remaining term of the lease.

Long-lived assets are evaluated on an annual basis for impairment. Based on this evaluation, no impairment was noted for the years ended December 31, 2008 and 2007.

Intangible Assets

Intangible assets include capitalized costs, technical and product rights, patent, trademarks, and other intellectual property. Intangible assets are stated at cost and amortized to operations over their estimated useful lives or statutory lives, whichever is shorter. Capitalized intangible assets are included in other long term assets on the balance sheet. We evaluate our intangible assets for impairments whenever events or changes in circumstances indicate that the carrying amount may not be recoverable using a fair value approach. No such impairment was recognized for the years ended December 31, 2008 and 2007.

Income Taxes

Federal and state income taxes are computed at current enacted tax rates, less tax credits using the asset and liability method. Deferred taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, changes in deferred tax assets and liabilities that arise because of temporary differences between the timing of when items of income and expense are recognized for financial reporting and income tax purposes, changes in the recognition of tax positions due to the application of Financial Accounting Standards Board, or FASB, Interpretation 48 (FIN 48), and any changes in the valuation allowance caused by a change in judgment about the realizability of the related deferred tax assets. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

Share-Based Compensation

On January 1, 2006, we adopted SFAS No. 123(R), "Share-Based Payment (Revised 2004)," which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors. Under this standard, the Company's stock-based compensation awards are measured based on estimated fair values on the date of grant and recognized as compensation expense on the straight-line single-option method. The Company implemented SFAS No. 123(R) using the modified prospective transition method. Our share-based compensation is reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Prior to January 1, 2006, we accounted for share-based payments under the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees ("APB 25")," and related interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation ("SFAS 123")." In accordance with APB 25, no compensation cost was required to be recognized for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant. Under our plan, stock options are generally granted at fair market value.

Revenue Recognition

Sales of Data I/O's semiconductor programming equipment products requiring installation by us that is other than perfunctory were previously recorded when installation was complete, or at the later of customer acceptance or installation, if an acceptance clause is specified in the sales terms. Beginning in the third quarter of 2005, Data I/O began recognizing revenue for these products at the time of shipment. We began recognizing revenue at the time of shipment after we determined that our programming equipment have reached a point of maturity and stability such that product acceptance can be assured by testing at the factory prior to shipment and that the installation meets the criteria to be considered a separate element. These systems are standard products with published product specifications and are configurable with standard options. The evidence that these systems could be deemed as accepted was based upon having standardized factory production of the units, results from batteries of tests of product performance to our published specifications, quality inspections and installation standardization, as well as past product operation validation with the customer and the history provided by our installed base of products upon which the current versions were based. When arrangements include multiple elements, we use objective evidence of fair value to allocate revenue to the elements pursuant to EITF 00-21, "Revenue Arrangements with Multiple Deliverables," and recognize revenue when the criteria for revenue recognition have been met for each element according to SAB 104, "Revenue Recognition." The amount of revenue recognized is affected by our judgments as to the collectibility of the transaction or whether an arrangement includes multiple elements and if so, whether specific objective evidence of fair value exists for those elements. The measure of standalone fair value of the product versus the service installation value component is by the amount the Company pays to independent representative service groups or the amount of additional discount given to independent distributors to provide the service installation (published price).

Installation that is considered perfunctory includes any installation that can be performed by other parties, such as distributors, other vendors, or in most cases the customers themselves. This takes into account the complexity, skill, and training needed as well as customer expectations regarding installation. The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment provided that persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, and collectibility is reasonably assured.

We record revenue from the sale of service and update contracts as deferred revenue and we recognize it on a straight-line basis over the contractual period, which is typically one year. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items. The Company has a stated return policy that customers can return standard products for any reason within 30 days after delivery provided that the returned product is received in its original condition, including all packaging materials, for a refund of the price paid less a restocking charge of 30% of the total amount invoiced for the product returned, unless such restocking charge is waived in writing by the Company. In accordance with SFAS 48, "Revenue Recognition When Right of Return Exists," provisions for revenue recognition, the price is fixed or determinable at the date of the sale. The buyer has paid or is obligated to pay and the obligation is not contingent on resale of the product. The buyer's obligation would not be changed in the event of theft, physical destruction or damage to the product. The buyer acquiring the product for resale has economic substance apart from the Company. The Company does not have significant obligations for future performance to directly bring about the resale of the product by the buyer.

Sales were recorded net of associated sales return reserves, which were $197,000 and $158,000 at December 31, 2008 and 2007, respectively.

Data I/O's software products are not normally sold separately from sales of programming systems. However, on those occasions where we sell software separately, we recognize revenue when a sales agreement exists, when delivery has occurred, when the fee is fixed or determinable, and when collection is probable.

Data I/O transfers certain products out of service from their internal use and makes them available for sale. The products transferred are our standard products in one of the following areas: service loaners, rental or test units; engineering test units; or sales demonstration equipment. Once transferred, the equipment is sold by our regular sales channels as used equipment inventory. These product units often involve refurbishing and an equipment warranty, and are conducted as sales in our normal and ordinary course of business. The transfer amount is the product unit's net book value and the sale transaction is accounted for as revenue and cost of goods sold.

Research and Development

Research and development costs are expensed as incurred.

Advertising Expense

Data I/O expenses advertising costs as incurred. Total advertising expenses were approximately $116,000 and $115,000 in 2008 and 2007, respectively.

Warranty Expense

Data I/O records a liability for an estimate of costs that it expects to incur under our basic limited warranty when product revenue is recognized. Factors affecting our warranty liability include the number of units sold and historical and anticipated rates of claims and costs per claim. We periodically assess the adequacy of our warranty liability based on changes in these factors. Data I/O normally warrants our products against defects for periods ranging from ninety days to one year. The FlashPAK, which at introduction carried a three-year warranty on some components, now have a one year warranty. We provide currently for the estimated cost that may be incurred under our product warranties. Data I/O records revenues on extended warranties on a straight-line basis over the term of the related warranty contracts. Service costs are expensed as incurred.

Earnings (Loss) Per Share

Basic earnings (loss) per share exclude any dilutive effects of stock options. Basic earnings (loss) per share are computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of common shares and common stock equivalent shares outstanding during the period. The common stock equivalent shares from equity awards used in calculating diluted earnings per share were 231,974 and 268,197 for the years ended December 31, 2008 and 2007 respectively. Options to purchase 820,645 and 259,359 shares of common stock were outstanding as of December 31, 2008 and 2007, respectively, but were excluded from the computation of diluted EPS for the period then ended because the options were anti-dilutive.

Diversification of Credit Risk

Financial instruments, which potentially subject Data I/O to concentrations of credit risk, consist primarily of trade receivables. Our cash, cash equivalents and marketable securities consist of high quality financial instruments. Data I/O maintains cash balances in financial institutions, which at times may exceed federally insured limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on cash and cash equivalents. Our trade receivables are geographically dispersed and include customers in many different industries. At December 31, 2008 the combined subsidiaries accounts receivable of one customer represented 13.3% of our total consolidated accounts receivable balance and there were no other customers that represented 10% or more. As of December 31, 2007, we had no customers that represented 10% or more of total consolidated accounts receivable balance. We believe that risk of loss is significantly reduced due to the diversity of our end-customers and geographic sales areas. We perform on-going credit evaluations of our customers' financial condition and require collateral, such as letters of credit and bank guarantees, or prepayment whenever deemed necessary.

Derivatives

Data I/O accounts for our derivatives using SFAS No. 133, "Accounting for Derivatives and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and requires recognition of derivatives as assets or liabilities in the statement of financial position and measurement of those instruments at fair value.

Data I/O utilizes forward foreign exchange contracts to reduce the impact of foreign currency exchange rate risks where natural hedging strategies cannot be effectively employed. All of our hedging instruments are fair value hedges. Generally, these contracts have maturities less than one year and require us to exchange foreign currencies for U.S. dollars at maturity. At December 31, 2008 and 2007, we had a notional value of approximately $424,000 and $1,620,000, respectively. The estimated fair value gain (loss) of the open hedge contracts as of December 31, 2008 and 2007 is approximately ($9,000) and ($8,000), respectively, and is included in accounts payable on the balance sheet. Periodic changes in fair value are recorded in other income in the statement of operations. The amount of transaction gain or (loss) in other income in 2008 and 2007 was ($153,000) and ($9,000), respectively.

Data I/O does not hold or issue derivative financial instruments for trading purposes. The purpose of our hedging activities is to reduce the risk that the valuation of the underlying assets, liabilities and firm commitments will be adversely affected by changes in exchange rates. Our derivative activities help minimize foreign currency exchange rate risk because fluctuations in the value of the instruments used for hedging purposes are offset by fluctuations in the value of the underlying exposures being hedged. We are exposed to credit-related losses in the event of nonperformance by counterparties to forward exchange contracts. However, we have entered into these instruments with creditworthy financial institutions and consider the risk of nonperformance remote.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement was originally effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Data I/O adopted the effective portions of SFAS 157 effective December 1, 2007, which did not have a significant impact on our consolidated financial statements. We are currently evaluating the impact of the remaining portions of SFAS 157-2 on our financial statements and anticipate that the adoption of those remaining portions of the statement will not have a significant impact on the reporting of our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 permits an entity, at specified election dates, to choose to measure certain financial instruments and other items at fair value. The objective of SFAS No. 159 is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for accounting periods beginning after November 15, 2007. Data I/O's adoption of SFAS No. 159 did not have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS 141(R)"), *Business Combinations*. SFAS 141(R) makes significant changes to the accounting and reporting standards for business acquisitions. SFAS 141(R) establishes principles and requirements for an acquirer's financial statement recognition and measurement of the assets acquired; the liabilities assumed, including those arising from contractual contingencies; any contingent consideration; and any noncontrolling interest in the acquiree at the acquisition date. SFAS 141(R) amends SFAS No. 109, *Accounting for Income Taxes*, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable as a result of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. The statement also amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to, among other things, provide guidance for the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS 141(R) is effective for the Company's fiscal year beginning January 1, 2009 and may not be adopted early or applied retrospectively. The adoption of SFAS 141(R) will have an impact on the accounting for, and the effect will depend upon the nature of, business combinations occurring on or after the adoption date.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133,* (SFAS No. 161), which requires companies to provide additional disclosures about its objectives and strategies for using derivative instruments; how the derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related interpretations; and how the derivative instruments and related hedged items affect our financial statements. SFAS No. 161 also requires companies to disclose information about credit risk-related contingent features in their hedged positions. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We do not currently believe adoption will have a material impact on our financial position or operating results.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The Board believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The adoption of FASB 162 is not expected to have a material impact on our financial statements.

NOTE 2 – CLASSIFICATIONS

Certain prior periods' balances have been reclassified to conform to the presentation used in the current period.

NOTE 3 – PROVISION FOR BUSINESS RESTRUCTURING

The restructuring activities started during the second half of 2006 to reduce expenses and improve margins were continued during the first and second quarters of 2007, to further improve our operating results and the effectiveness of our sales and marketing organization and sales channels. During the first quarter of 2007, we recorded restructuring charges of approximately $200,000 primarily related to severance charges. During the second quarter of 2007, we recorded an additional $632,000 of restructuring charges. These actions included re-engineering some internal processes, integrating some activities, transferring some activities to our lower cost base of operations in China, reducing resources applied to declining legacy products, moving some engineering positions to production, reducing the number of taxable entities, outsourcing some functions such as payroll, combining some positions, eliminating some functions, and shifting some responsibilities and resources to our channels. During the third quarter of 2007, we recorded a net expense reversal of $107,000 comprised of $54,000 of additional expense, primarily relating to facilities, and a reversal of $161,000 of previously accrued severance primarily because certain employees who had been scheduled for termination had their termination notice rescinded.

As a result of the business down turn we were experiencing in the fourth quarter of 2008 and the uncertain business outlook, additional actions to reduce expenses were taken. This resulted in a restructuring charge primarily related to severance during the fourth quarter of $535,000 and total of $542,000 for the year 2008. At December 31, 2008, $390,000 remains accrued and is expected to be largely paid out during the first quarter of 2009.

An analysis of the restructuring is as follows (in thousands):

Description	Reserve Balance at 12/31/2006	2007 Expenses	2007 Payments/ Write-offs	Reserve Balance at 12/31/2007	2008 Expenses	2008 Payments/ Write-offs	Reserve Balance at 12/31/2008
Downsizing US Operations:							
Employee severance	$2	$411	$413	$-	$162	$82	$80
Facility & other costs	-	5	5	-	18	11	7
Downsizing foreign operations:							
Employee severance	-	204	199	5	347	63	289
Facility & other costs	-	105	102	3	15	4	14
Total	$2	$725	$719	$8	$542	$160	$390

NOTE 4 —ACCOUNTS RECEIVABLE, NET

Receivables consist of the following (in thousands):

	Dec. 31, 2008	Dec. 31, 2007
Trade accounts receivable	$5,801	$5,429
Less allowance for doubtful receivables	142	130
Trade accounts receivable, net	$5,659	$5,299

Trade receivables relate to sales to Data I/O customers, for which credit is extended based on the customer's credit history. Changes in Data I/O's allowance for doubtful accounts are as follows (in thousands):

	Dec. 31, 2008	Dec. 31, 2007
Beginning balance	$130	$199
Bad debt expense (reversal)	36	11
Accounts written-off	(24)	(80)
Recoveries	-	-
Ending balance	$142	$130

NOTE 5 – INVENTORIES

Net inventories consisted of the following components (in thousands):

	Dec. 31, 2008	Dec. 31, 2007
Raw material	$2,631	$3,047
Work-in-process	1,155	1,125
Finished goods	1,253	808
Inventories	$5,039	$4.980

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following (in thousands):

	Dec. 31, 2008	Dec. 31, 2007
Leasehold improvements	$393	$389
Equipment	8,931	8,853
	9,324	9,242
Less accumulated depreciation	7,034	6,985
Property, plant and equipment, net	$2,290	$2,257

Total depreciation recorded for 2008 and 2007was $832,000 and $1,054,000 respectively.

NOTE 7 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components (in thousands):

	Dec. 31, 2008	Dec. 31, 2007
Product warranty liability	$400	$401
Sales return reserve	197	158
Deferred rent	156	187
Other taxes	186	65
Other	161	293
Other accrued liabilities	$1,100	$1,104

The changes in Data I/O's product warranty liability are as follows (in thousands):

	Dec. 31, 2008	Dec. 31, 2007
Liability, beginning of year	$401	$467
Net expenses	717	782
Warranty claims	(719)	(782)
Accrual revisions	1	(66)
Liability, end of year	$400	$401

NOTE 8 – OPERATING LEASE AND OTHER COMMITMENTS

Data I/O has purchase obligations for inventory and production costs as well as other obligations such as capital expenditures, service contracts, marketing, and development agreements. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice, typically less than 90 days. At December 31, 2008, the purchase and other obligations totaled $493,000 all of which are 2009 commitments. Any amounts reflected on the balance sheet as accounts payable, accrued liabilities, and notes payable are excluded from the below table. Data I/O has commitments under non-cancelable operating leases and other agreements, primarily for factory and office space, with initial or remaining terms of one year or more as follows:

For the years ending December 31, (in thousands):

	Operating leases
2009	$1,092
2010	876
2011	491
2012 and thereafter	1
Total	$2,460

Lease and rental expense was $1,209,000 and $1,200,000 in 2008 and 2007, respectively. Rent expense is recorded on a straight line basis, over the term of the lease, for leases that contain fixed escalation clauses. Data I/O has renewal options on substantially all of our major leases. Data I/O entered into a headquarters facility lease for a five year period for an approximately 40,000 square foot office space located in Redmond, Washington and it commenced during the third quarter of 2006. We also entered into a new lease agreement during the second quarter of 2006 for our offices in Shanghai, China. During the third quarter of 2008, we entered into a new lease agreement for our office in Hong Kong, China.

NOTE 9 – CONTINGENCIES

As of December 31, 2008, Data I/O was not a party to any legal proceedings, the adverse outcome of which in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

As previously disclosed, on January 22, 2008, our former landlord, (now known as Rowley Properties, Inc.), filed a Complaint in the Superior Court of Washington for King County (No. 08-2-03518-2 SEA) against Data I/O, Robert/Barbara Hiester and Steven/Jane Doe Hiester. The claims against Data I/O include breach of agreement, waste, and an environmental remediation claim for contribution under RCW 70.105D.080. No claim amount was specified in the Complaint. The claims relate to a former circuit board fabrication business that Data I/O operated from 1978 to October 1988. We sold that business to Circuit Partners whose officers and principal shareholders were Robert and Barbara Hiester. In March 2009, we agreed to settle this case with Rowley Properties, Inc with the settlement amount to be paid by our insurer. Rowley Properties, Inc. and Data I/O expect to enter into a mutual release and settlement agreement in which they release each other from claims related to this case and Rowley Properties, Inc indemnifies Data I/O against any claims from the other defendants related to this case.

NOTE 10 – STOCK AND RETIREMENT PLANS

Stock Option Plans

At December 31, 2008, there were 1,096,473 shares of Common Stock reserved for issuance of which 192,242 shares are available for future grant under Data I/O's employee stock option plans ('Stock Plan"). Pursuant to these plans, options are granted to our officers and key employees with exercise prices equal to the fair market value of the Common Stock at the date of grant and generally vest over four years. Options granted under the plans generally have a maximum term of six years from the date of grant, except for certain options granted in January 1999, which have a maximum term of ten years. Stock awards may also be granted under the Stock Plan. Beginning in the second quarter of 2006, we granted restricted stock awards and performance-based stock awards to our officers and key employees at fair market value. The restricted stock awards are contingent upon meeting the required service period and vest in equal annual installments over four years. The performance-based stock awards vest on December 31, 2008 based on obtaining a revenue growth target of $34,694,935 for the fiscal year ending December 31, 2008. However, during the third quarter of 2007, we reversed the compensation expense related to the performance-based stock awards, based upon the likelihood of not obtaining the performance goal for the year ending December 31, 2008. The 2008 performance goal was not met and as a result these performance-based stock awards did not vest at the end of 2008.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, eligible employees may purchase shares of Data I/O's Common Stock at six-month intervals at 95% of the fair market value on the last day of each six-month period. Employees may purchase shares having a value not exceeding 10% of their gross compensation during an offering period. During 2008 and 2007, a total of 3,631 and 8,958 shares, respectively, were purchased under the plan at average prices of $5.35 and $3.43 per share, respectively. At December 31, 2008, a total of 95,482 shares were reserved for future issuance. The 5% discount allowed under the ESPP is not considered compensatory under SFAS 123(R).

Stock Appreciation Rights Plan

Data I/O has a Stock Appreciation Rights Plan ("SAR") under which each director, executive officer or holder of 10% or more of Data I/O's Common Stock has a SAR with respect to each exercisable stock option. The SAR entitles the SAR holder to receive cash from Data I/O for the difference between the market value of the stock and the exercise price of the option in lieu of exercising the related option. SARs are only exercisable following a tender offer or exchange offer for Data I/O's stock, or following approval by shareholders of Data I/O of any merger, consolidation, reorganization or other transaction providing for the conversion or exchange of more than 50% of the common shares outstanding. As no event has occurred, which would make the SARs exercisable, and no such event is deemed probable, no compensation expense has been recorded under this plan.

Director Fee Plan

Data I/O has a Director Fee Plan, not currently in use, which had provided for payment to directors who are not employees of Data I/O Corporation by delivery of shares of Data I/O's Common Stock. No shares were issued from the plan for 2008 or 2007 board service and 151,332 shares remain available in the plan as of December 31, 2008.

Retirement Savings Plan

Data I/O has a savings plan that qualifies as a cash or deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer their pre-tax salary, subject to IRS limitations. In fiscal years 2008 and 2007, Data I/O contributed one dollar for each dollar contributed by a participant, with a maximum contribution of 4% of a participant's earnings. Data I/O's matching contribution expense for the savings plan was approximately $145,000 and $161,000 in 2008 and 2007, respectively.

Share Repurchase Program

On December 16, 2008, Data I/O's board of directors authorized a stock repurchase program of up to 1 million shares of common stock. The shares will be purchased in the open market, by block purchases or in private transactions, based on prevailing market conditions and price limits, and the stock repurchase program is authorized for the year 2009. The program may be suspended or discontinued at any time. The shares repurchased will be available for re-issuance to satisfy employee stock plans and for other corporate purposes. The board also approved entering into a Rule 10b5-1 trading plan, which allows the company to repurchase the company's common stock in the open market during periods in which stock trading is otherwise closed for the company. The discretionary repurchase provisions and the 10b5-1 provisions of the program will be effective starting January 5, 2009. As of December 31, 2008 no shares have been repurchased under this program.

NOTE 11– SHARE-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors including employee stock options, stock awards and employee stock purchases made under our Employee Stock Purchase Plan ("ESPP") during 2006.

Data I/O adopted SFAS No. 123(R) using the modified prospective method beginning January 1, 2006. Accordingly, during the year ended December 31, 2008, 2007, and 2006, we recorded share-based compensation expense for awards granted prior to but not yet vested as of January 1, 2006 as if the fair value method required for pro forma disclosure under SFAS No. 123 were in effect for expense recognition purposes adjusted for estimated forfeitures. For share-based awards granted after January 1, 2006, we have recognized compensation expense based on the estimated grant date fair value method required under SFAS No. 123(R). For these awards we have recognized compensation expense using a straight-line amortization method and reduced for estimated forfeitures. SFAS No. 123(R) supersedes the Company's previous accounting under APB No. 25, "Accounting for Stock Issued to Employees, under which the Company did not recognize compensation expense.

The impact on our results of operations of recording share-based compensation for the year ended December 31, 2008 and 2007 was as follows (in thousands):

	Year Ended Dec. 31, 2008	Year Ended Dec. 31, 2007
Costs of goods sold	$24	$14
Research and development	50	39
Selling, general and administrative	327	263
Total share-based compensation expense	$401	$316
Impact on net income (loss) per share:		
Basic and diluted	$0.04	$0.04

Approximately $6,600 and $3,500 of share-based compensation was capitalized within inventory for the year ended December 31, 2008 and 2007, respectively.

The fair value of share-based awards for employee stock option awards and employee stock purchases made under our Employee Stock Purchase Plan were estimated at the date of grant using the Black-Scholes valuation model. The volatility and expected life of the options used in calculations the fair value of share-based awards excludes certain periods of historical data that we considered atypical and not likely or rare to occur in future periods. The following weighted average assumptions were used to calculate the fair value of options granted during the years ended December 31:

	Employee Stock Options		Employee Stock Purchase Plan	
	2008	2007	2008	2007
Risk-free interest rates	3.08%	4.90%	N/A	N/A
Volatility factors	.54	.59	N/A	N/A
Expected life of the option in years	4.7	4.68	N/A	N/A
Expected dividend yield	None	None	N/A	N/A

The risk-free interest rate used in the Black-Scholes valuation method is based on the implied yield currently available in U.S. Treasury securities at maturity with an equivalent term. We have not recently declared or paid any dividends and do not currently expect to do so in the future. The expected term of options represents the period that our stock-based awards are expected to be outstanding and was determined based on historical weighted average holding periods and projected holding periods for the remaining unexercised shares. Consideration was given to the contractual terms of our stock-based awards, vesting schedules and expectations of future employee behavior. Expected volatility is based on the annualized daily historical volatility of Data I/O's stock over a representative period.

The weighted average grant date fair value of options granted under our stock option plans for the twelve month period ending December 31, 2008 and 2007 was $2.85 and $1.98, respectively.

The following table summarizes stock option activity under our stock option plans for the twelve months ended December 31:

	Dec. 31, 2008		Dec. 31, 2007	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	855,925	$2.90	1,080,904	$2.40
Granted	187,000	5.91	166,000	3.71
Exercised	(102,007)	2.19	(317,576)	1.61
Cancelled, expired or forfeited	(36,687)	3.53	(73,403)	2.97
Outstanding – end of year	904,231	$3.58	855,925	2.90
Vested or expected to vest at the end of the period	850,793	$3.48	801,579	$2.85
Exercisable at end of year	602,483	$2.98	533,108	$2.58

The stock options outstanding and exercisable for equity share-based payment awards under our stock option plans as of December 31, 2008 were in the following exercise price ranges:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted – Average Remaining Contractual Life in Years	Weighted – Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted – Average Exercise Price	Aggregate Intrinsic Value
$1.00 - $1.94	207,036	1.60	$2.08		188,920	$2.05	
$1.94 - $2.49	229,226	1.61	2.84		226,570	2.84	
$2.49 - $3.13	152,625	4.37	3.68		65,220	3.68	
$3.13 - $3.69	141,719	3.52	3.90		97,398	3.90	
$3.69 - $6.07	173,625	5.38	5.96		24,375	5.96	
	904,231	3.10	$3.58	$76,815	602,483	$2.98	$76,815

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company closing stock price of $2.40 at December 31, 2008, which would have been received by award holders had all award holders exercised their stock options that were in-the-money as of that date. The aggregate intrinsic value of awards exercised during the twelve month period ended December 31, 2008 was $579,380.

Restricted stock award including performance-based stock award activity under our share-based compensation plan was as follows:

	Dec. 31, 2008		Dec. 31, 2007	
	Awards	Weighted-Average Grant Date Fair Value	Awards	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	23,986	$3.80	21,150	$3.88
Granted	13,200	5.98	12,450	3.69
Vested	(4,843)	3.78	(2,566)	3.88
Cancelled	(10,020)	4.15	(7,048)	3.82
Outstanding at end of year	22,323	$4.93	23,986	$3.80

As of December 31, 2008 and 2007, there were $684,834 and $599,552, respectively, of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under our stock option plans. That cost is expected to be recognized over a weighted average period of 2.53 and 2.26 years as of December 31, 2008 and 2007, respectively.

NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME

Ending accumulated balances for each item in accumulated other comprehensive income are as follows:

(in thousands)	Dec. 31, 2008	Dec. 31, 2007
Unrealized currency gain	$810	$792
Unrealized loss on marketable securities	(0)	(1)
Total accumulated other comprehensive income	$810	$791

NOTE 13– INCOME TAXES

Data I/O accounts for income taxes using the liability method as prescribed by Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes.”

Components of income (loss) before taxes:

(in thousands)	Year Ended Dec. 31, 2008	2007
U.S. operations	$2,718	$127
Foreign operations	2,490	713
	$5,208	$840

	2008	2007
Income tax expense (benefit) consists of:		
Current tax expense (benefit):		
U.S. federal	$39	$ -
State	12	4
Foreign	28	4
	79	8
Deferred tax expense (benefit) – U.S. federal	-	-
Total income tax expense (benefit)	$79	$8

A reconciliation of Data I/O's effective income tax and the U.S. federal tax rate is as follows:

	Year Ended Dec. 31, 2008	2007
Statutory tax	$1,770	$286
State and foreign income tax, net of federal income tax benefit	(760)	(255)
Valuation allowance for deferred tax assets	(931)	(23)
	$79	$8

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets are presented below (in thousands):

	Dec. 31, 2008	Dec. 31, 2007
Deferred income tax assets:		
Allowance for doubtful accounts	$36	$32
Inventory and product return reserves	657	623
Compensation accruals	487	385
Accrued liabilities	89	157
Book-over-tax depreciation and amortization	366	442
Foreign net operating loss carryforwards	456	546
U.S. net operating loss and credit carryforwards	6,588	7,359
Other, net	2	-
	8,681	9,544
Valuation allowance	(8,681)	(9,544)
Total deferred income tax assets	$ –	$ –

The valuation allowance for deferred tax assets decreased $862,000 and $165,000 during the years ended December 31, 2008 and December 31, 2007, respectively, due primarily to book net income and reversal of deferred tax assets. The net deferred tax assets have a full valuation allowance provided due to uncertainty regarding Data I/O's ability to utilize such assets in future years. Although we have had recent profitable operations, this full valuation allowance evaluation is based upon our volatile history of losses and the current uncertain economic outlook for our industry and capital spending. Credit carryforwards consist primarily of research and experimental and alternative minimum tax credits. U.S. net operating loss carryforwards expire beginning in 2020 to 2029. Utilization of net operating loss and credit carryforwards is subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended.

We adopted the provisions of FIN 48 on January 1, 2007. FIN 48 clarifies the accounting and disclosure for uncertainty in income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting for interim periods, disclosure and transition, and clearly scopes income taxes out of Financial Accounting Standards Board Statement No. 5, Accounting for Contingencies. The adoption of FIN 48 had no impact on the Company's financial statements. There were $71,000 and $66,000 of unrecognized tax benefits as of December 31, 2008 and 2007, respectively.

Historically, the Company has not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during 2008. However, the Company has adopted a policy whereby amounts related to interest and penalties associated with tax matters are classified as general and administrative expense when incurred.

Tax years that remain open for examination include 2005, 2006, and 2007 in the United States of America. In addition, tax years from 1999 to 2004 may be subject to examination in the event that the Company utilizes the NOL's from those years in its current or future year tax return.

NOTE 14 – SEGMENT AND GEOGRAPHIC INFORMATION

We consider our operations to be a single operating segment, focused on the design, manufacturing, and sale of programming systems used by designers and manufacturers of electron products.

During 2008 and 2007 there were no customers that accounted for 10% of Data I/O's consolidated net revenues for that year. Major operations outside the U.S. include sales and service support subsidiaries in Germany, Canada and China. At December 31, 2008 the combined subsidiaries accounts receivable of one customer represented 13.3% of our total consolidated accounts receivable balance and there were no other customers that represented 10% or more. At December 31, 2007, there were no customers that represented 10% or more of total consolidated accounts receivable balance.

The following table summarizes information about geographic area:

(in thousands)	Year Ended Dec. 31, 2008	2007
Net sales:		
U.S.	$4,070	$4,925
Europe	11,250	12,304
Rest of World	12,277	9,523
	$27,597	$26,752
Included in Europe and Rest of World are the following significant balances:		
Germany	$6,137	$5,836
China	$3,205	$2,136
Operating income (loss):		
U.S.	$1,411	($1,105)
Europe	1,298	2,236
Rest of World	2,528	(366)
	$5,237	$765
Identifiable assets:		
U.S.	$14,814	$12,358
Europe	6,185	5,007
Rest of World	5,812	3,255
	$26,811	$20,620

NOTE 15 – LONG-TERM DEBT

On September 27, 2006, the Company entered into a five year capital lease agreement in the amount of $591,145. The imputed interest rate is 7.69%.

At December 31, 2008 scheduled maturities of the capital lease obligation for the years ending December 31 are as follows (in thousands):

2009	$141
2010	141
2011	94
Thereafter	0
Total minimum lease payments	376
Less: Amount representing interest	(33)
Present value of capital lease obligation	343
Current portion long-term debt	(125)
Non-current portion long-term debt	$ 218

NOTE 16 – GAIN ON SALE OF PATENTS

On March 18, 2008, the Company completed the sale of selected patents and patent applications to Leannoux Properties AG L.L.C. Net proceeds were approximately $3.3 million with a net gain of approximately $2.1 million.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, Data I/O evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective at the reasonable level of assurance level. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control systems was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 and includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

All internal controls, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statements preparation and presentation.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this assessment we concluded that, as of December 31, 2008, our internal control over financial reporting was effective.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

(c) Changes in internal controls.

There were no changes made in our internal controls during the period covered by this report that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Our continued restructuring actions decreased the number of personnel and reallocated tasks. We did not change our internal controls, however, these restructure actions may have an impact on our internal controls' operation which we will continue to monitor and evaluate.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding the Registrant's directors is set forth under "Election of Directors" in Data I/O's Proxy Statement relating to Data I/O's annual meeting of shareholders to be held on May 14, 2009 and is incorporated herein by reference. Such Proxy Statement will be filed within 120 days of Data I/O's year-end. Information regarding the Registrant's executive officers is set forth in Item 1 of Part I herein under the caption "Executive Officers of the Registrant."

Code of Ethics

We have adopted an updated Code of Ethics that applies to all directors, officers and employees of Data I/O, including the Chief Executive Officer and Chief Financial Officer. The key principles of the Code of Ethics are to act legally and with integrity in all work for Data I/O. The Code of Ethics is posted on the corporate governance page of our website at http://www.dataio.com/corporate/governance.asp. We will post any amendments to our Code of Ethics on our website. 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.

Item 11. Executive Compensation

Information called for by Part III, Item 11, is included in Data I/O's Proxy Statement relating to Data I/O's annual meeting of shareholders to be held on May 14, 2009 and is incorporated herein by reference. The information appears in the Proxy Statement under the caption "Executive Compensation." Such Proxy Statement will be filed within 120 days of Data I/O's year-end.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information called for by Part III, Item 12, is included in Data I/O's Proxy Statement relating to Data I/O's annual meeting of shareholders to be held on May 14, 2009 and is incorporated herein by reference. The information appears in the Proxy Statement under the caption "Voting Securities and Principal Holders." Such Proxy Statement will be filed within 120 days of Data I/O's year-end.

Equity Compensation Plan Information

The following table gives information about our Common Stock that may be issued upon the exercise of options and rights under all of our existing equity compensation plans as of December 31, 2008. See Notes 10 and 11 of "Notes to Consolidated Financial Statements."

	(a) Number of securities to be issued upon the exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1) (2)	907,803	$3.57	435,484
Equity compensation plans not approved by security holders	-	$ -	-
Total	907,803	$3.57	435,484

(1) Represents shares of Data I/O's Common Stock issuable pursuant to our 2000 Stock Incentive Compensation Plan, 1986 Stock Option Plan, 1982 Employee Stock Purchase Plan, and 1996 Director Fee Plan.
(2) Stock Appreciation Rights Plan ("SAR") provides that directors, executive officers or holders of 10% or more of Data I/O's Common Stock have an accompanying SAR with respect to each exercisable option. While the plan has been approved by the security holders, no amounts are included in columns (a), (b), or (c) relating to the SAR.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is contained in, and incorporated by reference from, the Proxy Statement for the Company's 2009 Annual Meeting of Shareholders under the caption "Certain Relationships and Related Transactions."

Item 14. Principle Accounting Fees and Services

The information required by this Item with respect to principal accountant fees and services is incorporated by reference to the section captioned "Principal Accountant's Fees and Services" in the Proxy Statement relating to Data I/O's annual meeting of shareholders to be held on May 14, 2009. Such Proxy Statement will be filed within 120 days of Data I/O's year-end.

PART IV

Item 15. Exhibits, Financial Statement Schedules

Executive Compensation Plans and Arrangements

The following list is a subset of the list of exhibits described below and contains all compensatory plans, contracts or arrangements in which any director or executive officer of Data I/O is a participant, unless the method of allocation of benefits thereunder is the same for management and non-management participants:

(1) Amended and Restated 1982 Employee Stock Purchase Plan. See Exhibit 10.7.

(2) Data I/O Corporation Tax Deferral Retirement Plan and Trust with Orchard Trust Company. See Exhibit 10.19 and 10.20.

(3) Summary of Amended and Restated Management Incentive Compensation Plan. See Exhibit 10.2.

(4) Amended and Restated 1983 Stock Appreciation Rights Plan. See Exhibit 10.1.

(5) Amended and Restated 1986 Stock Option Plan. See Exhibit 10.5.

(6) Form of Change in Control Agreements. See Exhibit 10.10 and 10.11.

(7) 1996 Director Fee Plan. See Exhibit 10.4.

(8) Letter Agreement with Frederick R. Hume. See Exhibit 10. 6.

(9) Amended and Restated 2000 Stock Compensation Incentive Plan. See Exhibit 10.8.

(10) Form of Option Agreement. See Exhibit 10.9.

(11) Form of Performance Share Award Agreement. See Exhibit 10.15.

(12) Harald Weigelt Employment Agreement. See Exhibit 10.23.

(a) **List of Documents Filed as a Part of This Report:** Page

(1) Index to Financial Statements:

(2) Index to Financial Statement Schedules:

Schedule II – Consolidated Valuation and Qualifying Accounts

All other schedules not listed above have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

(3) Index to Exhibits:

3 **Articles of Incorporation:**

3.1 Data I/O's restated Articles of Incorporation filed November 2, 1987 (Incorporated by reference to Exhibit 3.1 of Data I/O's 1987 Annual Report on Form 10-K (File No. 0-10394)).

3.2 Data I/O's Bylaws as amended and restated as of February 2006 (Incorporated by reference to Exhibit 3.2 of Data I/O's 2005 Annual Report on Form 10-K (File No. 0-10394)).

3.3 Certification of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock (Incorporated by reference to Exhibit 1 of Data I/O's Registration Statement on Form 8-A filed March 13, 1998 (File No. 0-10394)).

4 **Instruments Defining the Rights of Security Holders, Including Indentures:**

4.1 Rights Agreement, dated as of April 4, 1998, between Data I/O Corporation and ChaseMellon Shareholder Services, L.L.C. as Rights Agent, which includes: as Exhibit A thereto, the Form of Right Certificate; and, as Exhibit B thereto, the Summary of Rights to Purchase Series A Junior Participating Preferred Stock (Incorporated by reference to Data I/O's Current Report on Form 8-K filed on March 13, 1998).

4.2 Rights Agreement, dated as of March 31, 1988, between Data I/O Corporation and First Jersey National Bank, as Rights Agent, as amended by Amendment No. 1 thereto, dated as of May 28, 1992 and Amendment No. 2 thereto, dated as of July 16, 1997 (Incorporated by reference to Data I/O's Report on Form 8-K filed on March 13, 1998).

4.3 Amendment No. 1, dated as of February 10, 1999, to Rights Agreement, dated as of April 4, 1998, between Data I/O Corporation and ChaseMellon Shareholder Services, L.L.C. as Rights Agent (Incorporated by reference to Exhibit 4.1 of Data I/O's Form 8-A/A dated February 10, 1999).

4.4 Amendment No. 2 to Rights Agreement, dated as of April 3, 2008, between Data I/O Corporation and Mellon Investor Services LLC (formerly ChaseMellon Shareholder Services, L.L.C.). (Incorporated by reference to Exhibit 4.3 of Data I/O's Form 8-K dated April 3, 2008).

10 **Material Contracts:**

10.1 Amended and Restated 1983 Stock Appreciation Rights Plan dated February 3, 1993 (Incorporated by reference to Exhibit 10.23 of Data I/O's 1992 Annual Report on Form 10-K (File No. 0-10394)).

10.2 Amended and Restated Management Incentive Compensation Plan dated January 1, 1997 (Incorporated by reference to Exhibit 10.25 of Data I/O's 1997 Annual Report on Form 10-K (File No. 0-10394)).

10.3 Amended and Restated Performance Bonus Plan dated January 1, 1997 (Incorporated by reference to Exhibit 10.26 of Data I/O's 1997 Annual Report on Form 10-K (File No. 0-10394)).

10.4 Amended and Restated Data I/O Corporation 1996 Director Fee Plan (Incorporated by reference to Exhibit 10.32 of Data I/O's 1997 Annual Report on Form 10-K (File No. 0-10394)).

10.5 Amended and Restated 1986 Stock Option Plan dated May 12, 1998 (Incorporated by reference to Exhibit 10.37 of Data I/O's 1998 Annual Report on Form 10-K (File No. 0-10394)).

10.6 Letter Agreement with Fred R. Hume dated January 29, 1999. (Incorporated by reference to Exhibit 10.35 of Data I/O's 1999 Annual Report on Form 10-K (File No. 0-10394)).

10.7 Amended and Restated 1982 Employee Stock Purchase Plan dated May 16, 2003 (Incorporated by reference to Data I/O's 2003 Proxy Statement dated March 31, 2003).

10.8 Amended and Restated 2000 Stock Compensation Incentive Plan dated May 20, 2004 (Incorporated by reference to Data I/O's 2004 Proxy Statement dated April 12, 2004).

10.9 Form of Option Agreement (Incorporated by reference to Data I/O's 2004 Annual Report on Form 10-K (File No. 0-10394)).

10.10 Change in Control Agreement with Fred R. Hume dated December 31, 2008 (Incorporated by reference to Data I/O's 2008 Annual Report on Form 10-K (File No. 0-10394)).

10.11 Change in Control Agreement with Joel S. Hatlen dated December 31, 2008 (Incorporated by reference to Data I/O's 2008 Annual Report on Form 10-K (File No. 0-10394)).

10.12 Harald Weigelt Employment Agreement (Incorporated by reference to Data I/O's 2005 Annual Report on Form 10-K (File No. 0-10394)).

10.13 Lease, Redmond East Business Campus between Data I/O Corporation and Carr Redmond PLCC dated February 28, 2006 (Incorporated by reference to Data I/O's 2005 Annual Report on Form 10K (File No. 0-10394)).

10.14 Amended and Restated 2000 Stock Compensation Incentive Plan dated May 24, 2006 (Incorporated by reference to Data I/O's 2006 Proxy Statement dated April 6, 2006).

10.15 Form of Performance Award Agreement (Incorporated by reference to Exhibit 10.28 of Data I/O's June 30, 2006 Quarterly Report on Form 10-Q (File No. 0-10394)).

10.16 Form of Restricted Stock Award Agreement (Incorporated by reference to Exhibit 10.29 of Data I/O's June 30, 2006 Quarterly Report on Form 10-Q (File No. 0-10394)).

10.17 Patent Purchase Agreement (Incorporated by reference to Data I/O's Current Report on Form 8-K filed on March 25, 2008).

10.18 First Amendment to the Patent Purchase Agreement (Incorporated by reference to Data I/O's Current Report on Form 8-K filed on March 25, 2008).

10.19 Orchard Trust Company Defined Contribution Prototype Plan and Trust (Incorporated by reference to Data I/O's 2007 Annual Report on Form 10K (File No. 0-10394)).

10.20 Orchard Trust Company Non-standardized 401(k) Plan (Incorporated by reference to Data I/O's 2007 Annual Report on Form 10K (File No. 0-10394)).

21.1 Subsidiaries of the Registrant

23.1 Consent of Independent Registered Public Accounting Firm

31 **Certification – Section 302:**

31.1 Chief Executive Officer Certification
31.2 Chief Financial Officer Certification

32 **Certification – Section 906:**

32.1 Chief Executive Officer Certification
32.2 Chief Financial Officer Certification

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATA I/O CORPORATION
(REGISTRANT)

DATED: March 27, 2009

By: //S//Frederick R. Hume
Frederick R. Hume
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

NAME & DATE	TITLE
By: //S//Frederick R. Hume Frederick R. Hume	President and Chief Executive Officer (Principal Executive Officer)
By: //S//Joel S. Hatlen Joel S. Hatlen	Chief Financial Officer Vice President of Finance Secretary, Treasurer (Principal Financial and Accounting Officer)
By: //S//Paul A. Gary Paul A. Gary	Director
By: //S//Edward D. Lazowska Edward D. Lazowska	Director
By: //S//Daniel A. DiLeo Daniel A. DiLeo	Director
By: //S//Steven M. Quist Steven M. Quist	Director
By: //S//William R. Walker William R. Walker	Director

DATA I/O CORPORATION

SCHEDULE II – CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

(in thousands)	Balance at Beginning of Period	Charged/ (Credited) to Costs and Expenses	Deductions- Describe	Balance at End of Period
Year Ended December 31, 2007 :				
Allowance for bad debts	$199	$11	($80) [1]	$130
Year Ended December 31, 2008:				
Allowance for bad debts	$130	$36	($24) [1]	$142

[1] Uncollectable accounts written off, net of recoveries.

EXHIBIT 21.1
DATA I/O CORPORATION
SUBSIDIARIES OF THE REGISTRANT

The following table indicates the name, jurisdiction of incorporation and basis of ownership of each of Data I/O's subsidiaries:

Name of Subsidiary	State or Jurisdiction of Organization	Percentage of Voting Securities Owned
Data I/O International, Inc.	Washington	100%
Data I/O FSC International, Inc.	Territory of Guam	100%
Data I/O Canada Corporation	Canada	100%
Data I/O China, Ltd	Hong Kong, China	100%
Data I/O GmbH	Germany	100%
RTD, Inc. (formerly Reel-Tech, Inc.)	Washington	100%
Data I/O Electronics (Shanghai) Co. Ltd	China	100%
Data I/O Programacao de Sistemas Ltda	Brazil	100%

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 25, 2009, accompanying the consolidated financial statements and schedule included in the Annual Report of Data I/O Corporation on Form 10-K for the year ended December 31, 2008. We hereby consent to the incorporation by reference of said report in the Registration Statements of Data I/O Corporation on Form S-8 (File Nos. 002-76164, 002-86785, 002-98115, 002-78394, 33-95608, 33-66824, 33-42010, 33-26472, 33-54422, 33-20657, 333-55911, 33-02254, 33-03958, 333-107543,333-81986, 333-48595, 333-121861 and 333-151006) and on Form S-3 (File No. 333-121566).

//s//GRANT THORNTON LLP

Seattle, Washington
March 25, 2009

Exhibit 31.1
Certification by Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Frederick R. Hume, certify that:

1) I have reviewed this annual report on Form 10-K of Data I/O Corporation;
2) Based upon my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)0 for the registrant and we have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
    d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 27, 2009

/s/ Frederick R. Hume
Frederick R. Hume
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2
Certification by Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Joel S. Hatlen, certify that:

1) I have reviewed this annual report on Form 10-K of Data I/O Corporation;
2) Based upon my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)0 for the registrant and we have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
   d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 27, 2009

/s/ Joel S. Hatlen
Joel S. Hatlen
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification by Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the annual report of Data I/O Corporation (the "Company") on Form 10-K for the period ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frederick R. Hume, Chief Executive Officer of the Company, certify, that pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frederick R. Hume
Frederick R. Hume
Chief Executive Officer
(Principal Executive Officer)
March 27, 2009

Exhibit 32.2

Certification by Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the annual report of Data I/O Corporation (the "Company") on Form 10-K for the period ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel S. Hatlen, Chief Financial Officer of the Company, certify, that pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joel S. Hatlen
Joel S. Hatlen
Chief Financial Officer
(Principal Financial Officer)
March 27, 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. Adam M. Hutt AMH Equity LLC Parameter Partners LLC 30 Park Avenue Suite 12F New York, NY 10016	789,445	(1)	8.90%
Wellington Capital 75 State Street Boston, Massachusetts 02109	733,195	(2)	8.26%

(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.

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	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
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.

- **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%
Growth	22%	75%	100%	125%	150%	175%
Percentage	17%	50%	75%	100%	125%	150%
	12%	25%	50%	75%	100%	125%
	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.

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 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.

<u>Change in Control and other Termination Arrangements</u>

- **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:

  <u>1986 Plan</u>
  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.

  <u>2000 Plan</u>
  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

	Termination without cause and Change in Control not applicable	Termination without cause and Change in Control applicable		Change in Control applicable without termination	
Name	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
Harald A. Weigelt	$190,168	$254,102	22,812	$53,934	22,812
Gordon B. Bluechel	$62,965	$107,072	19,218	$34,106	19,218

(1) Maximum vesting on Change in Control.
(2) Represents the Data I/O standard employee severance, additional Executive/Employment Agreement severance, change in control transition/closing incentive and outplacement expense reimbursement, as applicable as of February 28, 2009.
(3) Minimum amount per Data I/O standard employee severance plan; no formal Executive Severance Plan is in place as of February 28, 2009. Amounts for Mr. Weigelt are to be paid in Euros which were translated at $1.3969 per Euro.
(4) Represents change in control transition/closing incentive as of February 28, 2009.

SUMMARY COMPENSATION TABLE

The following table shows compensation paid by Data I/O for services rendered during 2007 and 2008 to each of our named executive officers.

Name[1]	Year	Salary[2]	Bonus[3]	Stock Awards[4]	Option Awards[5]	Non-Equity Incentive Plan Compen-sation[6]	Non-Qualified Deferred Compen-sation Earnings[7]	All Other Compen-sation[8]	Total[9]
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Frederick R. Hume									
Chief Executive	2008	$312,500	$0	$0	$81,630	$181,250	$0	$11,006	$586,386
Office / President	2007	$300,000	$0	$0	$74,421	$0	$0	$10,806	$385,227
Joel S. Hatlen									
Chief Financial									
Officer / Vice									
President / Secretary	2008	$176,042	$5,000	$0	$37,101	$ 81,683	$0	$ 7,242	$307,068
Treasurer	2007	$169,000	$0	$0	$31,780	$0	$0	$ 6,760	$207,540
Harald A. Weigelt									
Vice President (10)	2008	$213,547	$0	$0	$26,979	$111,224	$0	$24,552	$376,302
Worldwide Sales	2007	$226,499	$0	$0	$23,569	$0	$0	$22,838	$272,906
Gordon B. Bluechel									
Vice President (10)	2008	$134,938	$0	$0	$18,437	$ 46,958	$0	$ 5,950	$203,283
Operations &									
Administration	2007	$127,500	$0	$0	$12,328	$0	$0	$ 5,652	$145,480

(1) Data I/O currently has three named executive officers.
(2) Consideration of pay increases for 2007 was deferred to March 2008. For Mr. Weigelt the 2007 amount includes payment of $17,670 to reduce accrued paid time off.
(3) Plan Based Bonuses for prior years previously reported in this column, but now reported in column (g). Amount represents an incentive bonus given to close the patent sale transaction.
(4) Performance based stock award of 1000 shares granted in 2006 was reversed with vesting contingent upon achieving revenue compound growth target of $34,694,935 in Revenue for 2008. Accrual of expense associated with these shares was reversed Q3 2007.
(5) All options granted to executive officers are granted in tandem with an equal number of SARs. SARs are only exercisable upon the occurrence of certain events leading to a change in the control of Data I/O. See "Change in Control and Other Termination Arrangements."
(6) No MICP was earned for 2007.
(7) Not applicable for Data I/O.
(8) These amounts represent for Mr. Hume, Mr. Hatlen and Mr. Bluechel Data I/O's contributions to Data I/O's 401(k) Plan, and the value of group term life insurance in excess of premiums paid by the executive officer. For Mr. Weigelt, $22,867 for 2008 and $21,047 for 2007 represents the provision of a leased vehicle including both business and personal usage and the remaining amount represents the Company's matching contribution to his German retirement plan.
(9) Amounts for Mr. Weigelt were earned in Euros translated at exchange rates of $1.3969 for 2008 and $1.4603 for 2007 per Euro.
(10) Mr. Weigelt was no longer an executive officer of Data I/O as of November 17, 2008 and Mr. Bluechel became an executive officer on November 17, 2008.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexer-cisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock Held That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Frederick R. Hume	50,000	0		$ 2.93	6/17/2010		$0	0	$0
	43,750	6,250		2.49	2/21/2011				
	15,625	9,375		3.88	5/24/2012				
	13,125	21,875		3.69	5/17/2013				
	5,000	35,000		5.98	5/19/2014				
Joel S. Hatlen	25,000	0		$ 1.00	4/17/2009		$0	0	$0
	17,500	0		2.93	6/17/2010				
	17,500	2,500		2.49	6/21/2011				
	9,375	5,625		3.88	5/24/2012				
	5,625	9,375		3.69	5/17/2013				
	2,500	17,500		5.98	5/19/2014				
Harald A. Weigelt	5,000	0		$ 2.41	1/29/2009		$0	0	$0
	15,000	0		1.00	4/17/2009				
	15,000	0		2.93	6/17/2010				
	13,125	1,875		2.49	6/21/2011				
	6,250	3,750		3.88	5/24/2012				
	3,750	6,250		3.69	5/17/2013				
	1,875	13,125		5.98	5/19/2014				
Gordon B. Bluechel	2,000	0		$ 2.93	6/17/2010		$0	0	$0
	3,250	1,250		2.49	6/21/2011				
	3,125	1,875		3.88	5/24/2012				
	2,813	4,687		3.68	5/17/2013				
	1,875	13,125		5.98	5/24/2014				

EQUITY COMPENSATION PLAN INFORMATION

The following table gives information about Data I/O's Common Stock that may be issued upon the exercise of options and rights under all of Data I/O's existing equity compensation plans as of December 31, 2008.

	(a) Number of securities to be issued upon the exercise of outstanding options, warrants and rights	(b) Weighted–average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by the security holders (1) (2)	907,803	$3.57	435,484
Equity compensation plans not approved by the security holders	0	0	0
Total	907,803	$3.57	435,484

(1) Represents shares of Data I/O's Common Stock issuable pursuant to our 2000 Plan, 1986 Plan, 1992 Employee Stock Purchase Plan, and Director Fee Plan.

(2) Stock Appreciation Rights ("SAR") Plan provides that directors, executive officers or holders of 10% or more of Data I/O's Common Stock have a SAR with respect to each exercisable option. While the plan has been approved by the security holders, no amounts are included in columns (a), (b) or (c) relating to the SAR.

PROPOSAL 2: AMENDMENT TO 2000 PLAN

At the Annual Meeting, the shareholders of Data I/O will be asked to approve an amendment to the 2000 Plan, which, if approved, will increase the number of shares of Common Stock available under the 2000 Plan by an additional 300,000 shares, to an aggregate of 1,378,739 shares, the fair market value of such securities is $3,570,934 as of March 16, 2009. As of March 16, 2009, Data I/O has outstanding options and awards with respect to 870,012 shares of Common Stock and 208,727 shares of Common Stock available for grants. Approval of the proposed increase will also be deemed a ratification of the terms of the 2000 Plan, as amended.

The Board of Directors believes that the 2000 Plan has contributed to strengthening the incentive of participating employees to achieve the objectives of Data I/O and its shareholders by encouraging employees to acquire a greater proprietary interest in Data I/O. The Board of Directors believes that additional shares must be reserved for use under the 2000 Plan to enable Data I/O to attract and retain key employees through the granting of options under the 2000 Plan. The proposed increase in the number of shares reserved under the 2000 Plan is not required or intended to cover awards previously made under the 2000 Plan. As such, no new plan benefits have been granted to date, and future awards under the 2000 Plan are not yet determinable.

The affirmative vote of at least a majority of the shares of Common Stock present in person or represented by proxy at the 2009 Annual Meeting and entitled to vote on the proposal is required for approval of the amendment to the 2000 Plan. **The Board of Directors recommends a vote FOR approval of the proposed amendment to the 2000 Plan.** Unless instructed otherwise, it is the intention of the persons named in the accompanying form of proxy to vote shares represented by properly executed proxies in favor of the above-referenced amendment to the 2000 Plan.

Description of the 2000 Plan

The following description of the 2000 Plan is qualified in its entirety by reference to the full text of such Plan, a copy of which is attached to this Proxy Statement as Appendix B. The purpose of the 2000 Plan is to enhance the long-term shareholder value of Data I/O by offering opportunities to employees, persons to whom offers of employment have been extended, directors, officers, consultants, agents, advisors and independent contractors of Data I/O and its subsidiaries to participate in Data I/O's growth and success, and to encourage them to remain in the service of Data I/O and its subsidiaries and to acquire and maintain stock ownership in Data I/O. The 2000 Plan may be administered either by the Board of Directors or a committee or committees appointed by (in either case, the "Committee"), and consisting of two or more independent members of, the Board of Directors. The Committee will have broad discretion to determine the amount and type of awards and terms and conditions of the awards. Individual grants will generally be based on a person's present and potential contribution to Data I/O.

As of March 16, 2009, Data I/O had approximately 91 employees and 5 non-employee directors who would be eligible to participate in the 2000 Plan. Consultants, agents, advisors, and independent contractors could be eligible under the 2000 Plan; however, Data I/O has no outstanding grants to this group. Because the grant of awards is based upon a determination made by the Committee after a consideration of various factors, Data I/O currently cannot determine the nature and amount of any awards that will be granted in the future to any eligible individual or group of individuals. However, the maximum number of shares that can be granted under the 2000 Plan during any calendar year to any executive officer whose compensation is required to be disclosed pursuant to the rules and regulations under the Securities Exchange Act of 1934, as amended, (generally, the chief executive officer and the four other most highly compensated executive officers) is 200,000, except that Data I/O may make additional one-time grants to newly hired participants of up to 100,000 shares per such participant. In addition, the maximum number of shares that can be granted to a non-employee director of Data I/O during any calendar year is limited to 100,000. Data I/O believes that with these limitations and other provisions of the 2000 Plan, options granted under the 2000 Plan will generate "qualified performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code and will, therefore, not be subject to the $1,000,000 cap on deductibility for federal income tax purposes of certain compensation payments in excess of $1,000,000. See "Certain Federal Income Tax Consequences" below.

Awards may be granted in the form of incentive stock options ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), nonqualified stock options ("NQOs") (each ISO or NQO, an "Option" and collectively, "Options"), stock appreciation rights, stock awards in the form of restricted stock ("Restricted Stock"), or other arrangements determined by the Committee. Any award may be granted either alone or in tandem with other awards granted under the 2000 Plan. The option price of ISOs shall be as determined by the Committee, but shall not be less than 100% of the fair market value of the Common Stock on the grant date. The option price of NQOs may be less than the fair market value of the Common Stock on the date of the grant. The Committee may condition the grant of the award upon the attainment of specified performance goals or other criteria, which need not be the same for all participants. No ISOs may be granted under the 2000 Plan on or after May 24, 2016, (May 14, 2019 if this proposal is approved), but ISOs outstanding under the 2000 Plan may extend beyond that date.

Options. Options granted under the 2000 Plan may be ISOs or NQOs. The exercise price of ISOs may not be less than the fair market value of the shares subject to the ISO on the date of grant. The term of any ISO granted under the 2000 Plan may not exceed ten years. In addition, ISOs are subject to certain other limitations in order to take advantage of the favorable U.S. tax treatment that may be available for ISOs.

Restricted Stock. Restricted Stock awards consist of non-transferable shares of Common Stock of Data I/O which may be subject to a right of purchase by Data I/O. The Committee may provide for the lapse of the transfer restrictions over a period of time, or may accelerate or waive such restrictions, in whole or in part, based on service, performance or other criteria determined by the Committee.

Stock Appreciation Rights. A stock appreciation right will give the holder the right to receive an appreciation distribution in an amount equal to the excess of the fair market value of the number of shares of Common Stock covered by the right over the exercise price per share subject to the right. Stock appreciation rights may be granted separately or in tandem with a related Option. Payment may be made in a combination of shares of Common Stock or in cash, as determined by the Committee.

The consideration payable upon issuance or exercise of an award and any taxes related to an award must generally be paid in cash or check. However, the Committee, in its sole discretion, may, either at the time the Option is granted or at any time before it is exercised and subject to such limitations as the Committee may determine, authorize payment by the tender of Common Stock already owned by the participant for at least six months having a fair market value on the day prior to the exercise date equal to the aggregate Option exercise price, by delivery of a promissory note, by delivery of a properly executed exercise notice, together with irrevocable instruction (i) to a third-party designated by Data I/O to deliver to Data I/O the amount of sale or loan proceeds to pay the exercise price and withholding tax obligations and (ii) to Data I/O to deliver the certificates for such shares to the third-party, or by such other consideration as the Committee may permit. In addition, to assist a holder of award (excluding a holder who is an officer or director of Data I/O due to Sarbanes Oxley restrictions) in acquiring shares of Common Stock pursuant to an award granted under the 2000 Plan, the Committee, in its sole discretion, may authorize, either at the grant date or at any time before the acquisition of Common Stock pursuant to the award, the extension of a loan to the holder by Data I/O, the payment by the holder of the purchase price, if any, of the Common Stock in installments, or the guarantee by Data I/O of a loan obtained by the grantee from a third-party. Awards generally may be exercised at any time within three months after termination of a participant's employment by, or consulting relationship with, Data I/O (but, only to the extent exercisable or payable at the time of termination). However, if termination is due to the participant's death or disability, the award generally may be exercised for one year. Except as authorized by the Committee, no award shall be assignable or otherwise transferable by a participant other than by will or by the laws of descent and distribution.

The Committee may adjust the performance goals and measurements applicable to awards. The Committee also may waive in whole or in part any or all restrictions, conditions, vesting or forfeiture with respect to any award granted under the 2000 Plan. The Board of Directors may amend, alter or discontinue the 2000 Plan or any award at any time, except that the consent of a participant is required if the participant's rights under an outstanding award would be impaired. In addition, the shareholders of Data I/O must approve any amendment, alteration or discontinuance of the 2000 Plan that would (i) increase the total number of shares reserved under the 2000 Plan, (ii) with respect to provisions solely as they relate to ISOs, to the extent required for the 2000 Plan to comply with Section 422 of the Code, (iii) to the extent required by other applicable laws, rules or regulations or (iv) to the extent that the Board of Directors otherwise concludes that shareholder approval is advisable.

The 2000 Plan constitutes an unfunded plan for incentive and deferred compensation. Data I/O is not required to create trusts or arrangements to meet its obligations under the 2000 Plan to deliver stock or make payments.

In the event of a "change in control" of Data I/O, as defined in the 2000 Plan, in which the outstanding options do not remain outstanding or are not assumed by the surviving entity or replaced with comparable options, the vesting of outstanding "qualifying" awards under the 2000 Plan will, unless the applicable agreement with respect to the award or the Committee determines otherwise, subject to certain limitations, be accelerated in full. If 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 will be accelerated to the extent of 25% of the unvested portion thereof and the vesting of outstanding "qualifying" restricted stock awards will be accelerated to the extent of 25% of the unvested portion thereof. Further, if the holder of any "qualifying" award which remains outstanding or is assumed by the surviving entity in a change of control transaction is terminated involuntarily within 180 days of the change of control, the vesting of all options and other awards held by such person will be accelerated in full. 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. A "change in control" is defined to include (i) a merger or consolidation of Data I/O in which more than 50% of the voting power of Data I/O's outstanding stock outstanding 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 Data I/O's assets.

Certain Federal Income Tax Consequences

THE FOLLOWING SUMMARY OF FEDERAL INCOME TAX CONSEQUENCES IS BASED UPON EXISTING STATUTES, REGULATIONS AND INTERPRETATIONS THEREOF. THE APPLICABLE RULES ARE COMPLEX, AND INCOME TAX CONSEQUENCES MAY VARY DEPENDING UPON THE PARTICULAR CIRCUMSTANCES OF EACH PLAN PARTICIPANT. THIS PROXY STATEMENT DESCRIBES FEDERAL INCOME TAX CONSEQUENCES OF GENERAL APPLICABILITY, BUT DOES NOT PURPORT TO DESCRIBE PARTICULAR CONSEQUENCES TO EACH INDIVIDUAL PLAN PARTICIPANT, OR FOREIGN, STATE OR LOCAL INCOME TAX CONSEQUENCES, WHICH MAY DIFFER FROM THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES.

Incentive Stock Options

Awards and Exercise of Options. ISOs are intended to constitute "incentive stock options" within the meaning of Section 422 of the Code. ISOs may be granted only to employees of Data I/O (including directors who are also employees). The recipient of an Option (the "Optionee") does not recognize taxable income upon either the grant or exercise of an ISO. However, the excess of the fair market value of the shares purchased upon exercise over the Option exercise price (the "Option Spread") is includable in the Optionee's "alternative minimum taxable income " ("AMTI") for purposes of the alternative minimum tax ("AMT"). The Option Spread is generally measured on the date of exercise and is includable in AMTI in the year of exercise. Special rules regarding the time of AMTI inclusion may apply for shares subject to a "substantial risk of forfeiture" (including, in the case of each person subject to the reporting requirements of Section 16(b) of the Exchange Act). In addition, when stock is acquired subject to a "substantial risk of forfeiture", an Optionee's holding period for purposes of determining whether any capital gain or loss on sale is long-term will generally not begin until the restriction lapses or the Optionee files an election under Section 83(b) of the Code (a "Section 83(b) Election").

Sale of Option Shares. If an Optionee holds the shares purchased under an ISO for at least two years from the date the ISO was granted and for at least one year from the date such shares where transferred to the Optionee, any gain from a sale of the shares other than to Data I/O should be taxable as capital gain. Under these circumstances, Data I/O would not be entitled to a tax deduction at the time the ISO was exercised or at the time the stock was sold. If an Optionee were to dispose of stock acquired pursuant to an ISO before the end of the required holding periods (a "Disqualifying Disposition"), the amount by which the market value of the stock at the time the ISO was exercised exceeded the exercise price (or, if less, the amount of gain realized on the sale) would be taxable as ordinary income, and Data I/O would be entitled to a corresponding tax deduction. Such income is subject to information reporting requirements. Gain from a Disqualifying Disposition in excess of the amount required to be recognized as ordinary income is capital gain. Optionees are required to notify Data I/O promptly after making a Disqualifying Disposition. If the stock is sold to Data I/O rather than to a third party, the sale may not produce capital gain or loss. A sale of shares to Data I/O will constitute a redemption of such shares, which could be taxable as a dividend unless the redemption is "not essentially equivalent to a dividend" within the meaning of the Code.

Exercise With Stock. If an Optionee pays for ISO shares with shares of Data I/O acquired under an ISO or a qualified employee stock purchase plan ("Statutory Option Stock"), the tender of shares is a Disqualifying Disposition of the Statutory Option Stock if the above described (or other applicable) holding periods respecting those shares have not been satisfied. If the holding periods with respect to the Statutory Option Stock are satisfied, or the shares were not acquired under a statutory stock option of Data I/O, then any appreciation in value of the surrendered shares is not taxable upon surrender. Special basis and holding period rules apply where previously-owned stock is used to exercise an ISO.

Nonqualified Stock Options

Awards and Exercise of Options. An Optionee is not taxable upon the award of an NQO. Federal income tax consequences upon exercise will depend upon whether the shares thereby acquired are subject to a "substantial risk of forfeiture". If the shares are not subject to a "substantial risk of forfeiture", or if they are so restricted and the Optionee files a Section 83(b) Election with respect to the shares, the Optionee will have ordinary income at the time of exercise measured by the Option Spread on the exercise date. The Optionee's tax basis in the shares will be their fair market value on the date of exercise, and the holding period for purposes of determining whether capital gain or loss upon sale is long- or short-term also will begin on that date. If the shares are subject to a "substantial risk of forfeiture" and no Section 83(b) Election is filed, the Optionee will not be taxable upon exercise, but instead will have ordinary income on the date the stock is no longer subject to a "substantial risk of forfeiture", in an amount equal to the difference between the amount paid for the shares under the Option and their fair market value as of the date of lapse; in addition, the Optionee's holding period will begin on the date of lapse.

Whether or not the shares are subject to a "substantial risk of forfeiture", the amount of ordinary income taxable to an Optionee who was an employee at the time of grant constitutes "supplemental wages" subject to a withholding of income and employment taxes by Data I/O, and Data I/O receives a corresponding income tax deduction.

Sale of Option Shares. Upon sale, other than to Data I/O, of shares acquired under a NQO, an Optionee generally will recognize capital gain or loss to the extent of the difference between the sale price and the Optionee's tax basis in the shares, which will be long-term gain or loss if the employee's holding period in the shares is more than one year. If the stock is sold to Data I/O rather than to a third party, the sale may not produce capital gain or loss. A sale of shares to Data I/O will constitute a redemption of such shares, which could be taxable as a dividend unless the redemption is "not essentially equivalent to a dividend" within the meaning of the Code.

Exercise With Stock. If the Optionee pays the option exercise price by tendering other shares of Common Stock of the Company then owned by the Optionee, the Optionee will recognize ordinary income in an amount equal to the fair market value of the number of shares received upon exercise of the option, which exceed the number of shares tendered by the Optionee.

If the surrendered shares are Statutory Option Stock as described above under "Incentive Stock Options", with respect to which the applicable holding period requirements for favorable income tax treatment have not expired, then the newly acquired shares substituted for the Statutory Option Shares should remain subject to the federal income tax rules governing the surrendered shares, but the surrender should not constitute a Disqualifying Disposition of the surrendered stock.

PROPOSAL 3: RATIFICATION OF THE CONTINUED APPOINTMENT OF AUDITORS

The Board of Directors requests that the shareholders ratify the continued appointment of Grant Thornton LLP to serve as Data I/O's independent auditors for calendar year 2009. Grant Thornton LLP examined the consolidated financial statements of Data I/O for the year ended December 31, 2008. Representatives of Grant Thornton LLP are expected to be present at the Annual Meeting to make a statement if they desire to do so and to respond to questions by shareholders.

OTHER BUSINESS

As of the date of this Proxy Statement, Data I/O is not aware of any other business to be acted upon at the Annual Meeting. If any other business calling for a vote of the shareholders is properly presented at the meeting, the holders of the proxies will vote or refrain from voting in accordance with their best judgment.

SHAREHOLDER NOMINATIONS AND PROPOSALS FOR THE 2010 ANNUAL MEETING OF SHAREHOLDERS

Data I/O's Bylaws provide that advance notice of nominations for the election of directors at a meeting of shareholders must be delivered to or mailed and received by Data I/O on or before February 13, 2010 in the case of an annual meeting of shareholders, and in the case of a special meeting of shareholders to elect directors, the close of business on the 10th day following the date on which notice of such meeting is first given to shareholders. The Bylaws also provide that advance notice of proposals or director nominees to be brought before an Annual Meeting by a shareholder must be submitted in writing and delivered to or mailed and received by Data I/O not later than 90 days prior to the date one year from the date immediately preceding the Annual Meeting of Shareholders.

Each notice of a nomination or proposal of business must contain, among other things: (i) the name and address of the shareholder who intends to make the nomination or proposal; (ii) a representation that the shareholder is a holder of record of stock of Data I/O entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice or to vote at the meeting for the proposal; (iii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder and any material interest of such shareholder in any proposal to be submitted to the meeting; (iv) such other information regarding each nominee or proposal as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC; and (v) with respect to the nominations, the consent of each nominee to serve as a director of Data I/O if elected.

A copy of the full text of the provisions of Data I/O's Bylaws dealing with shareholder nominations and proposals is available to shareholders from the Secretary of Data I/O upon written request. The Bylaws may also be accessed online, as a Form 10K exhibit as referenced in our Annual Report on Form 10K. SEC rules establish a deadline for submission of shareholder proposals that are not intended to be included in Data I/O's proxy statement with respect to discretionary voting (the "Discretionary Vote Deadline"). The Discretionary Vote Deadline for the 2010 Annual Meeting is February 13, 2010. If a shareholder gives notice of such a proposal after the Discretionary Vote Deadline, Data I/O's proxy holders will be allowed to use their discretionary voting authority to vote against the shareholder proposal when and if the proposal is raised at the 2009 Annual Meeting.

Eligible shareholders who intend to have a proposal considered for inclusion in Data I/O's proxy materials for presentation at the 2010 Annual Meeting must submit the proposal to Data I/O no later than December 16, 2009. Shareholders who intend to present a proposal at the 2010 Annual Meeting without inclusion of such proposal in Data I/O's proxy materials are required to provide notice of such proposal to Data I/O no later than February 13, 2010.

To qualify as an "eligible" shareholder, a shareholder must have been a record or beneficial owner of at least one percent (1%) of Data I/O's outstanding Common Stock, or shares of Common Stock having a market value of at least $2,000, for a period of at least one (1) year prior to submitting the proposal, and the shareholder must continue to hold the shares through the date on which the meeting is held.

Data I/O reserves the right to reject, rule out of order, or take appropriate action with respect to any proposal that does not comply with these and other applicable requirements, but only after Data I/O has notified the shareholder(s) who have submitted the proposal of the problem and such shareholder(s) have failed to correct it. This obligation to notify the appropriate shareholder(s) does not apply to the failure to submit such proposal prior to the deadlines discussed above.

SOLICITATION OF PROXIES

The proxy accompanying this Proxy Statement is solicited by the Board of Directors. Proxies may be solicited by officers, directors and regular supervisory and executive employees of Data I/O, none of whom will receive any additional compensation for their services. In addition, Data I/O may engage an outside proxy solicitation firm to render proxy solicitation services and, if so, will pay a fee for such services. Solicitations of proxies may be made personally, or by mail, telephone, telegraph or messenger. Data I/O will pay persons holding shares of Common Stock in their names or in the names of nominees, but not owning such shares beneficially, such as brokerage houses, banks and other fiduciaries, for the expense of forwarding soliciting materials to their principals. All costs of solicitation of proxies will be paid by Data I/O.

Copies of our annual report on Form 10-K for the year ended December 31, 2008 are being mailed with this proxy statement to each shareholder of record. If you did not receive a copy of our annual report Form 10-K, you may obtain a copy (without exhibits) without charge by writing or calling c/o Secretary, 6464 185th Avenue NE, Suite 101, Redmond, WA 98052 (425) 881-6444. Copies of the exhibits to our annual report Form 10-K are available for a nominal fee or may be viewed at http://www.dataio.com/corporate/filings.asp or www.sec.gov in the EDGAR filing of our report.

By Order of the Board of Directors

/s/ Frederick R. Hume
Frederick R. Hume
President and Chief Executive Officer

Redmond, Washington
March 27, 2009

Appendix A

AUDIT COMMITTEE CHARTER

Amended and Restated by the Board of Directors of Data I/O Corporation on March 4, 2009

Composition:

The audit committee shall be composed of three or more directors, as determined by the board of directors. Each of the committee members shall meet the independence and financial literacy requirements of NASDAQ unless the Board determines, to the extent permitted by NASDAQ rules, no more than one individual who does not meet the independence requirements and who shall not serve for more than two years would bring valuable financial or accounting experience to the committee. In addition, at least one of the members shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Unless the board of directors designates a chair, the committee members may appoint their own chair by majority vote provided, however, that a committee member who does not meet the independence requirements of NASDAQ shall not serve as chair.

Statement of Policy:

The audit committee of the board of directors assists the board in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, and the annual independent audit of the Company's financial statements. In so doing, it is the responsibility of the committee to maintain free and open communication among the committee, independent auditors, and management of the Company. In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the power to retain outside counsel or other experts for this purpose. The Company shall provide for appropriate funding, as determined by the committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the committee.

Responsibilities:

1. Appoint, oversee, evaluate and approve compensation for the company's independent auditor and, if so determined by the audit committee, replace the independent auditor. Establish policies and procedures for the review and pre-approval by the committee of all auditing services and permissible non-audit services (including the fees and terms thereof) to be performed by the independent auditor.

2. Ensure the receipt of, and evaluate, the written disclosures and the letter that the independent auditor submits to the audit committee regarding the auditor's independence required by applicable requirements of the Public Company Accounting Oversight Board for independent auditor communications with Audit Committees concerning independence. Discuss such reports with the auditor and recommend that the board of directors take appropriate action to address issues raised by such evaluation.

3. Discuss with the independent auditor the matters required to be discussed by SAS 61, as it may be modified or supplemented.

4. Instruct management, the independent auditor and any internal auditor that the committee expects to be informed if there are any subjects that require special attention or if they perceive any significant weaknesses in the company's information and reporting systems.

5. Meet with management and the independent auditor to discuss the annual financial statements and the report of the independent auditor thereon, and to discuss significant issues encountered in the course of the audit work, including restrictions on the scope of activities, access to required information and the adequacy of internal financial controls.

6. Review the management letter delivered by the independent auditor in connection with the audit.

7. Meet quarterly with management and the independent auditor to discuss the quarterly and annual financial statements prior to the filing of the Form 10Q and Form 10K; provided that this responsibility may be delegated to the chair of the audit committee.

8. Meet at least once each year in separate executive session with the independent auditor to discuss matters that any of them or the committee believes could significantly affect the financial statements and should be discussed privately.

9. Have such meetings with management and/or the independent auditor as the committee deems appropriate to discuss significant financial risk exposures facing the company and management's plans for monitoring and controlling such exposures.

10. Review significant changes to the company's accounting principles and practices proposed by the independent auditor or management.

11. Provide minutes of audit committee meetings to the board of directors, and report to the board of directors on any significant matters arising from the committee's work.

12. At least annually, review and reassess this charter and, if appropriate, recommend proposed changes to the board of directors.

13. Periodically review and reassess the effectiveness of the audit committee and recommend any changes to the board of directors.

14. Prepare the report required by the rules of the Securities and Exchange Commission to be included in the company's annual proxy statement.

15. Review and approve all reportable related-party or conflict-of-interest transactions (as defined by the relevant NASDAQ listing requirements) involving other members of the board of directors or the company's senior management.

16. Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

17. Establish policies for the hiring of employees and former employees of the independent auditor.

18. In the performance of its responsibilities, the audit committee is the representative of the shareholders. However, it is not the responsibility of the audit committee to plan or conduct audits, or to determine whether the company's financial statements are complete and accurate or in accordance with generally accepted accounting principles.

Appendix B

DATA I/O CORPORATION
2000 STOCK COMPENSATION INCENTIVE PLAN

1. PURPOSES

1.1 The purpose of the Data I/O Corporation 2000 Stock Compensation Incentive Plan (the "Plan") is to enhance the long-term shareholder value of Data I/O Corporation, a Washington corporation (the "Company"), by offering opportunities to employees, persons to whom offers of employment have been extended, directors, officers, consultants, agents, advisors and independent contractors of Data I/O and its Subsidiaries (as defined in Section 2) to participate in Data I/O's growth and success, and to encourage them to remain in the service of Data I/O and its Subsidiaries and to acquire and maintain stock ownership in Data I/O.

2. DEFINITIONS

For purposes of the Plan, the following terms shall be defined as set forth below:

<u>2.1 Acquired Entities</u>.

"Acquired Entities" has the meaning given in Section 6.2.

<u>2.2 Acquisition Transaction</u>.

"Acquisition Transaction" has the meaning given in Section 6.2.

<u>2.3 Award</u>.

"Award" means a grant made to a Participant pursuant to the Plan, including, without limitation, grants of Options, Stock Appreciation Rights, Stock Awards, Other Stock-Based Awards or any combination of the foregoing.

<u>2.4 Board</u>.

"Board" means the Board of Directors of Data I/O.

<u>2.5 Cause</u>.

"Cause" means dishonesty, fraud, misconduct, disclosure of confidential information, conviction of, or a plea of guilty or no contest to, a felony under the laws of the United States or any state thereof, habitual absence from work for reasons other than illness, intentional conduct which causes significant injury to Data I/O, habitual abuse of alcohol or a controlled substance, in each case as determined by the Plan Administrator, and its determination shall be conclusive and binding.

<u>2.6 Change in Control</u>.

"Change in Control" means (i) the consummation of a merger or consolidation of Data I/O with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not shareholders of Data I/O immediately prior to such merger, consolidation or other reorganization or (ii) the sale, transfer or other disposition of all or substantially all of Data I/O's assets. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of Data I/O's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held Data I/O's securities immediately before such transaction.

<u>2.7 Code</u>.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

2.8 Common Stock.

"Common Stock" means the common stock, no par value, of Data I/O.

2.9 Disability.

"Disability" means a medically determinable mental or physical impairment or condition of the Holder which is expected to result in death or which has lasted or is expected to last for a continuous period of twelve (12) months or more and which causes the Holder to be unable, in the opinion of the Plan Administrator on the basis of evidence acceptable to it, to perform his or her duties for Data I/O and, in the case of a determination of Disability for purposes of determining the exercise period for an Incentive Stock Option, to be engaged in any substantial gainful activity. Upon making a determination of Disability, the Plan Administrator shall, for purposes of the Plan, determine the date of the Holder's termination of employment, service or contractual relationship.

2.10 Exchange Act.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.11 Fair Market Value.

"Fair Market Value" shall be as established in good faith by the Plan Administrator or (a) if the Common Stock is listed on the NASDAQ Market, the mean between the high and low selling prices for the Common Stock as reported by the NASDAQ Market for a single trading day or (b) if the Common Stock is listed on the New York Stock Exchange or the American Stock Exchange, the mean between the high and low selling prices for the Common Stock as such prices are officially quoted in the composite tape of transactions on such exchange for a single trading day. If there is no such reported price for the Common Stock for the date in question, then such price on the last preceding date for which such price exists shall be determinative of Fair Market Value.

2.12 Grant Date.

"Grant Date" means the date the Plan Administrator adopted the granting resolution or a later date designated in a resolution of the Plan Administrator as the date an Award is to be granted.

2.13 Holder.

"Holder" means the Participant to whom an Award is granted or the personal representative of a Holder who has died.

2.14 Incentive Stock Option.

"Incentive Stock Option" means an Option to purchase Common Stock granted under Section 7 with the intention that it qualify as an "incentive stock option" as that term is defined in Section 422 of the Code.

2.15 Involuntary Termination.

"Involuntary Termination" means termination of the Holder's service to Data I/O (or the parent or subsidiary company employing such Holder) or the other party to the transaction constituting a Change in Control by reason of (i) the involuntary discharge of such Holder by Data I/O (or the parent or subsidiary company employing such Holder) or the other party to the transaction constituting a Change in Control for reasons other than Cause or (ii) the voluntary resignation of the Holder following (A) a change in such Holder's position with Data I/O (or its successor or the parent or subsidiary company that employs such Holder) or the other party to the transaction constituting a Change in Control that materially reduces such Holder's level of authority or responsibility or (B) a reduction in such Holder's compensation (including base salary, fringe benefits and participation in bonus or incentive programs based on corporate performance) by more than 20%.

2.16 Nonqualified Stock Option.

"Nonqualified Stock Option" means an Option to purchase Common Stock granted under Section 7 other than an Incentive Stock Option.

2.17 Option.

"Option" means the right to purchase Common Stock granted under Section 7.

2.18 Option Shares.

"Option Shares" means the shares of Common Stock issuable upon a Holder's exercise of an Option granted under the Plan.

2.19 Other Stock-Based Award.

"Other Stock-Based Award" means an Award granted under Section 11.

2.20 Participant.

"Participant" means an individual who is a Holder of an Award or, as the context may require, any employee, director (including directors who are not employees), officer, consultant, agent, advisor or independent contractor of Data I/O or a Subsidiary who has been designated by the Plan Administrator as eligible to participate in the Plan.

2.21 Plan Administrator.

"Plan Administrator" means the Board or any committee designated to administer the Plan under Section 3.1.

2.22 Qualifying Award.

"Qualifying Award" means an Option or an Award that is held by a person who had been an employee, director, consultant or agent to Data I/O for at least 180 days as of the effective date of a Change in Control.

2.23 Qualifying Shares.

"Qualifying Shares" means shares of Common Stock issued pursuant to a Qualifying Award which are subject to the right of Data I/O to repurchase some or all of such shares at the original purchase price (if any) upon termination of the Holder's services to Data I/O.

2.24 Restricted Stock.

"Restricted Stock" means shares of Common Stock granted pursuant to a Stock Award under Section 10, the rights of ownership of which are subject to restrictions prescribed by the Plan Administrator.

2.25 Securities Act.

"Securities Act" means the Securities Act of 1933, as amended.

2.26 Stock Appreciation Right.

"Stock Appreciation Right" means an Award granted under Section 9.

2.27 Stock Award.

"Stock Award" means an Award granted under Section 10.

2.28 Subsidiary.

"Subsidiary," except as expressly provided otherwise, means any entity that is directly or indirectly controlled by Data I/O or in which Data I/O has a significant ownership interest, as determined by the Plan Administrator, and any entity that may become a direct or indirect parent of Data I/O.

2.29 Unvested Portion.

"Unvested Portion" means the portion of a Qualifying Award or Qualifying Shares that is/are unvested as of the effective date of a Change in Control.

2.30 Vested Portion.

"Vested Portion" means the portion of a Qualifying Award or Qualifying Shares that is/are vested as of the effective date of a Change in Control.

3. ADMINISTRATION

3.1 Plan Administrator.

The Plan shall be administered by the Board or a committee or committees (which term includes subcommittees) appointed by, and consisting of two or more members of, the Board. Any such committee shall have the powers and authority vested in the Board hereunder (including the power and authority to interpret any provision of the Plan or of any Award). The Board, or any committee thereof appointed to administer the Plan, is referred to herein as the "Plan Administrator." If and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, the Board shall consider in selecting the Plan Administrator and the membership of any committee acting as Plan Administrator for any persons subject or likely to become subject to Section 16 under the Exchange Act the provisions regarding (a) "outside directors" as contemplated by Section 162(m) of the Code and (b) "Non-Employee Directors" as contemplated by Rule 16b-3 under the Exchange Act. The Board or Plan Administrator may delegate the responsibility for administering the Plan with respect to designated classes of eligible Participants to one or more senior executive officers or committees thereof, the members of which need not be members of the Board, subject to such limitations as the Board deems appropriate. Committee members shall serve for such term as the Board may determine, subject to removal by the Board at any time.

3.2 Administration and Interpretation by the Plan Administrator.

Except for the terms, conditions and limitations explicitly set forth in the Plan, the Plan Administrator shall have exclusive authority, in its absolute discretion, to determine all matters relating to Awards under the Plan, including the selection of individuals to be granted Awards, the type of Awards, the number of shares of Common Stock subject to an Award, all terms, conditions, restrictions and limitations, if any, of an Award and the terms of any instrument that evidences the Award. The Plan Administrator shall also have exclusive authority to interpret the Plan and may from time to time adopt, change and rescind rules and regulations of general application for the Plan's administration. This authority shall include the sole authority to correct any defect, supply any omission or reconcile any inconsistency in this Plan and make all other determinations necessary or advisable for the administration of the Plan and do everything necessary or appropriate to administer the Plan. The Plan Administrator's interpretation of the Plan and its rules and regulations, and all actions taken and determinations made by the Plan Administrator pursuant to the Plan, shall be conclusive and binding on all parties involved or affected. The Plan Administrator may delegate administrative duties to such of Data I/O's officers as it so determines.

4. STOCK SUBJECT TO THE PLAN

4.1 Authorized Number of Shares.

As of March 10, 2000, Data I/O has outstanding options with respect to 1,215,000 shares of Common Stock and 270,499 shares of Common Stock available for additional grants under the 2000 Plan and the Data I/O 1986 Employee Stock Option Plan ("1986 Plan"). Subject to adjustment from time to time as provided in Section 14.1, Awards of the authorized but unissued shares of Common Stock under the 1986 Plan, or shares of Common Stock that become available under the 1986 Plan as a result of the expiration or termination of options, may be granted under this Plan. Awards for an additional 300,000 shares of Common Stock shall also be available for issuance under the Plan. Shares issued under the Plan shall be drawn from authorized and unissued shares. See also Section 18 for Plan amendments.

4.2 Limitations.

(a) Subject to adjustment from time to time as provided in Section 14.1, not more than 200,000 shares of Common Stock may be made subject to Awards under the Plan to any individual Participant in the aggregate in any one (1) calendar year, except that Data I/O may make additional one-time grants to newly hired Participants of up to 100,000 shares per such Participant; such limitation shall be applied in a manner consistent with the requirements of, and only to the extent required for compliance with, the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code.

(b) Subject to adjustment from time to time as provided in Section 14.1, not more than 100,000 shares of Common Stock may be made subject to Awards to any non-employee director in the aggregate in any one calendar year.

4.3 Reuse of Shares.

Any shares of Common Stock that have been made subject to an Award that cease to be subject to the Award (other than by reason of exercise or payment of the Award to the extent it is exercised for or settled in shares) and any shares repurchased by Data I/O from a Holder upon exercise of a right of repurchase shall again be available for issuance in connection with future grants of Awards under the Plan; provided, however, that any such shares shall be counted in accordance with the requirements of Section 162(m) of the Code if and to the extent applicable. Shares that are subject to tandem Awards shall be counted only once. Also, upon a stock-for-stock exercise only the net number of shares will be deemed to have been used under this Plan.

5. ELIGIBILITY

Awards may be granted under the Plan to those officers, directors and key employees of Data I/O and its Subsidiaries as the Plan Administrator from time to time selects. Awards may also be made to consultants, agents, advisors and independent contractors who provide services to Data I/O and its Subsidiaries.

6. AWARDS

6.1 Form and Grant of Awards.

The Plan Administrator shall have the authority, in its sole discretion, to determine the type or types of Awards to be made under the Plan. Such Awards may include, but are not limited to, Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Stock Awards and Other Stock-Based Awards. Awards may be granted singly, in combination or in tandem so that the settlement or payment of one automatically reduces or cancels the other. Awards may also be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for, grants or rights under any other employee or compensation plan of Data I/O.

6.2 Acquired Company Awards.

Notwithstanding anything in the Plan to the contrary, the Plan Administrator may grant Awards under the Plan in substitution for awards issued under other plans, or assume under the Plan awards issued under other plans, if the other plans are or were plans of other acquired entities ("Acquired Entities") (or the parent of the Acquired Entity) and the new Award is substituted, or the old Award is assumed, by reason of a merger, consolidation, acquisition of property or of stock, reorganization or liquidation (an "Acquisition Transaction"). If a written agreement pursuant to which an Acquisition Transaction is completed is approved by the Board and said agreement sets forth the terms and conditions of the substitution for or assumption of outstanding awards of the Acquired Entity, said terms and conditions shall be deemed to be the action of the Plan Administrator without any further action by the Plan Administrator, except as may be required for compliance with Rule 16b-3 under the Exchange Act, and the persons holding such Awards shall be deemed to be Participants and Holders.

7. AWARDS OF OPTIONS

7.1 Grant of Options.

The Plan Administrator is authorized under the Plan, in its sole discretion, to issue Options as Incentive Stock Options or as Nonqualified Stock Options, which shall be appropriately designated.

7.2 Option Exercise Price.

The exercise price for shares purchased under an Option shall be as determined by the Plan Administrator, but shall not be less than 100% of the Fair Market Value of the Common Stock on the Grant Date with respect to Incentive Stock Options.

7.3 Term of Options.

The term of each Option shall be as established by the Plan Administrator or, if not so established, shall be six (6) years from the Grant Date.

7.4 Exercise of Options.

The Plan Administrator shall establish and set forth in each instrument that evidences an Option the time at which or the installments in which the Option shall become exercisable, which provisions may be waived or modified by the Plan Administrator at any time. If not so established in the instrument evidencing the Option or otherwise set at the time of grant, the Option will be subject to the following: (a) 25% of the Option shall vest and become exercisable on each anniversary of the Grant Date such that the Option shall be fully vested on the fourth anniversary of the Grant Date; (b) in no event shall any additional Option Shares vest after termination of Holder's employment by or service to Data I/O; and (c) the Plan Administrator may waive or modify the foregoing schedule at any time.

To the extent that the right to purchase shares has accrued there under, an Option may be exercised from time to time by written notice to Data I/O, in accordance with procedures established by the Plan Administrator, setting forth the number of shares with respect to which the Option is being exercised and accompanied by payment in full as described in Section 7.5. An Option may not be exercised as to less than 100 shares at any one time (or the lesser number of remaining shares covered by the Option).

7.5 Payment of Exercise Price.

The exercise price for shares purchased under an Option shall be paid in full to Data I/O by delivery of consideration equal to the product of the Option exercise price and the number of shares purchased. Such consideration must be paid in cash or check (unless, at the time of exercise, the Plan Administrator determines not to accept a personal check), except that the Plan Administrator, in its sole discretion, may, either at the time the Option is granted or at any time before it is exercised and subject to such limitations as the Plan Administrator may determine, authorize payment in cash and/or one or more of the following alternative forms: (a) tendering (either actually or, if and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, by attestation) Common Stock already owned by the Holder for at least six months (or any shorter period necessary to avoid a charge to Data I/O's earnings for financial reporting purposes) having a Fair Market Value on the day prior to the exercise date equal to the aggregate Option exercise price; (b) a promissory note delivered pursuant to Section 12; (c) if and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, delivery of a properly executed exercise notice, together with irrevocable instructions, to (i) a third party designated by Data I/O to deliver promptly to Data I/O the aggregate amount of sale or loan proceeds to pay the Option exercise price and any withholding tax obligations that may arise in connection with the exercise and (ii) Data I/O to deliver the certificates for such purchased shares directly to such third party, all in accordance with the regulations of the Federal Reserve Board; or (d) such other consideration as the Plan Administrator may permit.

7.6 Post-Termination Exercises.

The Plan Administrator may establish and set forth in each instrument that evidences an Option whether the Option will continue to be exercisable, and the terms and conditions of such exercise, if a Holder ceases to be employed by, or to provide services to, Data I/O or its Subsidiaries, which provisions may be waived or modified by the Plan Administrator at any time.

If not so established in the instrument evidencing the Option, the Option will be exercisable according to the following terms and conditions, which may be waived or modified by the Plan Administrator at any time.

In case of termination of the Holder's employment or services other than by reason of death or Cause, the Option shall be exercisable, to the extent of the number of shares purchasable by the Holder at the date of such termination, only (a) within one (1) year if the termination of the Holder's employment or services are coincident with Disability or (b) within three (3) months after the date the Holder ceases to be an employee, director, officer, consultant, agent, advisor or independent contractor of Data I/O or a Subsidiary if termination of the Holder's employment or services is for any reason other than death or Disability, but in no event later than the remaining term of the Option. Any Option exercisable at the time of the Holder's death may be exercised, to the extent of the number of shares purchasable by the Holder at the date of the Holder's death, by the personal representative of the Holder's estate entitled thereto at any time or from time to time within one (1) year after the date of death, but in no event later than the remaining term of the Option. In case of termination of the Holder's employment or services for Cause, the Option shall automatically terminate upon first discovery by Data I/O of any reason for such termination and the Holder shall have no right to purchase any Shares pursuant to such Option, unless the Plan Administrator determines otherwise. If a Holder's employment or services with Data I/O are suspended pending an investigation of whether the Holder shall be terminated for Cause, all the Holder's rights under any Option likewise shall be suspended during the period of investigation.

A transfer of employment or services between or among Data I/O and its Subsidiaries shall not be considered a termination of employment or services. The effect of a Company-approved leave of absence or short-term break in service on the terms and conditions of an Option shall be determined by the Plan Administrator, in its sole discretion.

8. INCENTIVE STOCK OPTION LIMITATIONS

To the extent required by Section 422 of the Code, Incentive Stock Options shall be subject to the following additional terms and conditions:

8.1 Dollar Limitation.

To the extent the aggregate Fair Market Value (determined as of the Grant Date) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time during any calendar year (under the Plan and all other stock option plans of Data I/O) exceeds \$100,000, such portion in excess of \$100,000 shall be treated as a Nonqualified Stock Option. In the event the Participant holds two (2) or more such Options that become exercisable for the first time in the same calendar year, such limitation shall be applied on the basis of the order in which such Options were granted.

8.2 10% Shareholders.

If a Participant owns more than 10% of the total voting power of all classes of Data I/O's stock, then the exercise price per share of an Incentive Stock Option shall not be less than 110% of the Fair Market Value of the Common Stock on the Grant Date and the Option term shall not exceed five (5) years. The determination of 10% ownership shall be made in accordance with Section 422 of the Code.

8.3 Eligible Employees.

Individuals who are not employees of Data I/O or one of its parent corporations or subsidiary corporations may not be granted Incentive Stock Options. For purposes of this Section 8.3, "parent corporation" and "subsidiary corporation" shall have the meanings attributed to those terms for purposes of Section 422 of the Code.

8.4 Term.

The term of an Incentive Stock Option shall not exceed ten (10) years.

8.5 Exercisability.

To qualify for Incentive Stock Option tax treatment, an Option designated as an Incentive Stock Option must be exercised within three (3) months after termination of employment for reasons other than death, except that, in the case of termination of employment due to total Disability, such Option must be exercised within one (1) year after such termination. Employment shall not be deemed to continue beyond the first 90 days of a leave of absence unless the Participant's reemployment rights are guaranteed by statute or contract.

8.6 Taxation of Incentive Stock Options.

In order to obtain certain tax benefits afforded to Incentive Stock Options under Section 422 of the Code, the Participant must hold the shares issued upon the exercise of an Incentive Stock Option for two (2) years after the Grant Date of the Incentive Stock Option and one (1) year from the date the shares are transferred to the Participant. A Participant may be subject to the alternative minimum tax at the time of exercise of an Incentive Stock Option. The Participant shall give Data I/O prompt notice of any disposition of shares acquired by the exercise of an Incentive Stock Option prior to the expiration of such holding periods.

8.7 Promissory Notes.

The amount of any promissory note delivered pursuant to Section 12 in connection with an Incentive Stock Option shall bear interest at a rate specified by the Plan Administrator but in no case less than the rate required to avoid imputation of interest (taking into account any exceptions to the imputed interest rules) for federal income tax purposes.

8.8 Incorporation of Other Provisions.

With respect to Incentive Stock Options, if this Plan does not contain any provision required to be included herein under Section 422 of the Code, such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out in full herein; provided, however, that to the extent any Option that is intended to qualify as an Incentive Stock Option cannot so qualify, the Option, to that extent, shall be deemed to be a Nonqualified Stock Option for all purposes of this Plan.

9. STOCK APPRECIATION RIGHTS

9.1 Grant of Stock Appreciation Rights.

The Plan Administrator may grant a Stock Appreciation Right separately or in tandem with a related Option.

9.2 Tandem Stock Appreciation Rights.

A Stock Appreciation Right granted in tandem with a related Option will give the Holder the right to surrender to Data I/O all or a portion of the related Option and to receive an appreciation distribution (in shares of Common Stock or cash or any combination of shares and cash, as the Plan Administrator, in its sole discretion, shall determine at any time) in an amount equal to the excess of the Fair Market Value for the date the Stock Appreciation Right is exercised over the exercise price per share of the right, which shall be the same as the exercise price of the related Option. A tandem Stock Appreciation Right will have the same other terms and provisions as the related Option. Upon and to the extent a tandem Stock Appreciation Right is exercised, the related Option will terminate.

9.3 Stand-Alone Stock Appreciation Rights.

A Stock Appreciation Right granted separately and not in tandem with an Option will give the Holder the right to receive an appreciation distribution in an amount equal to the excess of the Fair Market Value for the date the Stock Appreciation Right is exercised over the exercise price per share of the right. A stand-alone Stock Appreciation Right will have such terms as the Plan Administrator may determine, except that the term of the right, if not otherwise established by the Plan Administrator, shall be ten (10) years from the Grant Date.

9.4 Exercise of Stock Appreciation Rights.

Unless otherwise provided by the Plan Administrator in the instrument that evidences the Stock Appreciation Right, the provisions of Section 7.6 relating to the termination of a Holder's employment or services shall apply equally, to the extent applicable, to the Holder of a Stock Appreciation Right.

10. STOCK AWARDS

10.1 Grant of Stock Awards.

The Plan Administrator is authorized to make Awards of Common Stock or of rights to receive shares of Common Stock to Participants on such terms and conditions and subject to such restrictions, if any (which may be based on continuous service with Data I/O or the achievement of performance goals related to (i) sales, gross margin, operating profits or profits, (ii) growth in sales, gross margin, operating profits or profits, (iii) return ratios related to sales, gross margin, operating profits or profits, (iv) cash flow, (v) asset management (including inventory management), or (vi) total shareholder return, where such goals may be stated in absolute terms or relative to comparison companies), as the Plan Administrator shall determine, in its sole discretion, which terms, conditions and restrictions shall be set forth in the instrument evidencing the Award. The terms, conditions and restrictions that the Plan Administrator shall have the power to determine shall include, without limitation, the manner in which shares subject to Stock Awards are held during the periods they are subject to restrictions and the circumstances under which forfeiture of Restricted Stock shall occur by reason of termination of the Holder's services or upon the occurrence of other events.

10.2 Issuance of Shares.

Upon the satisfaction of any terms, conditions and restrictions prescribed with respect to a Stock Award, or upon the Holder's release from any terms, conditions and restrictions of a Stock Award, as determined by the Plan Administrator, Data I/O shall transfer, as soon as practicable, to the Holder or, in the case of the Holder's death, to the personal representative of the Holder's estate or as the appropriate court directs, the appropriate number of shares of Common Stock covered by the Award.

10.3 Waiver of Restrictions.

Notwithstanding any other provisions of the Plan, the Plan Administrator may, in its sole discretion, waive the forfeiture period and any other terms, conditions or restrictions on any Restricted Stock under such circumstances and subject to such terms and conditions as the Plan Administrator shall deem appropriate.

11. OTHER STOCK-BASED AWARDS

The Plan Administrator may grant other Awards under the Plan pursuant to which shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 10) are or may in the future be acquired, or Awards denominated in stock units, including ones valued using measures other than market value. Such Other Stock-Based Awards may be granted alone or in addition to or in tandem with any Award of any type granted under the Plan and must be consistent with the Plan's purpose.

12. LOANS, INSTALLMENT PAYMENTS AND LOAN GUARANTEES

To assist a Holder (including a Holder who is an officer or director of Data I/O) in acquiring shares of Common Stock pursuant to an Award granted under the Plan, the Plan Administrator, in its sole discretion, may authorize, either at the Grant Date or at any time before the acquisition of Common Stock pursuant to the Award, (a) the extension of a loan to the Holder by Data I/O, (b) the payment by the Holder of the purchase price, if any, of the Common Stock in installments, or (c) the guarantee by Data I/O of a loan obtained by the grantee from a third party. The terms of any loans, installment payments or loan guarantees, including the interest rate and terms of and security for repayment, will be subject to the Plan Administrator's discretion; provided, however, that repayment of any Company loan to the Holder shall be secured by delivery of a full-recourse promissory note for the loan amount executed by the Holder, together with any other form of security determined by the Plan Administrator. The maximum credit available is the purchase price, if any, of the Common Stock acquired, plus the maximum federal and state income and employment tax liability that may be incurred in connection with the acquisition.

13. ASSIGNABILITY

Except as otherwise specified or approved by the Plan Administrator at the time of grant of an Award or any time prior to its exercise, no Award granted under the Plan may be assigned, pledged or transferred by the Holder other than by will or by the laws of descent and distribution, and during the Holder's lifetime, such Awards may be exercised only by the Holder. Notwithstanding the foregoing, and to the extent permitted by Section 422 of the Code, the Plan Administrator, in its sole discretion, may permit such assignment, transfer and exercise ability and may permit a Holder of such Awards to designate a beneficiary who may exercise the Award or receive compensation under the Award after the Holder's death; provided, however, that (i) any Award so assigned or transferred shall be subject to all the same terms and conditions contained in the instrument evidencing the Award, (ii) the original Holder shall remain subject to withholding taxes upon exercise, (iii) any subsequent transfer of an Award shall be prohibited and (iv) the events of termination of employment or contractual relationship set forth in subsection 7.6 shall continue to apply with respect to the original transferor-Holder.

14. ADJUSTMENTS

14.1 Adjustment of Shares.

In the event that, at any time or from time to time, a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to shareholders other than a normal cash dividend, or other change in Data I/O's corporate or capital structure results in (a) the outstanding shares, or any securities exchanged therefor or received in their place, being exchanged for a different number or class of securities of Data I/O or of any other corporation or (b) new, different or additional securities of Data I/O or of any other corporation being received by the holders of shares of Common Stock of Data I/O, then the Plan Administrator, in its sole discretion, shall make such equitable adjustments as it shall deem appropriate in the circumstances in (i) the maximum number and class of securities subject to the Plan as set forth in Section 4.1, (ii) the maximum number and class of securities that may be made subject to Awards to any individual Participant as set forth in Section 4.2, and (iii) the number and class of securities that are subject to any outstanding Award and the per share price of such securities, without any change in the aggregate price to be paid therefor. The determination by the Plan Administrator as to the terms of any of the foregoing adjustments shall be conclusive and binding.

14.2 Dissolution, Liquidation or Change in Control Transactions.

(a) In the event of the proposed dissolution or liquidation of Data I/O, Data I/O shall notify each Holder at least fifteen (15) days prior to such proposed action. To the extent not previously exercised, all Awards will terminate immediately prior to the consummation of such proposed action.

(b) Unless the applicable agreement representing an Option provides otherwise, or unless the Plan Administrator determines otherwise in its sole and absolute discretion in connection with any Change in Control, a Qualifying Option which is not exercisable in full shall become exercisable in connection with a Change in Control which becomes effective before the Holder's service to Data I/O terminates as follows:

(i) If the Qualifying Option remains outstanding following the Change in Control, is assumed by the surviving entity or its parent, or the surviving entity or its parent substitutes options with substantially the same terms for such Qualifying Option, the vesting and exercise ability of the Qualifying Option shall be accelerated to the extent of 25% of the Unvested Portion thereof, and the remaining 75% of the Unvested Portion of such Qualifying Option shall vest in accordance with the vesting schedule set forth in the applicable Option agreement.

(ii) If the Qualifying Option remains outstanding following the Change in Control, is assumed by the surviving entity or its parent, or the surviving entity or its parent substitutes options with substantially the same terms for such Qualifying Option and if the Holder thereof is subject to an Involuntary Termination within 180 days following such Change in Control, then all Options held by such Holder (or options issued in substitution thereof) shall become exercisable in full, whether or not the vesting requirements set forth in the Option agreement have been satisfied, for a period of 90 days commencing on the effective date of such Holder's Involuntary Termination, or if shorter, the remaining term of the option.

(iii) If a Qualifying Option does not remain outstanding, and either such Qualifying Option is not assumed by the surviving entity or its parent, or the surviving entity or its parent does not substitute options with substantially the same terms for such Qualifying Option, such Qualifying Option shall become exercisable in full, whether or not the vesting requirements set forth in the Option agreement have been satisfied, for a period prior to the effective date of such Change in Control of a duration specified by the Plan Administrator, and thereafter the Option shall terminate.

(c) Unless the applicable agreement representing an Award provides otherwise, or unless the Plan Administrator determines otherwise in its sole and absolute discretion in connection with any Change in Control, the vesting of Qualifying Shares shall be accelerated, and Data I/O's repurchase right with respect to such shares shall lapse, in connection with a Change in Control which becomes effective before such Holder's service to Data I/O terminates as follows:

(i) If Qualifying Options were outstanding at the effective time of the Change in Control and they are partially accelerated pursuant to Subsection (b)(i) above or if there were no Qualifying Options outstanding at the effective time of the Change in Control, the vesting of all Qualifying Shares shall be accelerated to the extent of 25% of the Unvested Portion thereof, and the remaining 75% of the Unvested Portion of such Qualifying Shares shall vest in accordance with the vesting schedule set forth in the applicable Award agreement.

(ii) If the preceding clause (i) applied and if a Holder of Qualifying Shares is subject to an Involuntary Termination within 180 days following the same Change in Control, then all Qualifying Shares held by such Holder (or shares issued in substitution thereof) shall become vested in full, whether or not the vesting requirements set forth in the applicable Award agreement have been satisfied.

(iii) If Qualifying Options were outstanding at the effective time of the Change in Control and they are accelerated in full pursuant to Subsection (b)(iii) above or otherwise, the vesting of all Qualifying Shares shall be accelerated in full, and Data I/O's repurchase right with respect to all such shares shall lapse in full, whether or not the vesting requirements set forth in the applicable Award agreement have been satisfied.

(d) Notwithstanding Subsections (b) and (c) above, if Data I/O and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if Data I/O's independent public accountants and such other party's independent public accountants separately determine in good faith that the transaction constituting a Change in Control would qualify for treatment as a "pooling of interests" but for the acceleration of vesting provided for in Subsections (b) and (c) above, then the acceleration of exercisability or the lapse of Data I/O's right to repurchase shall not occur to the extent that Data I/O's independent public accountants and such other party's independent public accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting for such transaction.

14.3 Further Adjustment of Awards.

Subject to the preceding Section 14.2, the Plan Administrator shall have the discretion, exercisable at any time before a sale, merger, consolidation, reorganization, dissolution, liquidation or Change in Control of Data I/O, as defined by the Plan Administrator, to take such further action as it determines to be necessary or advisable, and fair and equitable to Participants, with respect to Awards. Such authorized action may include (but shall not be limited to) establishing, amending or waiving the type, terms, conditions or duration of, or restrictions on, Awards so as to provide for earlier, later, extended or additional time for exercise, payment or settlement or lifting restrictions, differing methods for calculating payments or settlements, alternate forms and amounts of payments and settlements and other modifications, and the Plan Administrator may take such actions with respect to all Participants, to certain categories of Participants or only to individual Participants. The Plan Administrator may take such actions before or after granting Awards to which the action relates and before or after any public announcement with respect to such sale, merger, consolidation, reorganization, dissolution, liquidation or Change in Control that is the reason for such action. Without limiting the generality of the foregoing, if Data I/O is a party to a merger or consolidation, outstanding Awards shall be subject to the agreement of merger or consolidation. Such agreement, without the Holder's consent, may provide for:

(a) the continuation of such outstanding Award by Data I/O (if Data I/O is the surviving corporation);

(b) the assumption of the Plan and some or all outstanding Awards by the surviving corporation or its parent;

(c) the substitution by the surviving corporation or its parent of Awards with substantially the same terms for such outstanding Awards; or

(d) the cancellation of such outstanding Awards with or without payment of any consideration.

14.4 Limitations.

The grant of Awards will in no way affect Data I/O's right to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

14.5 Fractional Shares.

In the event of any adjustment in the number of shares covered by any Option, any fractional shares resulting from such adjustment shall be disregarded and each such Option shall cover only the number of full shares resulting from such adjustment.

15. WITHHOLDING

Data I/O may require the Holder to pay to Data I/O in cash the amount of any withholding taxes that Data I/O is required to withhold with respect to the grant, exercise, payment or settlement of any Award. Data I/O shall have the right to withhold from any Award or any shares of Common Stock issuable pursuant to an Award or from any cash amounts otherwise due or to become due from Data I/O to the Participant an amount equal to such taxes. Data I/O may also deduct from any Award any other amounts due from the Participant to Data I/O or a Subsidiary.

16. AMENDMENT AND TERMINATION OF PLAN

16.1 Amendment of Plan.

The Plan may be amended by the Board in such respects as it shall deem advisable including, without limitation, such modifications or amendments as are necessary to maintain compliance with applicable statutes, rules or regulations; however, to the extent required for compliance with Section 422 of the Code or any applicable law or regulation, shareholder approval will be required for any amendment that will increase the aggregate number of shares as to which Incentive Stock Options may be granted or change the class of persons eligible to participate. Amendments made to the Plan which would constitute "modifications" to Incentive Stock Options outstanding on the date of such Amendments shall not be applicable to such outstanding Incentive Stock Options but shall have prospective effect only. The Board may condition the effectiveness of any amendment on the receipt of shareholder approval at such time and in such manner as the Board may consider necessary for Data I/O to comply with or to avail Data I/O, the Holders or both of the benefits of any securities, tax, market listing or other administrative or regulatory requirement which the Board determines to be desirable. Whenever shareholder approval is sought, and unless required otherwise by applicable law or exchange requirements, the proposed action shall require the affirmative vote of holders of a majority of the shares present, entitled to vote and voting on the matter without including abstentions or broker non-votes in the denominator.

16.2 Termination Of Plan.

Data I/O's shareholders or the Board may suspend or terminate the Plan at any time. The Plan will have no fixed expiration date; provided, however, that no Incentive Stock Options may be granted more than ten (10) years after the earlier of the Plan's adoption by the Board or approval by the shareholders.

17. GENERAL

17.1 Award Agreements.

Awards granted under the Plan shall be evidenced by a written agreement which shall contain such terms, conditions, limitations and restrictions as the Plan Administrator shall deem advisable and which are not inconsistent with the Plan.

17.2 Continued Employment or Services; Rights In Awards**.**

None of the Plan, participation in the Plan as a Participant or any action of the Plan Administrator taken under the Plan shall be construed as giving any Participant or employee of Data I/O any right to be retained in the employ of Data I/O or limit Data I/O's right to terminate the employment or services of the Participant.

17.3 Registration; Certificates For Shares.

Data I/O shall be under no obligation to any Participant to register for offering or resale or to qualify for exemption under the Securities Act, or to register or qualify under state securities laws, any shares of Common Stock, security or interest in a security paid or issued under, or created by, the Plan, or to continue in effect any such registrations or qualifications if made. Data I/O may issue certificates for shares with such legends and subject to such restrictions on transfer and stop-transfer instructions as counsel for Data I/O deems necessary or desirable for compliance by Data I/O with federal and state securities laws.

Inability of Data I/O to obtain, from any regulatory body having jurisdiction, the authority deemed by Data I/O's counsel to be necessary for the lawful issuance and sale of any shares hereunder or the unavailability of an exemption from registration for the issuance and sale of any shares hereunder shall relieve Data I/O of any liability in respect of the nonissuance or sale of such shares as to which such requisite authority shall not have been obtained.

17.4 No Rights As A Shareholder.

No Option, Stock Appreciation Right or Other Stock-Based Award shall entitle the Holder to any cash dividend, voting or other right of a shareholder unless and until the date of issuance under the Plan of the shares that are the subject of such Award, free of all applicable restrictions.

17.5 Compliance With Laws And Regulations.

In interpreting and applying the provisions of the Plan, any Option granted as an Incentive Stock Option pursuant to the Plan shall, to the extent permitted by law, be construed as an "incentive stock option" within the meaning of Section 422 of the Code.

17.6 No Trust Or Fund.

The Plan is intended to constitute an "unfunded" plan. Nothing contained herein shall require Data I/O to segregate any monies or other property, or shares of Common Stock, or to create any trusts, or to make any special deposits for any immediate or deferred amounts payable to any Participant, and no Participant shall have any rights that are greater than those of a general unsecured creditor of Data I/O.

17.7 Severability.

If any provision of the Plan or any Award is determined to be invalid, illegal or unenforceable in any jurisdiction, or as to any person, or would disqualify the Plan or any Award under any law deemed applicable by the Plan Administrator, such provision shall be construed or deemed amended to conform to applicable laws, or, if it cannot be so construed or deemed amended without, in the Plan Administrator's determination, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

18. EFFECTIVE DATE

The Plan's effective date is the date on which it is adopted by the Board, so long as it is approved by Data I/O's shareholders at any time within twelve (12) months of such adoption.

Original Plan adopted by the Board on February 28, 2000 and approved by Data I/O's shareholders in May 2000. The Plan was amended and approved by the Board and Data I/O's shareholders in 2002 to add an additional 200,000, and in 2004 to add an additional 300,000, and in 2006 to add an additional 300,000 shares of Common Stock to be reserved for issuance under the Plan.

Board of Directors

Daniel A. DiLeo (2000)
Retired Executive Vice President
Agere Systems, Inc.
(Opto Electronics)

Paul A. Gary (1998)*
Retired Vice President
Netcom IC Unit
ATT Microelectronics
(Semiconductors)

Frederick R. Hume (1999)*
President/CEO

Edward D. Lazowska, Ph.D. (1996)
Professor
Department of Computer Science
and Engineering
University of Washington

Steven M. Quist (2001)*
Principal
Blackmore Peak Partners
(Consulting Firm)

William R. Walker (2003)*
Chief Financial Officer,
Vice President, Secretary
Hi/fn, Inc.
(Semiconductors)

The calendar year in ( ) indicates when the individuals became directors of Data I/O.

**Standing for re-election*

Corporate Officers

Frederick R. Hume
President/CEO

Joel S. Hatlen
Vice President
Chief Financial Officer
Secretary/Treasurer

Gordon Bluechel
Vice President
Operations & Administration

Corporate Offices:

Data I/O Corporation
6464 185th Ave NE
Suite 101
Redmond, WA 98052

Sales and Service Offices:

China
Data I/O China Limited
Unit 2401A, 24/F
Park-in Commercial Centre,
56 Dundas Street, Mongkok
Kowloon, Hong Kong

Data I/O Electronics (Shanghai) Co. Ltd
Suite A, 25F Majesty Building
Shanghai, China PRC 200120

Germany
Data I/O GmbH
Lochhamer Schlag 5
82166 Graefelfing

Legal Counsel:

Dorsey & Whitney LLP
US Bank Centre
1420 5th Avenue, Suite 3400
Seattle, WA 98101

Auditors:

Grant Thornton LLP
701 Pike Street
Seattle, WA 98101-2310

Investor Relations:

Shareholders of Data I/O Corporation who would like information about the Company are invited to contact Joel Hatlen, Vice President and Chief Financial Officer, 6464 185th Ave NE, Suite 101, Redmond, WA 98052 by letter, by phone (425) 881-6444 or by email at investorrelations@dataio.com.

Form 10-K:

To obtain a copy of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, go to our website at http://www.dataio.com/corporate/filings.asp or contact Joel Hatlen, Vice President and Chief Financial Officer, 6464 185th Ave NE, Suite 101, Redmond, WA 98052.

Shareholders Meeting:

The 2009 Annual Meeting of Shareholders will be held on Thursday, May 14, 2009 at 2:00 p.m. Pacific Standard Time at the Company's headquarters, 6464 185th Ave NE, Suite 101., Redmond, Washington. 98052

Shareholder Information:

Shareholders needing information relating to their shareholdings in Data I/O should contact the Company's Transfer Agent and Registrar at the mailing address, telephone number or Web address below.

Transfer Agent and Registrar:

BNY Mellon Shareowner Services
528 Pike Street, #1220
Seattle, WA 98104
(206) 674-3050
www.bnymellon.com

Exchange List:
Stock Symbol: DAIO
NASDAQ

Data I/O Corporation
6464 185th Ave NE,
Suite 101
Redmond, WA 98052

Delivering the World's Best Ideas in Silicon

With over 35 years of expertise in delivering intellectual property to programmable devices, Data I/O® Corporation (NASDAQ:DAIO) offers complete, integrated manufacturing solutions in wireless, automotive, programming center, semiconductor, and industrial control market segments for OEM, ODM, EMS and semiconductor companies. Data I/O provides hardware and software solutions for turn-key programming and device testing services, as well as in-system (on-board), in-line (right before use at the SMT line), or in-socket (off-line) programming with special manufacturing options such as serialization, traceability, version control, statistical data logging, co-planarity test, and bad block management. These solutions are scalable for small, medium and large volume applications with different device mixes. For further information on Data I/O, please visit www.dataio.com or call 800-426-1045.