



Letter to Shareholders
2013 Annual Report on Form 10-K
Notice of 2014 Annual Meeting &
Proxy Statement

Award Winning PSV7000



2013 Global Technology Award - Best Programmer
2014 Circuits Assembly NPI Award - Device Programming

Letter to Shareholders

March 28, 2014

Dear Shareholder:

2013 was an improved year for Data I/O as we focused on growing revenue, delivering more competitive products and reducing our breakeven revenue through aggressive cost controls. Revenue increased 9.6%, bookings increased 14% and we reduced our operating losses 59%. We entered 2014 with a backlog of \$1.9M, up \$1M from the start of 2013. Our stock price increased from \$1.65 at the start of 2013 to \$2.57 at year end.

The business grew on the strength of the wireless and consumer segment, as we saw capacity increases in the first half at two of our largest customers to support the launch of new generations of mobile phones. Automotive and industrial segments remained weak, reflecting the existing capacity in these markets. Business softened during the third and fourth quarters, and began to pick up again at the end of the year. This pickup continued through the start of 2014. We launched the first of our new generation of products, the PSV7000 in September. The PSV7000 provides industry leading velocity, versatility, and value with superior throughput, and small parts handling. This product has been extremely well accepted and won industry awards in Germany and the United States.

We continued to transform our company with the addition of two new board members in January 2013, Mark Gallenberger and Alan Howe. Both bring strong financial, capital markets and industry knowledge to the board. We also announced we will be reducing the board from 6 to 5 members in May. Ken Myer will not be standing for re-election. Ken has served Data I/O well for several years, and we would like to thank him for his excellent service. We added a Chief Technology Officer and VP of Engineering, Rajeev Gulati, to help guide our longer range development and software strategies. We also added Helmut Pflaum as Managing Director of Data I/O GmbH and Director of European Sales early in 2014. During the year we consolidated other management roles to streamline the company and control our expenses. Our restructuring actions have reduced expenses by over \$1M annually.

2014 will continue our multiyear plan. We will ramp sales and production of the PSV7000 automated programming system. We will introduce additional new products and features that reduce the total cost of programming across a broad range of markets, geographies and customers. We will reduce spending further from 2013 levels. This should allow us to penetrate new cost sensitive markets for automated systems worldwide, gain market share and improve profitability.

Data I/O remains focused on the core business of programming solutions and associated software. We are delivering the world's most advanced programming systems, competing effectively worldwide, attracting the best people and managing costs everywhere.

Anthony Ambrose, CEO

Douglas Brown, Chairman

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

(Mark One)

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2013**

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
(State or other jurisdiction of incorporation)

91-0864123
(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 principal executive offices and telephone number, including area code)

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

Title of each class
Common Stock (No Par Value)

Name of each exchange on which registered
Nasdaq Capital Market

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ___ No ☒

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No ☒

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 ☒ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ 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. ___

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 ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No ☒

Aggregate market value of voting and non-voting common equity held
by non-affiliates on the registrant as of June 30, 2013:
\$16,313,002

Shares of Common Stock, no par value, outstanding as of March 20, 2014:
7,788,566

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its May 19, 2014 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, 2013

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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", "We", "Our", "Us") is a global market leader for advanced programming and intellectual property management solutions used in the manufacturing of flash, microcontrollers, and flash-memory-based intelligent devices. Data I/O® designs, manufactures and sells programming systems for electronic device manufacturers, specifically targeting high growth areas such as high-volume users of flash memory 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.

Our mission is to deliver high-value systems, software and services to the expanding programmable semiconductor market by providing a software-rich programming platform for content delivery. These programmable devices are used in products such as smartphones, HDTV, tablets, gaming systems and automobile electronics. These solutions, some of which include intellectual property management, secure content management and process control capabilities, enable us to address the demanding requirements of the electronic device market, where applications and intellectual property protection are essential to our customer's success. Our 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.

Data I/O was incorporated in the State of Washington in 1969 and its business was founded in 1972.

Industry Background

We enable companies to improve productivity and reduce costs by providing device programming solutions that allow our customers to take intellectual property (large design and data files) and protect and program it into memory, microcontroller and logic devices quickly and cost-effectively. We also provide services related to hardware support, system installation and repair, and device programming. Companies that design and manufacture products utilizing programmable electronic devices, ranging from cell phones to automobiles, purchase these solutions from us. Trends of increasing device densities and customers increasing their software content file sizes, combined with the increasing numbers of intelligent devices such as smartphones and tablets, are driving demand for our solutions.

Our automated programming systems integrate both programming and handling functions into a single product solution. Quality conscious customers, particularly those in high-volume manufacturing and programming, continue to drive this portion of our business.

Traditionally, our 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 has shifted in many cases from the number of devices to the number of bits per device to be programmed.

Business Restructure

As a result of the business downturn we were experiencing and a continuing uncertain business outlook in 2012 and 2013, restructuring actions were taken in third quarter of 2012, and in the second and fourth quarters of 2013. These restructuring actions included reductions in personnel as well as the use of contractors, professionals and consultants; focusing on a smaller number of development projects; and addressing the cost of excess space. These actions have reduced our annual operating expenses or provided flexibility to add other critical resources and change fixed costs to variable costs through outsourcing.

Products

In order to accommodate the expanding variety and quantities of programmable devices being manufactured today, we offer 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. Our products are positioned and viewed as the “gold standard” for advanced programming equipment and intellectual property management solutions. Our new PSV7000 Automated Programming System won the Global Technology Award at Productronica in November 2013. Our RoadRunner3 with Factory Integration Software won the Circuits Assembly NPI Award in February of 2012.

Our programming solutions include a broad range of products, systems, modules and accessories, grouped into two general categories: automated programming systems and manual programming systems. We provide two main categories of automated programming systems: off-line and in-line. Our automated systems have list selling prices ranging from \$65,000 to \$628,100 and our manual systems have list selling prices ranging from \$675 to \$32,400. Our common programming platform, FlashCORE™, and our universal job setup tool, Tasklink™ for Windows®, are available in each family of our automated programming systems and FlashPAK™. 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.

Our products have both an upfront solution sale and recurring revenue elements. Adapters are a consumable item and software and maintenance are typically recurring under annual subscription contracts. We experienced a larger percentage of capital equipment sales in 2013 compared to 2012, which we believe was primarily due to a rebound in capital spending.

Sales Percentage of Total Sales Breakdown by Type			
Sales Type	2013	2012	Drivers
Equipment Sales	58%	52%	Capacity, Process improvement, Technology
Adapter Sales	28%	31%	Capacity utilization, New customer products
Software and Maintenance Sales	14%	17%	Installed base, Added capabilities
Total	100%	100%	

The table below presents our main products and the key features that benefit our customers:

Products	Key Features	Customer Benefits
PSV & PS Series: Off-line Medium/High Volume, High Mix (Automated)	<ul style="list-style-type: none"> Fast program and verify speeds Up to 96 programming sites Up to 2000 device per hour throughput Supports multiple media types Supports quality options – fiber laser, 3D coplanarity Factory Integration Software & other Software 	<ul style="list-style-type: none"> High throughput for high density Flash programming High flexibility with respect to I/O options (tube, tray, tape), marking/labeling and vision for coplanarity inspection
RoadRunner & RoadRunner3 Series: In-line, (Automated)	<ul style="list-style-type: none"> Just-in-time in-line programming Direct integration with placement machine supporting SIPLACE, Fuji NXT, Panasonic, Universal/Genesis, Assembleon, and MYDATA Parallel Programming Factory Integration Software 	<ul style="list-style-type: none"> Dramatic reduction in inventory carrying and rework costs “Zero” footprint Rapid return on investment (“ROI”) typically realized in a matter of months Integration with factory systems
FLX500 & FLXHD: Off-line, Moderate Volume (Automated)	<ul style="list-style-type: none"> Fast changeover times Self-learning “plug-and-play” operation Language-independent graphic user interface FLXHD supports 40 duplication sites 	<ul style="list-style-type: none"> Affordable automation Modular, easy to configure Intuitive, easy to use graphical user interface Small footprint

FlashPAK III: Off-line, Low Mix, Low Volume (Non-Automated)	<ul style="list-style-type: none"> Scalability Network control via Ethernet Stand-alone operation or PC compatible Parallel programming 	<ul style="list-style-type: none"> Validate designs before moving down the firmware supply chain Unmatched ease of use in manual production systems
Sprint/Unifamily: Off-line, Low Volume and Engineering (Non-Automated)	<ul style="list-style-type: none"> Breadth of device coverage 	<ul style="list-style-type: none"> Universal programmer

Customers

We sell our solutions to customers worldwide, many of whom are world-class manufacturers of electronic devices used in a broad range of industries, as described in the following table:

Customer Types					
	OEMs			EMS	Programming Centers
	Wireless & Consumer Electronics	Automotive Electronics	Industrial & Process Control Electronics	Contract Manufacturers	
Notable end customers	LG, Motorola, Blackberry, Sony, HTC, Microsoft, ZTE, Amazon	Delphi, Bosch, Continental, Johnson Controls, Visteon, Kostal, Harman Becker, Panasonic, Siemens, Magna	Square D, Danfoss, Philips, Schneider, Endress+Hauser, Pilz, Insta, Carrier	Pegatron, Flextronics, Jabil, Wistron, Sanmina SCI, Foxconn, Leysys, Calcomp	Arrow, Avnet, BTV, MSC, HTV, CPS, EPS, Elmitech
Business drivers	GPS, Digital Rights Management, security, flash media, video, LTE/4G networks, applications, features & functionality of converged devices	Safety, navigation and infotainment devices, drive-by-wire, increased electronic content	Higher functionality driven by increasing electronic content. Internet of Things.	Acquisition of OEM factories, production contract wins	Value-added services, logistics
Programming equipment drivers	Rollout of new products that incorporate higher functionality, more memory and new technology, e.g. e-MMC	Process improvement and simplification, new product rollouts, growing file sizes, quality control and traceability	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
Buying criteria	Throughput, technical capability to support evolving technology, global support, intellectual property protection, robust algorithms, low cost	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, device support availability

Our solutions address the programming of devices. Semiconductor devices are a large, growing market, both in terms of devices and bits programmed. According to World Semiconductor Trade Statistics ("WSTS") in February 2014,

semiconductor device revenues experienced a 4.8% increase for the full year 2013 compared to 2012, primarily spurred by consistent, steady growth across nearly all regions and product categories. For 2014, a 4.1% semiconductor revenue growth is forecast according to WSTS. Semiconductor Industry Association (“SIA”), which represents U.S. semiconductor companies, recently reported the highest ever sales for the month of January, which marks over 11 straight months of year over year growth. Markets that are expected to be key growth drivers include smartphones, tablets, e-readers, portable media players, set top boxes, televisions, automotive electronics, and new household appliances filled with electronics. The demand for more electronics is a trend, and this growth is driving the semiconductor industry.

We believe that our sales are driven by many of the same forces that propel the semiconductor industry. We sell to the same firms that buy the semiconductors. When their business grows, they buy more semiconductors which, in turn, require additional programming equipment to maintain production speeds or program new device technologies, driving demand for our products or alternative programming methods.

Our device programming solutions currently target two high growth, high volume markets: flash for mobile wireless and consumer electronic devices and microcontrollers for automotive electronics and industrial controls.

Growth drivers of flash in Mobile Devices

- Flash unit volume experiencing explosive growth
- Increasing usage of NAND, especially managed NAND like e-MMC
- Densities continue to increase, driving the need for more advanced and secure programming capabilities
- Higher densities driving new usage models such as tablet computers
- The continuing shift to smartphones like iPhone, Android and new low cost smartphones
- Shift to lower process geometries for eMMC flash, requiring more advanced data retention strategies

Growth drivers of microcontrollers and flash in Automotive

- Consumers desire advanced car features requiring higher levels of sophistication including infotainment products (audio, radio, satellite, navigation and wireless connectivity) as well as 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 require programming

Increasingly, OEMs in consumer electronics 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 versions. 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. Data I/O, with its comprehensive programming solutions, provides OEMs with the ability to manage, monitor, audit and secure the software supply chain.

During 2013, we sold products to over 500 customers throughout the world. The following customers represented greater than 10% of sales in the applicable year:

2013	Two customers, Data Copy Limited, our distributor in China and Di-Tek Corporation, our distributor in Korea accounted for approximately 14% and 13% of 2013 net sales, respectively. Blackberry (formerly Research in Motion) did not directly account for greater than 10% of sales in 2013. However, they influenced business through their EMS contract manufacturing partners that we believe combined accounted for between 10-15% of 2013 net sales.
2012	Data Copy Limited accounted for approximately 11% of 2012 net sales.
2011	Data Copy Limited accounted for approximately 11% of 2011 net sales.

The following customers represented greater than 10% of our consolidated accounts receivable balance as of December 31 of the applicable year:

- 2013 Avnet accounted for approximately 12% of our consolidated accounts receivable.
- 2012 Three customers, Data Copy Limited, Delphi and Jabil accounted for approximately 16%, 11% and 10% of our consolidated accounts receivable, respectively.
- 2011 Panasonic accounted for approximately 10% of our consolidated accounts receivable.

Geographic Markets and Distribution

We market and sell 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 and realign them as necessary to ensure that we reach our existing and potential customers in the most effective and efficient manner possible.

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 direct telesales. Our U.S. independent sales representatives obtain orders on an agency basis, with shipments made directly to the customer by us. Net sales in the United States for 2013, 2012 and 2011 were \$2,331,000, \$2,835,000 and \$2,724,000, respectively.

International Sales

International sales represented approximately 88%, 83%, and 90% of net sales in 2013, 2012 and 2011, respectively. We make foreign sales through our wholly-owned subsidiaries in Germany and China, as well as through independent distributors and sales representatives located in 46 other countries. Our independent foreign distributors purchase our 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 international sales for 2013, 2012 and 2011 were \$16,386,000, \$14,250,000 and \$23,942,000, respectively. We determine total international 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. International 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. We have not made sales to Iran or any Iranian governmental entities.

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 international 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 U.S. 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. In particular, low cost automated solutions have gained market share in recent years, where the competition is primarily based on price. Typically, their equipment meets a "good enough" standard, but with reduced quality, traceability, and other software features such as factory integration software. Many of these competitors compete on a regional basis, with local language and support. While we are not aware of any published industry market information covering the programming systems market, according to our internal analysis of competitors' revenues, we believe we continue to be the largest competitor in the programming systems equipment market.

We primarily focus on automated programming solutions and believe our 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 Test Equipment	Outsourced Programming	Duplicators	Manual Programming*
Eliminates production bottlenecks	x		x		
Requires few internal engineering resources	x		x	x	x
Programs large files quickly	x		x	x	
Supports multiple devices per board easily	x		x	x	x
Supports multiple boards per panel easily	x		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			
Programs after placement of device on board		x			
Integrates with factory software systems	x	x			

* Data I/O also offers manual programming solutions.

Manufacturing, Raw Materials and Backlog

We strive to manufacture and provide the best solutions for advanced programming. We primarily assemble and test our products at our principal facility in Redmond, Washington and we outsource our circuit board manufacturing and fabrication. Most of our FlashCORE adapter production is produced in China. We use a combination of standard components, proprietary custom integrated circuits (“ICs”) and fabricated parts manufactured to our specifications. 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 price increases, minimum order quantities and 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 \$1,900,000, \$900,000 and \$800,000 as of December 31, 2013, 2012 and 2011, respectively. The size of backlog at any particular date is not necessarily a meaningful indicator of the trend of our business.

Research and Development

We believe 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. Where possible, we may pursue partnerships to add new products, capabilities and services. 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, and new software capabilities. We also continue to 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. In 2013, our research and development efforts resulted in the release of our new PSV7000, the world's most advanced programming system. The PSV7000 can cut the cost of programming by up to 50% and represents new capabilities to handle and program small parts.

During 2013, 2012 and 2011, we made expenditures for research and development of \$4,586,000, \$5,564,000 and \$5,470,000, respectively, representing 24.5%, 32.6% and 20.5% of net sales, respectively. Research and development costs are expensed as incurred.

Patents, Copyrights, Trademarks and Licenses

We rely 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 new technologies.

We attempt to protect our rights in proprietary software products, including TaskLink, Factory Integration 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. Our software products are not typically sold separately from sales of programming systems. However, on those occasions where software is sold separately, revenue is recognized when a sales agreement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. For certain contract software development projects, revenue is recognized using the percentage-of-completion methodology.

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, 2013, we had a total of 82 employees, of which 37 were located outside the U.S. and 8 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 and 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.

Executive Officers of the Registrant

Set forth below is certain information concerning the executive officers of Data I/O as of March 20, 2014:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Anthony Ambrose	52	President and Chief Executive Officer
Joel S. Hatlen	55	Vice President and Chief Financial Officer Secretary and Treasurer
Rajeev Gulati	50	Chief Technology Officer, Vice President of Engineering

Anthony Ambrose joined Data I/O in October 2012 and is our President and Chief Executive Officer. He was appointed to the Board of Directors of Data I/O in October 2012. Prior to Data I/O, Anthony was Owner and Principal of Cedar Mill Partners, LLC, a strategy consulting firm. Until 2011, he was Vice President and General Manager at RadiSys Corporation where he led three product divisions and worldwide engineering. At RadiSys, he established the telecom platform business and grew it to over \$125M in annual revenues. Until 2007, Anthony was general manager and held several other progressively responsible positions at Intel Corporation, where he led development and marketing of standards based telecommunications platforms, and grew the industry standard server business to over \$1B in revenues. Anthony holds a Bachelors of Science in Engineering from Princeton University.

Joel S. Hatlen joined Data I/O in September 1991 and is our Vice President, Chief Financial Officer, Secretary and Treasurer since January 1998. He served as Chief Accounting Officer since February 1997 and served as Corporate Controller from December 1993 to December 1997. Previously, he was Tax Manager and Senior Tax Accountant. From September 1981 until joining Data I/O, Mr. Hatlen was employed by Ernst & Young LLP as a Certified Public Accountant, where his most recent position was Senior Manager. Joel holds a Masters in Taxation from Golden Gate University and a Bachelors in Business Administration in Accounting from Pacific Lutheran University.

Rajeev Gulati joined Data I/O in July 2013 and is our Chief Technology Officer and Vice President of Engineering. Prior to Data I/O, Rajeev served as Director of Software Engineering for AMD responsible for tools, compiler strategy and execution from 2006 to 2013. He has an extensive background in software, systems and applying technology to develop new markets. Previously, he served as Director of Strategy and Planning at Freescale from 2004 to 2006; as Director of Embedded Products at Metrowerks (acquired by Motorola) from 2000 to 2004 and Director of Compilers, Libraries & Performance Tools from 1997 to 2000; and engineering and programmer positions at Apple Computer, IBM and Pacific-Sierra Research. Rajeev holds a Master of Science in Electrical & Computer Engineering from the University of Texas, Austin and a BE in Electrical Engineering from Delhi College of Engineering, New Delhi.

Item 1A. Risk Factors

Cautionary Factors That May Affect Future Results

Our 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 we make on related subjects in our 10-Q, 8-K and 10-K reports to the SEC and press releases. Also, note that we provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect us. 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 and delayed or defaulted 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 a 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 or increased costs.

We develop 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 handling systems
- inability to hire qualified personnel or turnover in existing personnel
- delays or failures to perform by us or third parties involved in our development projects
- development of new products or services that are not accepted by the market

These problems may result in a decline in sales or increased costs.

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

Our 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 and timing of development expenditures
- 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
- timing of significant orders
- sales channel mix of direct vs. indirect distribution
- civil unrest, war or terrorism

- health issues (such as the outbreak of a virus impacting workers or travel)
- customers' budgets
- adverse movements in exchange rates, interest rates or tax rates
- cyclical and seasonal 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 any of the foregoing factors, it is possible that in some future quarters, our operating results will be below expectations of analysts and investors.

Government regulations regarding the use of "conflict" minerals could adversely affect our prospects and results of operations.

Regulatory requirements regarding disclosure of our use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries could affect the sourcing and availability of minerals used in the manufacture of certain products. Although we do not buy raw materials, manufacture, or produce any electronic equipment using conflict minerals directly, some components provided by our suppliers and contained in our products contain conflict minerals. Our goal is for our products to be conflict free. As a result, there may only be a limited pool of suppliers who provide conflict free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Single source suppliers may not respond or respond negatively regarding conflict mineral sourcing and we may be unable to find alternative sources to replace them. Also, because our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins for all metals used in the products that we sell. Further, if we are unable to comply with the new laws or regulations or if our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us. We may need to incur additional costs and invest additional resources, including management's time, in order to comply with the new regulations and anticipated additional reporting and disclosure obligations.

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

Product and service technology in our 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 and trends 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, particularly certain segments of the high density NAND and e-MMC markets where after placement programming is recommended by the semiconductor manufacturers
- Reduction in semiconductor process geometries for Multi Level Cell (MLC) and Triple Level Cell (TLC) NAND and eMMC FLASH memories impact the product data retention through SMT reflow. Improper SMT process control can negatively impact the end customer's ability to successfully program devices prior to placement in manufacturing. This can cause them to change their programming methods away from pre-programming to post placement programming techniques, including ISP. Data I/O is working with semiconductor manufacturers to develop best practices to minimize the impact of reflow induced data loss.
- 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 three of the last five years and five of the last ten years. We operate in a cyclical industry. We will continue to examine our level of operating expense based upon our projected revenues. Any planned increases in operating expenses may result in losses in future periods if projected revenues are not achieved. As a result, we may need to generate greater revenues than we have recently in order to achieve and maintain profitability. However, we cannot provide assurance that our revenues will increase and our business strategies may not be successful, resulting in future losses.

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

Our past revenues have sometimes been, and our future revenues may again 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, lease 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 that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through at least the next one-year period. We may require additional cash for U.S. operations, causing potential repatriation of cash from the \$8.3 million held in our foreign subsidiaries. Although we have no current repatriation plans, there may be tax and other impediments to any repatriation actions. Our working capital may be used to fund possible losses, business growth, project initiatives, share repurchases and business development initiatives including acquisitions, which could reduce our liquidity and result in a requirement for additional cash before that time. 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.

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 and our financial results, we 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. As technology changes occur that limit the effectiveness of pre-placement programming, particularly for very small high density NAND and e-MMC devices, certain semiconductor manufacturers are not recommending or may not continue recommending our programming systems for these devices. 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 impact their ability to service our 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 have a materially adverse effect on our business. For suppliers who discontinue parts, we may be required to make lifetime purchases covering future requirements. Over estimation of demand or excessive minimum order quantities will lead to excess inventories that may become obsolete.

Certain of our sockets, parts and boards are currently manufactured to our specifications by third-party foreign contract manufacturers and we are sourcing certain parts or options from foreign manufacturers. We may not be able to obtain a sufficient quantity of these products if and when needed or the quality of these parts or options may not meet our standards, which may result in lost sales.

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

We have an internal sales force and also utilize third-party distributors and representatives. Therefore, the financial stability of these distributors and representatives is important. Their ability to operate, timely pay us, 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 and representatives 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 and representatives. Our business will suffer if we cannot attract and retain a sufficient number of qualified third-party distributors and representatives to market our products.

Our international operations may expose us to additional risks that may adversely affect our business.

International sales represented approximately 88%, 83% and 90% of our net revenue for the fiscal years ended December 31, 2013, 2012 and 2011, 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:

- economic uncertainty related to the European sovereign debt situation
- 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
- civil unrest, 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 as a result of payment practices of certain foreign customers, economic uncertainty and regulations in foreign countries, the availability and reliability of foreign credit information, and potential difficulties in enforcing collection terms.

The European Union and European Free Trade Association ("EU") has established certain electronic emission and product safety requirements ("CE"). As applicable, our products currently meet these requirements; however, 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") and we believe we are classified within the EU RoHS Directive category list as Industrial Monitoring and Control Equipment (category 9), which is out of scope until the

enforcement date of July 2017. Failure to meet applicable directives or qualifying exemptions 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 and any restrictions imposed on their currencies including restrictions on repatriations of cash. Any repatriation of cash could result in tax costs and corresponding deferred tax assets with related tax valuation allowances. Currency exchange fluctuations in these countries may adversely affect our investment in our subsidiaries.

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

We rely 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 our user interface, product firmware, software module options 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.

We may pursue business acquisitions that could impair our financial position and profitability.

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 acquisition
- diverting management's attention from other business concerns
- failing to successfully integrate or monetize the acquired products or technologies
- 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 our 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.

The loss of key employees may adversely affect our operations.

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 "FSCO" labor agreement and we could be adversely affected if we were unable to continue that arrangement.

Failure to comply with regulatory requirements may adversely affect our stock price and business.

As a public company, we are subject to numerous governmental and stock exchange requirements, with which we believe we are in compliance. 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.

The Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission (SEC) have requirements that we may fail to meet 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 currently required to comply as we are a smaller reporting company. We assume that we 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, 2013. 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.

While we have policies and procedures in place designed to prevent corruption and bribery, because our business is significantly international, violations of the Foreign Corrupt Practices Act (FCPA) could have a significant adverse effect on our business due to the disruption and distraction of an investigation, financial penalties and criminal penalties.

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 our 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 our Common Stock.

Cyber security breaches or terrorism could result in liabilities or costs as well as damage to or loss of our data or customer access to our website and information systems. The collection, storage, transmission, use and disclosure of user data and personal information, if accessed improperly, could give rise to liabilities or additional costs as a result of laws, governmental regulations and evolving views of personal privacy rights.

Cyber security breaches or terrorism could result in the exposure or theft of private or confidential information as well as interrupt our business, including denying customer access to our website and information systems. We transmit, and in some cases store, end-user data, including personal information. In jurisdictions around the world, personal information is becoming increasingly subject to legislation and regulations intended to protect consumers' privacy and security. The interpretation of privacy and data protection laws and regulations regarding the collection, storage, transmission, use and disclosure of such information in some jurisdictions is unclear and evolving. These laws may be interpreted and applied in conflicting ways from country to country and in a manner that is not consistent with our current data protection practices. Complying with these varying international requirements could cause us to incur additional costs and change our business practices. Because our services are accessible in many foreign jurisdictions, some of these jurisdictions may claim that we are required to comply with their laws, even where we have no local entity, employees or infrastructure. We could be forced to incur significant expenses if we were required to modify our products, our services or our existing security and privacy procedures in order to comply with new or expanded regulations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We amended our lease agreement for the Redmond, Washington headquarters facility effective February 1, 2011, extending the term to August 2016, lowering the square footage to 32,646 and lowering the rental rate. The lease square footage increased to 33,676 effective February 1, 2014. The lease base annual rental payments during 2013, 2012 and 2011 were approximately \$501,000, \$487,000, and \$326,000, respectively.

In addition to the Redmond facility, approximately 11,000 square feet is leased at two foreign locations, including our German sales, service and engineering operations located in Munich, Germany, under a five-year lease starting in 2010, and a sales, service, operations and engineering office located in Shanghai, China under a one-year lease starting in 2013.

Item 3. Legal Proceedings

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 of December 31, 2013, we were a party to two employee restructuring related separation claims, which have been accrued in our restructuring charges. We were not a party to any other 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.

Item 4. Mine Safety Disclosures

Not Applicable.

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 our Common Stock as reported by the NASDAQ Capital Market (NASDAQ symbol is DAIO). The closing price was \$2.57 on December 31, 2013.

	<u>Period</u>	<u>High</u>	<u>Low</u>
2013	Fourth Quarter	\$3.25	\$2.27
	Third Quarter	3.24	2.02
	Second Quarter	2.25	1.41
	First Quarter	1.92	1.41
2012	Fourth Quarter	\$2.50	\$1.39
	Third Quarter	2.94	2.03
	Second Quarter	3.92	2.38
	First Quarter	4.39	3.60

The approximate number of shareholders of record as of March 20, 2014 was 501.

Except for special cash dividend of \$4.15 per share paid on March 8, 1989, we have not paid cash dividends on our Common Stock and do not anticipate paying regular cash dividends in the foreseeable future.

No sales of unregistered securities were made by us during the periods ended December 31, 2013 and 2012.

Pursuant to NASDAQ rules, the initial equity compensation for Anthony Ambrose was approved by the independent directors and was classified as an employment inducement grant on October 25, 2012 consisting of 200,000 Non-Qualified Stock Options vesting quarterly over 4 years with a 6 year life and a 75,000 Restricted Stock Award vesting annually over 4 years.

Pursuant to NASDAQ rules, the initial equity compensation for Rajeev Gulati was approved by the independent directors and was classified as an employment inducement grant on July 26, 2013 consisting of 100,000 Non-Qualified Stock Options vesting quarterly over 4 years with a 6 year life.

See Item 12 for the Equity Compensation Plan Information.

ISSUER PURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program
<u>\$1 million program dated October 20, 2011:</u>				
November 2011	32,068	\$3.88	32,068	\$874,328
December 2011	30,848	\$4.07	30,848	\$747,463
January 2012 (1)	10,581	\$3.90	10,581	\$0
<u>\$6 million program dated January 9, 2012:</u>				
January 2012	171,832	\$4.18	171,832	\$5,274,294
February 2012	243,862	\$4.25	243,862	\$4,228,920
March 2012 (2)	1,056,514	\$3.95	1,056,514	\$0
Total	<u>1,545,705</u>	<u>\$4.02</u>	<u>1,545,705</u>	

(1) Program terminated January 13, 2012

(2) Program terminated March 26, 2012

On October 20, 2011, we announced a stock repurchase program to buy back up to \$1 million dollars of stock over four quarters. Through December 31, 2011, we repurchased 62,916 shares of stock at an average price of \$3.97 for a total repurchase amount of \$249,986 plus \$2,517 in commissions. On January 9, 2012, our board of directors approved a new and expanded 2012 share repurchase program with provisions to buy back up to \$6 million dollars of stock. The program included establishing a Rule 10b5-1 plan under the Exchange Act to provide flexibility to make purchases at any time. The 10b5-1 trading plan allows us to repurchase our common stock in the open market during periods in which stock trading is otherwise closed for us. On January 13, 2012, the October 2011 stock repurchase program was terminated and the new expanded program went into effect. On March 26, 2012 this program was terminated and no further stock repurchase programs went into effect during the remainder of 2012 or 2013.

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 we believe 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. We are 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 have renewed our focus on managing the core programming business to return to profitability, while developing and enhancing products to drive future revenue and earnings growth. Our challenge continues to be operating in a cyclical and rapidly evolving industry environment. After starting the third quarter well, bookings decelerated and were softer than expected until December when we saw an increase in the business. We continue to see economic uncertainty in many countries and markets. 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. We continued to manage our cost structure down by taking restructure actions during the second and fourth quarters of 2013.

We are focusing our research and development efforts in our strategic growth markets, namely new programming technology, automated programming systems for the manufacturing environment and software. We continue to focus on extending the capabilities and support for our product lines and supporting the latest semiconductor devices, including NAND Flash, e-MMC, and microcontrollers on our newer products. In September 2013, we announced our new PSV7000, Data I/O's most advanced programming system which can cut the cost of programming by up to 50% and represents new capabilities to handle and program small parts.

Our customer focus has been on strategic high volume manufacturers in key market segments like wireless and consumer electronics, automotive electronics and industrial controls as well as programming centers.

BUSINESS RESTRUCTURING PROGRESS

As a result of the business downturn we experienced in the second half of 2011 and in 2012, as well as the uncertain business outlook at the time, we took restructuring actions in September 2012 to reduce quarterly operating expenses and production costs. These actions included reductions in personnel and the use of contractors, professionals, and consultants, as well as focusing our development efforts on a smaller number of projects. The net restructuring charge in 2012 associated with these actions was \$207,000 and was primarily related to severance. The remaining 2012 restructuring actions were completely paid out during the first quarter of 2013.

During the second quarter of 2013, we took additional restructuring actions to reduce our excess office space and eliminate certain job positions. These actions resulted in restructuring costs of \$642,000 for the second quarter. The positions eliminated will allow us to have the flexibility to add other critical positions or change fixed to variable costs through outsourcing. The net effect of the space and personnel reductions, offset in part by the other planned additions, will be to reduce annual operating expenses by approximately \$300,000 and these actions have been fully implemented.

During the fourth quarter of 2013, we took additional restructuring actions focused primarily on reducing layers of management and moving management closer to sales channels and customers. The restructure actions eliminate certain job positions and in some cases allow the company to have the flexibility to add other critical positions. These actions resulted in restructuring costs of \$541,000 for the fourth quarter. The net effect of the restructure actions, offset in part by planned personnel additions, will be to reduce annual operating expenses by approximately \$750,000 when fully implemented by the end of the first quarter of 2014.

The portion of the restructure reserve expected to be paid during 2014 is \$723,000. The long term portion is \$150,000 and relates to the lease abandonment payments that are expected to be completely paid by July 2016.

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, we evaluate our estimates, including those related to sales returns, bad debts, inventories, 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.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements:

Revenue Recognition: We recognize revenue at the time the product is shipped. We have determined that our programming equipment has 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.

The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment. 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.

We enter into multiple deliverables arrangements that arise during the sale of a system that includes an installation component, a service and support component and a software maintenance component. We allocate the value of each element based on relative selling prices. Relative selling price is based on the selling price of the standalone system. For the installation and service and support components, we use what we charge to distributors who perform these components. For software maintenance components, we use what we charge for annual software maintenance renewals after the initial year the system is sold. Revenue is recognized on the system sale based on shipping terms, installation revenue is recognized after the installation is performed, and hardware service and support and software maintenance revenue is recognized ratably over the term of the agreement, typically one year.

When we sell software separately, we recognize software revenue upon shipment provided that only inconsequential obligations remain on our part and substantive acceptance conditions, if any, have been met.

We recognize revenue when persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, the buyer has paid or is obligated to pay, collectability is reasonably assured, substantive acceptance conditions, if any, have been met, 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 us and we do not have significant obligations for future performance to directly bring about the resale of the product by the buyer. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items.

We transfer certain products out of service from their internal use and make 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.

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. Adjustments are made to standard cost, which approximates actual 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 inventory adjustments 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, we may be required to increase our inventory adjustments and our gross margin could be adversely affected.

Warranty Accruals: We accrue 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 history of losses, 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 accounting for uncertain tax positions and maintain the tax valuation allowances. At the current time, 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 account for share-based awards made to our employees and directors, including employee stock option awards and restricted stock awards, using the estimated grant date fair value method of accounting. 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 our 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. Employee Stock Purchase Plan ("ESPP") shares were issued under provisions that do not require us to record any equity compensation expense.

RESULTS OF OPERATIONS:

NET SALES

Net sales by product line (in thousands)	2013	Change	2012
Automated programming systems	\$12,173	13.0%	\$10,772
Non-automated programming systems	6,544	3.7%	6,313
Total programming systems	<u>\$18,717</u>	<u>9.6%</u>	<u>\$17,085</u>
Net sales by location (in thousands)	2013	Change	2012
United States	\$2,331	(17.8%)	\$2,835
% of total	12.5%		16.6%
International	\$16,386	15.0%	\$14,250
% of total	87.5%		83.4%

Net sales increased 9.6% to \$18.7 million for the year ended December 31, 2013, from \$17.1 million in 2012. On a regional basis, net sales increased 46% in Asia and 14% in the Americas, while declining 18% in Europe compared to 2012. On a product basis, sales increased by 66% for FLX, 41% for FlashPak and 20% for PS systems, while slightly declining or flat for our legacy (Unifamily and Sprint) products compared to 2012. We had the first sale of the PSV7000 our newest automated programming system.

Order bookings were \$19.5 million for 2013 up 14.4% compared to \$17.1 million in 2012. Backlog at December 31, 2013 and 2012 was \$1.9 million and \$0.9 million, respectively.

GROSS MARGIN

(in thousands)	2013	Change	2012
Gross margin	\$9,510	10.1%	\$8,638
Percentage of net sales	50.8%		50.6%

Gross margin as a percentage of sales for the year ended December 31, 2013 was 50.8%, compared to 50.6% in 2012. The change was primarily due to the higher sales volume and savings from restructure actions offset in part by a change in mix, customer discounts and unfavorable factory labor and overhead application variances.

RESEARCH AND DEVELOPMENT

(in thousands)	2013	Change	2012
Research and development	\$4,586	(17.6%)	\$5,564
Percentage of net sales	24.5%		32.6%

Research and development ("R&D") decreased by \$978,000 for the year ended December 31, 2013 compared to 2012, primarily due to the elimination of most of the amortization and expenses related to the former Azido initiative; savings from restructuring personnel reductions during 2013 and the third quarter of 2012; and reduced use of contractors for R&D efforts.

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 on solutions for strategic growth markets, including new programming technology, automated programming systems for the manufacturing environment and extending the capabilities and support for our programmer architecture.

Our R&D spending fluctuates based on the number, type, and the development stage of our product initiatives and projects.

SELLING, GENERAL AND ADMINISTRATIVE

	2013	Change	2012
(in thousands)			
Selling, general & administrative	\$6,378	(14.4%)	\$7,450
Percentage of net sales	34.1%		43.6%

Selling, General and Administrative (“SG&A”) expenses decreased \$1,072,000 for the year ended December 31, 2013 compared to 2012. The decrease was primarily related to the CEO search firm and separation pay expense of \$496,000 in 2012; savings from personnel and contractor reductions from the September 2012 restructuring actions; and cost control actions. Partially offsetting the savings were higher commissions, primarily related to the sales volume, as well as incentive pay in 2013, which we did not have in 2012.

IMPAIRMENT CHARGE

In 2012 and again in 2013, year-end impairment evaluations were performed. We evaluated changes in Azido projects and projected cash flows which decreased or eliminated our expected future cash flows related to Azido technology’s use or disposition. Based on these evaluations, impairment charges of \$31,000 and \$2.3 million were taken against this software technology for the years ending December 31, 2013 and 2012, respectively. As of December 31, 2013, the Azido technology net carrying value is \$0.

INTEREST

	2013	Change	2012
(in thousands)			
Interest income	\$160	(45.0%)	\$291

Interest income decreased by \$131,000 for the twelve month period ending December 31, 2013 compared to the same period in 2012 primarily due to interest received related to foreign income tax refunds that occurred in 2012.

INCOME TAXES

	2013	Change	2012
(in thousands)			
Income tax (expense) benefit	\$8	(97.6%)	\$327

Income tax benefit decreased by \$319,000 for the twelve month period ending December 31, 2013 compared to 2012 primarily from refund settlements of foreign income taxes during 2012.

The effective tax rate differed from the statutory tax rate primarily due to the effect of valuation allowances, as well as foreign taxes. We have a valuation allowance of \$12.0 million and \$10.7 million as of December 31, 2013 and 2012, respectively. Our deferred tax assets and valuation allowance have been reduced by approximately \$180,000 and \$132,000 associated with the requirements of accounting for uncertain tax positions as of December 31, 2013 and 2012, respectively. Given the uncertainty created by our loss history and the cyclical nature of the industry in which we operate, 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 (\$76,000) and (\$106,000) in 2013 and 2012, respectively. The transaction gains or losses resulted primarily from

translation adjustments to foreign inter-company accounts and US dollar accounts held by foreign subsidiaries; sales by our German subsidiary to certain customers, which were invoiced in US dollars; and Brazilian intercompany balances.

FINANCIAL CONDITION:

LIQUIDITY AND CAPITAL RESOURCES

	<u>2013</u>	<u>Change</u>	<u>2012</u>
(in thousands)			
Working capital	\$12,244	(\$1,593)	\$13,837

At December 31, 2013, our principal sources of liquidity consisted of existing cash and cash equivalents. Our working capital decreased by \$1,593,000 for the twelve month period ending December 31, 2013. Our current ratio was 3.8 and 4.6 for December 31, 2013 and 2012, respectively.

For the twelve month period ending December 31, 2013, our cash position declined \$102,000 primarily due to funding the loss, partially offset by other working capital changes and non-cash expenses.

Although we have no significant external capital expenditure plans currently, we expect that we will continue to make capital expenditures to support our business. We plan to increase our internally developed sales demonstration and R&D test equipment as we develop and release new products. Capital expenditures are expected to be funded by existing and internally generated funds or lease financing.

As a result of our significant product development, customer support, selling and marketing efforts, we have required substantial working capital to fund our operations. Over the last few years and again during 2013, we restructured our operations to lower our costs and operating expenditures in some geographic regions, while investing in other regions. We have created the opportunity: to hire critical product development resources; to lower the level of revenue required for our net income breakeven point; to offset in part, costs rising over time; to preserve our cash position, and to focus on profitable operations. See “Business Restructuring Progress” discussion above for future expected restructuring related payments.

We believe that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through at least the next one-year period. We may require additional cash for U.S. operations, causing potential repatriation of cash from the \$8.3 million held in our foreign subsidiaries. Although we have no current repatriation plans, there may be tax and other impediments to any repatriation actions. Our working capital may be used to fund possible losses, business growth, project initiatives, share repurchases and business development initiatives including acquisitions, which could reduce our liquidity and result in a requirement for additional cash before that time. 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.

OFF-BALANCE SHEET ARRANGEMENTS

Except as noted in the accompanying consolidated financial statements in Note 8, “Operating Lease Commitments” and Note 9, “Other Commitments”, we had no off-balance sheet arrangements.

SHARE REPURCHASE PROGRAM

On October 20, 2011, we announced a stock repurchase program to buy back up to \$1 million dollars of stock over four quarters. Through December 31, 2011, we repurchased 62,916 shares of stock at an average price of \$3.97 for a total repurchase amount of \$249,986 plus \$2,551 in commissions. For the year ended December 31, 2012 an additional 10,581 shares were repurchased under this plan at an average price of \$3.90 for a total repurchase amount of \$41,274 plus \$432 in commissions. Since this program began, we have repurchased 73,497 shares of stock at an average price of \$3.96 for a total of \$291,260 plus \$2,983 in commissions. On January 13, 2012, this stock repurchase program was terminated.

On January 9, 2012, our board of directors approved a new and expanded 2012 share repurchase program with provisions to buy back up to \$6 million dollars of stock. The program included establishing a Rule 10b5-1 plan under the Exchange Act to provide flexibility to make purchases at any time. The 10b5-1 trading plan allows us to repurchase our common stock in

the open market during periods in which stock trading is otherwise closed for us. For the year ended December 31, 2012, 1,472,208 shares of stock have been repurchased at an average price of \$4.03 for a total of \$5,927,937 plus \$56,938 in commissions, completing the program.

No further stock repurchase programs went into effect during the remainder of 2012 or 2013.

NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) FINANCIAL MEASURES

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) was a loss of \$2,097,000 and a loss of \$3,428,000 for the year ended December 31, 2013 and 2012, respectively. EBITDAS (EBITDA excluding stock based compensation) adjusted to exclude restructuring charges was a loss of \$491,000 and a loss of \$2,696,000 for the year ended December 31, 2013 and 2012, respectively. Non-GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our results and facilitate the comparison of results. A reconciliation of net income (loss) to EBITDA and adjusted EBITDAS follows:

	Year Ended December 31,	
	2013	2012
(in thousands)		
Net Income (loss)	(\$2,576)	(\$6,429)
Interest income	(160)	(291)
Taxes	(8)	(327)
Depreciation & amortization, including impairment charge	647	3,619
EBITDA earnings (loss)	(\$2,097)	(\$3,428)
Restructuring Charges	1,183	207
Adjusted EBITDA earnings (loss) excluding restructure charges	(\$914)	(\$3,221)
Stock Based Compensation	423	525
Adjusted EBITDAS earnings (loss) excluding restructure charges	(\$491)	(\$2,696)

NEW ACCOUNTING PRONOUNCEMENTS

In July 2013, the FASB issued ASU 2013-11, *“Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,”* (“ASU 2013-11”), an amendment to ASC 740, “Income Taxes.” ASU 2013-11 clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax benefit is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be netted with the deferred tax asset. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. We do not expect the implementation of this guidance to have a material impact on our financial statements.

In March 2013, the FASB issued ASU 2013-05, *“Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity,”* (“ASU 2013-05”). The objective of ASU 2013-05 is to clarify the applicable guidance for the release into net income of the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. ASU 2013-05 is effective for annual and interim reporting periods beginning after December 15, 2013 with early adoption permitted. We are currently evaluating the impact that the adoption will have on the determination or reporting of our financial results.

In February 2013, the FASB issued ASU No. 2013-02, *“Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.”* Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income (“AOCI”) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 is effective for us on January 1, 2013. The adoption of this update did not 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 27 through 46.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

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, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15 (Schedule II). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits 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 financial position of Data I/O Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related 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 28, 2014

DATA I/O CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$10,426	\$10,528
Trade accounts receivable, net of allowance for doubtful accounts of \$87 and \$89, respectively	1,980	2,648
Inventories	3,770	4,033
Other current assets	395	486
TOTAL CURRENT ASSETS	<u>16,571</u>	<u>17,695</u>
Property, plant and equipment – net	843	1,006
Intangible software technology – net	-	35
Other assets	88	86
TOTAL ASSETS	<u><u>\$17,502</u></u>	<u><u>\$18,822</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$720	\$850
Accrued compensation	1,107	1,183
Deferred revenue	1,170	1,238
Other accrued liabilities	597	539
Accrued costs of business restructuring	723	25
Income taxes payable	10	23
TOTAL CURRENT LIABILITIES	<u>4,327</u>	<u>3,858</u>
Long-term other payables	313	219
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, 7,786,053 shares as of December 31, 2013 and 7,741,686 shares as of December 31, 2012	18,343	17,928
Accumulated earnings (deficit)	(7,042)	(4,466)
Accumulated other comprehensive income	1,561	1,283
TOTAL STOCKHOLDERS' EQUITY	<u>12,862</u>	<u>14,745</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$17,502</u></u>	<u><u>\$18,822</u></u>

See notes to consolidated financial statements

DATA I/O CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	For the Years Ended December 31,	
	2013	2012
Net Sales	\$18,717	\$17,085
Cost of goods sold	9,207	8,447
Gross margin	9,510	8,638
Operating expenses:		
Research and development	4,586	5,564
Selling, general and administrative	6,378	7,450
Impairment charge	31	2,358
Provision for business restructuring	1,183	207
Total operating expenses	12,178	15,579
Operating income (loss)	(2,668)	(6,941)
Non-operating income (expense):		
Interest income	160	291
Foreign currency transaction gain (loss)	(76)	(106)
Total non-operating income (expense)	84	185
Income (loss) before income taxes	(2,584)	(6,756)
Income tax (expense) benefit	8	327
Net income (loss)	(\$2,576)	(\$6,429)
Basic earnings (loss) per share	(\$0.33)	(\$0.80)
Diluted earnings (loss) per share	(\$0.33)	(\$0.80)
Weighted-average basic shares	7,767	7,995
Weighted-average diluted shares	7,767	7,995

See notes to consolidated financial statements

DATA I/O CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	For the Years Ended	
	December 31,	
	2013	2012
Net Income (loss)	(\$2,576)	(\$6,429)
Other comprehensive income:		
Foreign currency translation gain	278	191
Comprehensive income (loss)	<u>(\$2,298)</u>	<u>(\$6,238)</u>

See notes to consolidated financial statements

DATA I/O CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock		Retained	Accumulated	Total
	Shares	Amount	Earnings (Deficit)	and Other Comprehensive Income (Loss)	Stockholders' Equity
Balance at December 31, 2011	9,207,730	\$23,414	\$1,963	\$1,092	\$26,469
Stock options exercised	1,162	-	-	-	-
Repurchased shares	(1,482,789)	(6,026)	-	-	(6,026)
Stock awards issued, net of tax withholding	8,699	(8)	-	-	(8)
Issuance of stock through:					
Employee Stock Purchase Plan	6,884	23	-	-	23
Share-based compensation	-	525	-	-	525
Net income (loss)	-	-	(6,429)	-	(6,429)
Other comprehensive income	-	-	-	191	191
Balance at December 31, 2012	<u>7,741,686</u>	<u>\$17,928</u>	<u>(\$4,466)</u>	<u>\$1,283</u>	<u>\$14,745</u>
Stock awards issued, net of tax withholding	37,241	(25)	-	-	(25)
Issuance of stock through:					
Employee Stock Purchase Plan	7,126	15	-	-	15
Share-based compensation	-	425	-	-	425
Net income (loss)	-	-	(2,576)	-	(2,576)
Other comprehensive income	-	-	-	278	278
Balance at December 31, 2013	<u>7,786,053</u>	<u>\$18,343</u>	<u>(\$7,042)</u>	<u>\$1,561</u>	<u>\$12,862</u>

See notes to consolidated financial statements

DATA I/O CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share amounts)

	For the Years Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	(\$2,576)	(\$6,429)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	613	1,265
Loss on disposal of assets	12	-
Equipment transferred to cost of goods sold	217	150
Share-based compensation	425	525
Impairment charge	31	2,318
Net change in:		
Trade accounts receivable	700	1,710
Inventories	297	(54)
Other current assets	99	61
Accrued cost of business restructuring	854	25
Accounts payable and accrued liabilities	(193)	(574)
Deferred revenue	(91)	(227)
Other long-term liabilities	(56)	(41)
Other long-term assets	3	-
Net cash provided by (used in) operating activities	335	(1,271)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(678)	(492)
Cash provided by (used in) investing activities	(678)	(492)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of tax withholding	(10)	16
Repurchase of common stock	-	(6,026)
Cash provided by (used in) financing activities	(10)	(6,010)
Increase/(decrease) in cash and cash equivalents	(353)	(7,773)
Effects of exchange rate changes on cash	251	181
Cash and cash equivalents at beginning of period	10,528	18,120
Cash and cash equivalents at end of period	<u>\$10,426</u>	<u>\$10,528</u>
Supplemental disclosure of cash flow information:		
Cash paid (received) during the year for:		
Income Taxes	(\$85)	(\$215)
<i>See notes to consolidated financial statements</i>		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Data I/O Corporation (“Data I/O”, “We”, “Our”, “Us”) 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 Far East, Europe and the United States. Our manufacturing operations are currently located in the United States, with most of our FlashCORE adapters manufactured in China.

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 (“U.S. GAAP”) 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.

Significant estimates include:

- Revenue Recognition
- Allowance for Doubtful Accounts
- Inventory
- Warranty Accruals
- Tax Valuation Allowances
- Share-based Compensation

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

All highly liquid investments purchased with an original maturity of 90 days or less are considered cash equivalents. We maintain our cash and cash equivalents with major financial institutions in the United States of America, which are insured by the Federal Deposit Insurance Corporation (FDIC), and foreign jurisdictions. Deposits in U.S. banks exceed the FDIC insurance limit. We have not experienced any losses on our cash and cash equivalents. Cash and cash equivalents held in foreign bank accounts totaled \$8,345,000 at December 31, 2013.

Fair Value of Financial Instruments

Certain financial instruments are carried at cost on the consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and other short-term liabilities.

Accounts Receivable

The majority of our 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. We determine the 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, our previous bad debt experience, the customer's current ability to pay their obligation to us, and the condition of the general economy and the industry as a whole. We write 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 an adjustment (lower of cost or market) accordingly.

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.

We regularly review all of our long-lived assets, including property, plant and equipment and amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the total of future undiscounted cash flows is less than the carrying amount of these assets, an impairment loss, if any, based on the excess of the carrying amount over the fair value of the assets, is recorded. Based on this evaluation, other than the intangible asset software technology impairment noted in Intangible Assets below, no other impairment was noted for long-lived assets for the years ended December 31, 2013 and 2012.

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 impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable using a fair value approach. Based on this evaluation, impairment charges of \$31,000 and \$2.3 million were taken against the software technology acquired in April of 2011 (the Azido technology) for the years ending December 31, 2013 and 2012, respectively. As of December 31, 2013, the Azido technology net carrying value is \$0.

Patent Costs

We expense external costs, such as filing fees and associated attorney fees, incurred to obtain initial patents, but capitalize as intangible assets acquired patents. We also expense costs associated with maintaining and defending patents subsequent to their issuance.

Income Taxes

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, 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

All 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. Our share-based compensation is reduced for estimated forfeitures at the time of grant and revised as necessary in subsequent periods if actual forfeitures differ from those estimates.

Revenue Recognition

We recognize revenue at the time the product is shipped. We have determined that our programming equipment has 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.

The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment. 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.

We enter into multiple deliverables arrangements that arise during the sale of a system that includes an installation component, a service and support component and a software maintenance component. We allocate the value of each element based on relative selling prices. Relative selling price is based on the selling price of the standalone system. For the installation and service and support components, we use what we charge to distributors who perform these components. For software maintenance components, we use what we charge for annual software maintenance renewals after the initial year the system is sold. Revenue is recognized on the system sale based on shipping terms, installation revenue is recognized after the installation is performed, and hardware service and support and software maintenance revenue is recognized ratably over the term of the agreement, typically one year.

When we sell software separately, we recognize software revenue upon shipment provided that only inconsequential obligations remain on our part, and substantive acceptance conditions, if any, have been met.

We recognize revenue when persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, the buyer has paid or is obligated to pay, collectability is reasonably assured, substantive acceptance conditions, if any, have been met, 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 us and we do not have significant obligations for future performance to directly bring about the resale of the product by the buyer. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items.

Sales were recorded net of actual sales returns and changes to the associated sales return reserve. Sales return reserves were \$50,000 and \$60,000 at December 31, 2013 and 2012, respectively.

We transfer certain products out of service from their internal use and make 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

Advertising costs are expensed as incurred. Total advertising expenses were approximately \$152,000 and \$107,000 in 2013 and 2012, respectively.

Warranty Expense

We record a liability for an estimate of costs that we expect 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 normally provide a warranty for our products against defects for periods ranging from ninety days to one year. We provide for the estimated cost that may be incurred under our product warranties and periodically assess the adequacy of our warranty liability based on changes in the above factors. We record 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 0 for the years ended December 31, 2013 and 2012, respectively. Options to purchase 904,656 and 1,158,405 shares of common stock were outstanding as of December 31, 2013 and 2012, 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 us to concentrations of credit risk, consist primarily of trade receivables. Our trade receivables are geographically dispersed and include customers in many different industries. As of December 31, 2013, one customer, Avnet, accounted for more than 12% of our consolidated accounts receivable balance. As of December 31, 2012, three customers, Data Copy Limited, Delphi and Jabil accounted for 16%, 11% and 10% of our consolidated accounts receivable balance, respectively. Our consolidated accounts receivable balance as of December 31, 2013 and 2012 includes foreign accounts receivable in the functional currency of our foreign subsidiaries amounting to \$886,000 and \$950,000, respectively. We generally do business with our foreign distributors in U.S. dollars. 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.

New Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, *"Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,"* ("ASU 2013-11"), an amendment to ASC 740, "Income Taxes." ASU 2013-11 clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax benefit is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be netted with the deferred tax asset. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. We are currently evaluating the impact that the adoption will have on the determination or reporting of our financial results.

In March 2013, the FASB issued ASU 2013-05, *"Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity,"* ("ASU 2013-05"). The objective of ASU 2013-05 is to clarify the applicable guidance for the release into net income of the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. ASU 2013-05 is effective for annual and interim reporting periods beginning after December 15, 2013 with early adoption permitted. We are currently evaluating the impact that the adoption will have on the determination or reporting of our financial results.

In February 2013, the FASB issued ASU No. 2013-02, *"Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income."* Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 is effective for us on January 1, 2013. The adoption of this update did not have a material impact on our financial statements.

NOTE 2-PROVISION FOR BUSINESS RESTRUCTURING

As a result of the business downturn we experienced in the second half of 2011 and in 2012, as well as the uncertain business outlook at the time, we took restructuring actions in September 2012 to reduce quarterly operating expenses and production costs. These actions included reductions in personnel and the use of contractors, professionals, and consultants, as well as focusing our development efforts on a smaller number of projects. The net restructuring charge in 2012 associated with these actions was \$207,000 and was primarily related to severance. The remaining 2012 restructuring actions were completely paid out during the first quarter of 2013.

During the second quarter of 2013, we took additional restructuring actions to reduce our excess office space and eliminate certain job positions. These actions resulted in restructuring costs of \$642,000 for the second quarter. The positions eliminated will allow us to have the flexibility to add other critical positions or change fixed to variable costs through outsourcing.

During the fourth quarter of 2013, we took additional restructuring actions focused primarily on reducing layers of management and moving management closer to sales channels and customers. The restructure actions will eliminate certain job positions and in some cases allow the company to have the flexibility to add other critical positions. These actions resulted in restructuring costs of \$541,000 for the fourth quarter.

The portion of the restructure reserve expected to be paid during 2014 is \$723,000. The long term portion is \$150,000 and relates to the lease abandonment payments that are expected to be completely paid by July 2016.

An analysis of the restructuring is as follows:

	Reserve Balance Dec 31, 2011	2012 Expense	2012 Payments/ Write-Offs	Reserve Balance Dec 31, 2012	2013 Expense	2013 Payments/ Write-Offs	Reserve Balance Dec 31, 2013
(in thousands)							
Downsizing US operations:							
Employee severance	\$0	\$103	\$103	\$0	\$457	\$227	\$230
Other costs	-	4	4	-	273	33	240
Downsizing foreign operations:							
Employee severance	-	57	32	25	405	58	372
Other costs	-	43	43	-	48	17	31
Total	\$0	\$207	\$182	\$25	\$1,183	\$335	\$873

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Receivables consist of the following:

	December 31, 2013	December 31, 2012
(in thousands)		
Trade accounts receivable	\$2,067	\$2,737
Less allowance for doubtful receivables	87	89
Trade accounts receivable, net	<u>\$1,980</u>	<u>\$2,648</u>

Changes in Data I/O's allowance for doubtful accounts are as follows:

	December 31, 2013	December 31, 2012
(in thousands)		
Beginning balance	\$89	\$115
Bad debt expense (reversal)	(2)	(26)
Accounts written-off	-	-
Recoveries	-	-
Ending balance	<u>\$87</u>	<u>\$89</u>

NOTE 4 – INVENTORIES, NET

Inventories consisted of the following components:

	December 31, 2013	December 31, 2012
(in thousands)		
Raw material	\$1,988	\$2,166
Work-in-process	1,309	1,262
Finished goods	473	605
Inventories	<u>\$3,770</u>	<u>\$4,033</u>

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT, NET

Property and equipment consisted of the following components:

	December 31, 2013	December 31, 2012
(in thousands)		
Leasehold improvements	\$484	\$481
Equipment	7,015	7,618
	7,499	8,099
Less accumulated depreciation	6,656	7,093
Property and equipment, net	<u>\$843</u>	<u>\$1,006</u>

Total depreciation expense recorded for 2013 and 2012 was \$612,000 and \$821,000, respectively.

NOTE 6 – INTANGIBLE SOFTWARE TECHNOLOGY, NET

On April 29, 2011, we purchased software technology (the Azido technology) for \$2 million in cash and issuance of 163,934 shares of our common stock, valued at \$1 million on the date of purchase. Acquisition costs of \$89,000 were capitalized as part of the transaction. The transaction was accounted for as an asset purchase.

In 2012 and again in 2013, year-end impairment evaluations were performed. We evaluated changes in Azido projects and projected cash flows which decreased or eliminated our expected future cash flows related to Azido technology's use or disposition. Based on these evaluations, impairment charges of \$31,000 and \$2.3 million were taken against this software technology for the years ending December 31, 2013 and 2012, respectively. As of December 31, 2013, the Azido technology net carrying value is \$0.

The following is a summary of the Company's intangible software technology:

	December 31, 2013	December 31, 2012
(in thousands)		
Intangible software technology	\$35	\$3,089
Less impairment charge	31	2,318
Less accumulated amortization	4	736
Intangible software technology, net	<u>\$0</u>	<u>\$35</u>

NOTE 7 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components:

	December 31, 2013	December 31, 2012
(in thousands)		
Product warranty	\$281	\$260
Sales return reserve	50	60
Other taxes	112	86
Other	154	133
Other accrued liabilities	<u>\$597</u>	<u>\$539</u>

The changes in our product warranty liability for the year ending December 31, 2013 are follows:

	December 31, 2013
(in thousands)	
Liability, beginning balance	\$260
Net expenses	472
Warranty claims	(472)
Accrual revisions	21
Liability, ending balance	<u>\$281</u>

NOTE 8 –OPERATING LEASE COMMITMENTS

We have 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:

	Operating Leases
(in thousands)	
2014	\$1,045
2015	863
2016	534
2017	4
2018	4
Thereafter	4
Total at December 31, 2013	<u>\$2,454</u>

Lease and rental expense was \$1,111,000 and \$1,166,000 in 2013 and 2012, respectively. Rent expense is recorded on a straight line basis, over the term of the lease, for leases that contain fixed escalation clauses, and excludes the portion that is charged to restructure expense. The operating lease commitments include rent that is classified as part of the restructure accrual. We amended our lease agreement for the Redmond, Washington headquarters facility effective February 1, 2011, extending the term to August 2016, lowering the square footage to 32,646 and lowering the rental rate. The lease base annual rental payments during 2013 and 2012 were approximately \$501,000 and \$487,000, respectively. The lease square footage increased to 33,676 effective February 1, 2014.

In addition to the Redmond facility, approximately 11,000 square feet is leased at two foreign locations, including our German sales, service and engineering operations located in Munich, Germany, under a five-year lease starting in 2010, and a sales, service, operations and engineering office located in Shanghai, China under a one-year lease starting in 2013.

NOTE 9 –OTHER COMMITMENTS

We have 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, 2013, the purchase and other obligations totaled \$895,000 and are expected to be paid out over the next twelve months.

NOTE 10 – CONTINGENCIES

As of December 31, 2013, we were a party to two employee restructuring related separation claims, which have been accrued in our restructuring charges. We were not a party to any other 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.

NOTE 11 – STOCK AND RETIREMENT PLANS

Stock Option Plans

At December 31, 2013, there were 751,830 shares available for future grant under Data I/O Corporation 2000 Stock Compensation Incentive Plan ("2000 Plan"). There were 1,151,731 shares of Common Stock reserved for issuance consisting of 795,481 under the 2000 plan and 356,250 under the inducement grant reserve. Pursuant to this 2000 Plan, 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 have a maximum term of six years from the date of grant. Stock awards may also be granted under the 2000 Plan. Inducement grants were made in 2012 and 2013. In 2012, inducement grants were made to our chief executive officer consisting of 200,000 options and 75,000 restricted shares, of which 18,750 shares were issued in 2013. In 2013, an inducement grant was made to our chief technology officer consisting of 100,000 options. The inducement grants were not made out of the 2000 Plan shares but were made under the terms of the 2000 Plan.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan ("ESPP"), eligible employees may purchase shares of our 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 2013 and 2012, a total of 7,126 and 6,884 shares, respectively, were purchased under the plan at average prices of \$1.91 and \$3.35 per share, respectively. At December 31, 2013, a total of 65,442 shares were reserved for future issuance.

Stock Appreciation Rights Plan

We have a Stock Appreciation Rights Plan ("SAR") under which each director, executive officer or holder of 10% or more of our Common Stock has a SAR with respect to each exercisable stock option. The SAR entitles the SAR holder to receive cash from us 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 our 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

We have 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 our Common Stock. No shares were issued from the plan for 2013 or 2012 board service and 151,332 shares remain available in the plan as of December 31, 2013.

Retirement Savings Plan

We have 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 or post-tax salary if Roth is elected, subject to IRS limitations. In fiscal years 2013 and 2012, we contributed one dollar for each dollar contributed by a participant, with a maximum contribution of 4% of a participant's earnings. Our matching contribution expense for the savings plan was approximately \$157,000 and \$166,000 in 2013 and 2012, respectively.

Share Repurchase Program

On October 20, 2011, we announced a stock repurchase program to buy back up to \$1 million dollars of stock over four quarters. Through December 31, 2011, we repurchased 62,916 shares of stock at an average price of \$3.97 for a total repurchase amount of \$249,986 plus \$2,551 in commissions. For the year ended December 31, 2012 an additional 10,581 shares were repurchased under this plan at an average price of \$3.90 for a total repurchase amount of \$41,274 plus \$432 in commissions. Since this program began, we have repurchased 73,497 shares of stock at an average price of \$3.96 for a total of \$291,260 plus \$2,983 in commissions. On January 13, 2012, this stock repurchase program was terminated.

On January 9, 2012, our board of directors approved a new and expanded 2012 share repurchase program with provisions to buy back up to \$6 million dollars of stock. The program included establishing a Rule 10b5-1 plan under the Exchange Act to provide flexibility to make purchases at any time. The 10b5-1 trading plan allows us to repurchase our common stock in the open market during periods in which stock trading is otherwise closed for us. For the year ended December 31, 2012, 1,472,208 shares of stock have been repurchased at an average price of \$4.03 for a total of \$5,927,937 plus \$56,938 in commissions, completing the program.

No further stock repurchase programs went into effect during the remainder of 2012 or 2013.

The following is a summary of share repurchase activity under both plans through December 31, 2012:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program
<u>\$1 million program dated October 20, 2011:</u>				
November 2011	32,068	\$3.88	32,068	\$874,328
December 2011	30,848	\$4.07	30,848	\$747,463
January 2012 (1)	10,581	\$3.90	10,581	\$0
<u>\$6 million program dated January 9, 2012:</u>				
January 2012	171,832	\$4.18	171,832	\$5,274,294
February 2012	243,862	\$4.25	243,862	\$4,228,920
March 2012 (2)	1,056,514	\$3.95	1,056,514	\$0
Total	<u>1,545,705</u>	<u>\$4.02</u>	<u>1,545,705</u>	

(1) Program terminated January 13, 2012

(2) Program terminated March 26, 2012

NOTE 12— SHARE-BASED COMPENSATION

For share-based awards granted, we have recognized compensation expense based on the estimated grant date fair value method. For these awards we have recognized compensation expense using a straight-line amortization method and reduced for estimated forfeitures.

The impact on our results of operations of recording share-based compensation for the year ended December 31, 2013 and 2012 was as follows:

	Year Ended December 31,	
	2013	2012
(in thousands)		
Cost of goods sold	\$46	\$49
Research and development	80	112
Selling, general and administrative	297	364
Total share-based compensation	<u>\$423</u>	<u>\$525</u>
Impact on net income per share:		
Basic and diluted	(\$0.05)	(\$0.07)

Approximately \$13,000 and \$15,000 of share-based compensation was capitalized into inventory for the years ended December 31, 2013 and 2012, respectively.

The fair values of share-based awards for employee stock option awards were estimated at the date of grant using the Black-Scholes valuation model. The volatility and expected life of the options used in calculating the fair value of share-based awards may exclude certain periods of historical data that we considered atypical and not likely 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	
	2013	2012
Risk-free interest rates	0.92%	0.64%
Volatility factors	0.54	0.53
Expected life of the option in years	4.00	4.00
Expected dividend yield	None	None

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 our 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, 2013 and 2012 was \$.84 and \$.91, respectively. The following table summarizes stock option activity under our stock option plans for the twelve months ended December 31:

	2013			2012		
	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life in Years
Outstanding at beginning of year	1,158,405	\$4.00		1,038,011	\$4.74	
Granted	133,000	2.00		390,000	2.37	
Exercised	-	-		(29,844)	3.82	
Cancelled, Expired or Forfeited	(386,749)	4.50		(239,762)	4.62	
Outstanding at end of year	<u>904,656</u>	<u>\$3.49</u>	<u>3.52</u>	<u>1,158,405</u>	<u>\$4.00</u>	<u>3.43</u>
Vested or expected to vest at the end of the period	827,155	\$4.19	2.54	1,046,028	\$4.51	1.98
Exercisable at end of year	486,141	\$3.59	2.54	609,812	\$4.10	1.98

The aggregate intrinsic value of outstanding options is \$222,241. This represents the total pretax intrinsic value, based on the closing stock price of \$2.57 at December 31, 2013, 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, 2013 was \$0.

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

	2013		2012	
	Awards	Weighted - Average Grant Date Fair Value	Awards	Weighted - Average Grant Date Fair Value
Outstanding at beginning of year	130,000	\$2.60	30,378	\$5.10
Granted	180,400	1.97	112,500	2.19
Vested	(47,375)	2.23	(11,353)	5.00
Cancelled	(15,950)	3.13	(1,525)	4.11
Outstanding at end of year	<u>247,075</u>	<u>\$2.18</u>	<u>130,000</u>	<u>\$2.60</u>

The remaining unamortized expected future compensation expense and remaining amortization period associated with unvested option grants and restricted stock awards are:

	December 31, 2013	December 31, 2012
Unamortized future compensation expense	\$898,625	\$1,040,385
Remaining weighted average amortization period in years	2.57	2.65

NOTE 13— INCOME TAXES

Components of income (loss) before taxes:

	Year Ended Dec. 31,	
(in thousands)	2013	2012
U.S. operations	(\$2,270)	(\$6,484)
Foreign operations	(314)	(272)
Total income (loss) before taxes	<u>(\$2,584)</u>	<u>(\$6,756)</u>

Income tax expense (benefit) consists of:

	Year Ended Dec. 31,	
(in thousands)	2013	2012
Current tax expense (benefit)		
U.S. federal	\$0	(\$8)
State	8	(19)
Foreign	(16)	(300)
	(8)	(327)
Deferred tax expense (benefit) – U.S. federal	-	-
Total income tax expense (benefit)	<u>(\$8)</u>	<u>(\$327)</u>

A reconciliation of our effective income tax and the U.S. federal tax rate is as follows:

	Year Ended Dec. 31,	
	2013	2012
(in thousands)		
Statutory tax	(\$879)	(\$1,937)
State and foreign income tax, net of federal income tax benefit	(125)	(324)
Valuation allowance for deferred tax assets	996	1,934
Total income tax expense (benefit)	(\$8)	(\$327)

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

	Year Ended December 31,	
	2013	2012
(in thousands)		
Deferred income tax assets:		
Allowance for doubtful accounts	\$25	\$25
Inventory and product return reserves	746	786
Compensation accruals	1,341	1,116
Accrued liabilities	28	(105)
Book-over-tax depreciation and amortization	1,021	1,064
Foreign net operating loss carryforwards	999	800
U.S. net operating loss carryforwards	6,739	6,054
U.S. credit carryforwards	1,142	951
	12,041	10,691
Valuation Allowance	(12,041)	(10,691)
Total Deferred Income Tax Assets	\$ -	\$ -

The valuation allowance for deferred tax assets increased \$1,350,000 during the year ended December 31, 2013, and increased \$1,785,000 during the year ended December 31, 2012. The net deferred tax assets have a full valuation allowance provided due to uncertainty regarding our ability to utilize such assets in future years. This full valuation allowance evaluation is based upon our volatile history of losses and the cyclical nature of our industry and capital spending. Credit carryforwards consist primarily of research and experimental and alternative minimum tax credits with expiration years from 2020 to 2033. U.S. net operating loss carryforwards are \$19,821,000 at December 31, 2013 with expiration years from 2020 to 2033. 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.

The gross changes in uncertain tax positions resulting in unrecognized tax benefits are presented below:

	Year Ended Dec. 31,	
	2013	2012
(in thousands)		
Unrecognized tax benefits, opening balance	\$132	\$113
Prior period tax position increases	23	19
Additions based on tax positions related to current year	25	-
Unrecognized tax benefits, ending balance	\$180	\$132

Historically, we have not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during 2013. However, we have adopted a policy whereby amounts related to penalties associated with tax

matters are classified as general and administrative expense when incurred and amounts related to interest associated with tax matters are classified as interest income or interest expense.

Tax years that remain open for examination include 2010, 2011, 2012 and 2013 in the United States of America. In addition, tax years from 2000 to 2009 may be subject to examination in the event that we utilize the net operating losses and credit carryforwards from those years in its current or future year tax returns.

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 electronic products.

Major operations outside the U.S. include sales, engineering and service support subsidiaries in Germany and China. During 2013, there were two customers, Data Copy Limited and Di-Tek that accounted for approximately 14% and 13% of our net sales, respectively. In 2012, there was one customer, Data Copy Limited that accounted for approximately 11% of our net sales.

The following tables provide summary operating information by geographic area:

(in thousands)	Year Ended Dec. 31,	
	2013	2012
Net sales:		
U.S.	\$2,331	\$2,835
Europe	5,578	6,763
Rest of World	10,808	7,487
	<u>\$18,717</u>	<u>\$17,085</u>

Included in Europe and Rest of World net sales are the following significant balances:

Germany	\$3,305	\$4,061
China	\$3,041	\$2,721

Operating income (loss):

U.S.	(\$1,595)	(\$4,405)
Europe	(930)	(1,417)
Rest of World	(143)	(1,119)
	<u>(\$2,668)</u>	<u>(\$6,941)</u>

Identifiable assets:

U.S.	\$6,229	\$6,865
Europe	3,701	3,690
Rest of World	7,572	8,267
	<u>\$17,502</u>	<u>\$18,822</u>

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, we 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 assurance level. Disclosure Controls are controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted 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 ensure 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 reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Exchange Act 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, 2013. 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 (1992). Based on this assessment we concluded that, as of December 31, 2013, 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 the Dodd-Frank Wall Street Reform and Consumer Protection Act, which permanently exempts non-accelerated filers from complying with Section 404(b) of the Sarbanes-Oxley Act of 2002.

(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.

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 our Proxy Statement relating to our annual meeting of shareholders to be held on May 19, 2014 and is incorporated herein by reference. Such Proxy Statement will be filed within 120 days of our 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 a 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/Company/InvestorRelations/CorporateGovernance.aspx>. 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 Nasdaq's rules.

Item 11. Executive Compensation

Information called for by Part III, Item 11, is included in our Proxy Statement relating to our annual meeting of shareholders to be held on May 19, 2014 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 our 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 our Proxy Statement relating to our annual meeting of shareholders to be held on May 19, 2014 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 our 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, 2013. See Notes 11 and 12 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 the security holders (1) (2)	607,169	\$4.25	814,059
Equity compensation plans not approved by the security holders (3)	300,000	\$1.94	-
Total	907,169	\$3.49	814,059

(1) Represents shares of our Common Stock issuable pursuant to the Data I/O Corporation 2000 Stock Incentive Compensation Plan, 1982 Employee Stock Purchase Plan and 1996 Director Fee Plan. Table excludes unvested restricted stock awards of 190,825 from the 2000 Plan.

(2) Stock Appreciation Rights Plan (“SAR”) provides that directors, executive officers or holders of 10% or more of our 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.

(3) Represents inducement grants of 200,000 nonqualified stock options to Anthony Ambrose as part of his hiring and inducement grants of 100,000 nonqualified stock options to Rajeev Gulati as part of his hiring. Table excludes unvested restricted stock award inducement grants of 56,250 to Anthony Ambrose.

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 our 2014 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 our annual meeting of shareholders to be held on May 19, 2014. Such Proxy Statement will be filed within 120 days of our 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 10.6.
- (2) Data I/O Corporation Tax Deferral Retirement Plan and Trust with Great West Financial (formerly Orchard Trust Company). See Exhibits 10.17, 10.18 and 10.19.
- (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 Executive Agreements. See Exhibit 10.9, 10.10, 10.23 and 10.27.
- (6) 1996 Director Fee Plan. See Exhibit 10.4.
- (7) Letter Agreement with Frederick R. Hume. See Exhibit 10.5.
- (8) Data I/O Corporation 2000 Stock Compensation Incentive Plan. See Exhibit 10.7, 10.13 and 10.25.
- (9) Form of Option Agreement. See Exhibit 10.8.
- (10) Form of Indemnification Agreement. See Exhibit 10.20.
- (11) Separation Agreement with Frederick R. Hume. See Exhibit 10.22.
- (12) Letter Agreement with Anthony Ambrose. See Exhibit 10.24.
- (13) Letter Agreement with Rajeev Gulati. See Exhibit 10.28.
- (14) Form of Restricted Stock Agreement. See Exhibit 10.14

(a)	<u>List of Documents Filed as a Part of This Report:</u>	<u>Page</u>
(1)	<u>Index to Financial Statements:</u>	
	Report of Independent Registered Public Accounting Firm	27
	Consolidated Balance Sheets as of December 31, 2013 and 2012	28
	Consolidated Statements of Operations for each of the two years ended December 31, 2013 and December 31, 2012	29
	Consolidated Statements of Comprehensive Income (Loss) for each of the two years ended December 31, 2013 and December 31, 2012	30
	Consolidated Statements of Stockholders' Equity for each of the two years ended December 31, 2013 and December 31, 2012	31

Consolidated Statements of Cash Flows for each of the two years ended December 31, 2013 and December 31, 2012	32
Notes to Consolidated Financial Statements	33

(2) Index to Financial Statement Schedules:

Schedule II – Consolidated Valuation and Qualifying Accounts	55
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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 July 20, 2011 (Incorporated by reference to Data I/O's Current Report on Form 8-K filed July 26, 2011).
- 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 Computershare (formerly BNY Mellon Investor Services LLC, and 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 Letter Agreement with Frederick 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)).
- 10.6 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).
- 10.7 Amended and Restated Data I/O Corporation 2000 Stock Compensation Incentive Plan dated May 24, 2006 (Incorporated by reference to Data I/O's 2006 Proxy Statement dated April 6, 2006).
- 10.8 Form of Option Agreement (Incorporated by reference to Data I/O's 2004 Annual Report on Form 10-K (File No. 0-10394)).
- 10.9 Amended and Restated Executive Agreement with Frederick R. Hume dated December 31, 2011 (Incorporated by reference to Data I/O's 2011 Annual Report on Form 10K (File No. 0-10394))
- 10.10 Amended and Restated Executive Agreement with Joel S. Hatlen dated December 31, 2011 (Incorporated by reference to Data I/O's 2011 Annual Report on Form 10K (File No. 0-10394)).
- 10.11 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)).
- 10.12 Second Amendment to Lease, (Redmond East) between Data I/O Corporation and Arden Realty Limited Partnership, made as of January 31, 2011. (Incorporated by reference to Data I/O's 2010 Annual Report on Form 10-K (File No. 0-10394)).
- 10.13 Amended and Restated Data I/O Corporation 2000 Stock Compensation Incentive Plan approved May 17, 2011 (Incorporated by reference to Data I/O's 2011 Proxy Statement filed April 5, 2011).
- 10.14 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)).
- 10.15 Patent Purchase Agreement (Incorporated by reference to Data I/O's Current Report on Form 8-K filed on March 25, 2008)).
- 10.16 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).

10.17	Great West Financial (formerly Orchard Trust Company) Defined Contribution Prototype Plan and Trust (Incorporated by reference to Data I/O's 2007 Annual Report on Form 10-K (File No. 0-10394)).	
10.18	Great West Financial (formerly Orchard Trust Company) Non-standardized 401(k) Plan (Incorporated by reference to Data I/O's 2007 Annual Report on Form 10-K (File No. 0-10394)).	
10.19	Great West Financial (formerly Orchard Trust Company) Defined Contribution Prototype Plan and Trust Amendment for Pension Protection Act and Heart Act. (Incorporated by reference to Data I/O's 2009 Annual Report on Form 10-K (File No. 0-10394)).	
10.20	Form of Indemnification Agreement. (Incorporated by reference to Data I/O's 2010 Annual Report on Form 10-K (File No. 0-10394)).	
10.21	Asset Purchase Agreement dated April 29, 2011, with the Miller Trust, for acquisition of Software Technology (Incorporated by reference to Data I/O's Current Report on Form 8-K filed May 3, 2011 with portions omitted pursuant to a confidential treatment request, and by reference to Data I/O's Form 10-Q filed April 3, 2012, which included the redacted portions that had been made in the original Form 8-K filing).	
10.22	Separation Agreement with Frederick R. Hume dated March 1, 2012 (Incorporated by reference to Data I/O's Current Report on Form 8-K filed on March 2, 2012).	
10.23	Executive Agreement with Anthony Ambrose dated October 25, 2012. (Incorporated by reference to Data I/O's 2012 Annual Report on Form 10-K (File No. 0-10394)).	
10.24	Letter Agreement with Anthony Ambrose (Incorporated by reference to Data I/O's Current Report on Form 8-K filed on October 29, 2012).	
10.25	Amended and Restated Data I/O Corporation 2000 Stock Compensation Incentive Plan approved May 10, 2012 (Incorporated by reference to Data I/O's 2012 Proxy Statement filed April 3, 2012).	
10.27	Executive Agreement with Rajeev Gulati dated July 25, 2013 (Incorporated by reference to Data I/O's 2013 Annual Report on Form 10-K (File No. 0-10394)).	
10.28	Letter Agreement with Rajeev Gulati (Incorporated by reference to Data I/O's Current Report on Form 8-K filed on July 31, 2013).	
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32	Certification – Section 906:	
32.1	Chief Executive Officer Certification	60
32.2	Chief Financial Officer Certification	61

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 28, 2014

By: /s/Anthony Ambrose
Anthony Ambrose
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: <u>/s/Anthony Ambrose</u> <u>March 28, 2014</u> Anthony Ambrose	President and Chief Executive Officer (Principal Executive Officer), Director
By: <u>/s/Joel S. Hatlen</u> <u>March 28, 2014</u> Joel S. Hatlen	Chief Financial Officer Vice President of Finance Secretary, Treasurer (Principal Financial and Accounting Officer)
By: <u>/s/Douglas W. Brown</u> <u>March 28, 2014</u> Douglas W. Brown	Director
By: <u>/s/Kenneth B. Myer</u> <u>March 28, 2014</u> Kenneth B. Myer	Director
By: <u>/s/Brian T. Crowley</u> <u>March 28, 2014</u> Brian T. Crowley	Director
By: <u>/s/Alan B. Howe</u> <u>March 28, 2014</u> Alan B. Howe	Director
By: <u>/s/Mark J. Gallenberger</u> <u>March 28, 2014</u> Mark J. Gallenberger	Director

DATA I/O CORPORATION
SCHEDULE II – CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charged/ (Credited) to Costs and Expenses	Deductions- Describe	Balance at End of Period
(in thousands)				
Year Ended December 31, 2012:				
Allowance for bad debts	\$115	(\$26)	\$ - ⁽¹⁾	\$89
Year Ended December 31, 2013:				
Allowance for bad debts	\$89	(\$2)	\$ - ⁽¹⁾	\$87
⁽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%
RTD, 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%
Data I/O Electronics (Shanghai) Co., Ltd.	China	100%
Data I/O Programação de Sistemas Ltda.	Brazil	100%

EXHIBIT 23.1

Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm

We have issued our report dated March 28, 2014, with respect to 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, 2013. 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, 333-20657, 333-55911, 33-02254, 33-03958, 333-107543, 333-81986, 333-48595, 333-121861, 333-151006, 333-166730 and 333-175840) and on Form S-3 (File No. 333-121566).

/s/Grant Thornton LLP

Seattle, Washington
March 28, 2014

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, Anthony Ambrose, 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)) 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 28, 2014

/s/ Anthony Ambrose
Anthony Ambrose
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) 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 28, 2014

/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
§ 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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony Ambrose, 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 § 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/ Anthony Ambrose
Anthony Ambrose
Chief Executive Officer
(Principal Executive Officer)

Date: March 28, 2014

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, 2013 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)

Date: March 28, 2014

DATA I/O CORPORATION

**NOTICE OF 2014
ANNUAL MEETING
and
PROXY STATEMENT**

DATA I/O CORPORATION

April 2, 2014

To Our Shareholders:

You are cordially invited to attend the 2014 Annual Meeting of Data I/O Corporation, which will be held at Data I/O's headquarters at 6464 185th Ave NE, Suite 101, Redmond, Washington 98052. The meeting will begin at 10:00 a.m. Pacific Daylight Time on Monday, May 19, 2014.

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

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

Sincerely,

Anthony Ambrose
President and Chief Executive Officer

DATA I/O CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS - May 19, 2014

To the Shareholders of Data I/O Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Data I/O Corporation (the “Company” or “Data I/O”) will be held at 10:00 a.m. Pacific Daylight Time, on Monday, May 19, 2014, at Data I/O’s principal offices, 6464 185th Ave NE, Suite 101, Redmond, Washington 98052, for the following purposes:

- (1) **Election of Directors:**
To elect five directors, each to serve until the next annual meeting of shareholders or until his or her successor is elected and qualified or until such director’s earlier death, resignation, or removal.
- (2) **Ratification of Independent Auditors:**
To ratify the continued appointment of Grant Thornton LLP as Data I/O’s independent auditors for the calendar year ended December 31, 2014.
- (3) **Say on Pay – Advisory Vote on Executive Compensation:**
To consider and vote on an advisory resolution on the compensation of our named executive officers.
- (4) **Other Business:**
To consider and vote upon such other business as may properly come before the meeting or any adjournments or postponements thereof.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 19, 2014.
The proxy statement and annual report to security holders are also available at <http://www.dataio.com/company/investorrelations/annualmeeting.aspx>.

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

By Order of the Board of Directors

/s/ Anthony Ambrose
Anthony Ambrose
President and Chief Executive Officer

Redmond, Washington
April 2, 2014

YOUR VOTE IS IMPORTANT

Whether or not you expect to attend the meeting in person, we urge you to sign, date and return the accompanying proxy card at your earliest convenience, or you may vote by the internet at <http://www.investorvote.com/DAIO> or by telephone at 1-800-658-8683, as provided in the instructions on the proxy card. This will ensure the presence of a quorum at the meeting. **Promptly returning a signed and dated proxy card, or voting by the internet or by telephone, will save Data I/O the extra expense of additional solicitation.** Your proxy is revocable at your request any time before it is voted. If you attend the meeting, you may vote in person if you wish even if you have previously returned your proxy card. If you vote by mail, an addressed, postage-paid envelope is provided in order to make certain that your shares will be represented at the Annual Meeting.

DATA I/O CORPORATION
6464 185th Ave NE, Suite 101
Redmond, Washington 98052

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
May 19, 2014

INFORMATION REGARDING PROXY

This Proxy Statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors (“Board of Directors”) of Data I/O Corporation (the “Company” or “Data I/O”) for use at the Annual Meeting of Shareholders to be held on Monday, May 19, 2014, at 10:00 a.m. Pacific Daylight Time at Data I/O’s principal offices, 6464 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 20, 2014 (the “Record Date”) are entitled to notice of, and to vote at, the Annual Meeting. This Proxy Statement and a copy of Data I/O’s 2013 Annual Report to Shareholders are being mailed to shareholders on or about April 11, 2014.

A proxy card is enclosed for your use. *You are requested on behalf of the Board of Directors to sign, date, and return the proxy card in the accompanying envelope*, which is postage-paid if mailed in the United States or Canada, or you may vote by the internet at <http://www.investorvote.com/DAIO>, or by telephone at 1-800-652-8683, as provided in the instructions on the proxy card. If you vote by the internet or by telephone, you do not need to mail back the proxy card.

A proxy in the accompanying form, which is properly signed, dated and returned and not revoked, will be voted in accordance with its instructions. To vote on the election of directors, check the appropriate box under Proposal 1 on your proxy card. You may (a) vote “FOR” all of the director nominees as a group, (b) “WITHOLD” authority to vote for all director nominees as a group, or (c) vote “FOR” all director nominees as a group except those nominees indicated to the contrary. To vote on Proposal 2 to ratify the continued appointment of Grant Thornton LLP as Data I/O’s independent auditors for the calendar year ended December 31, 2014, check the appropriate box under Proposal 2 on your proxy card. You may (a) vote “FOR” approval of the ratification of Grant Thornton LLP as Data I/O’s independent auditors, (b) vote “AGAINST” approval of the ratification of Grant Thornton LLP as Data I/O’s independent auditors, or (c) “ABSTAIN” from voting on the ratification of Grant Thornton LLP as Data I/O’s independent auditors. To vote on Proposal 3, Say on Pay – Advisory Vote on Executive Compensation, you may vote (a) “FOR” the advisory resolution, (b) “AGAINST” the advisory resolution, or (c) “ABSTAIN” from voting on the advisory resolution on executive compensation.

Proxies which are returned to Data I/O without instructions will be voted as recommended by the Board of Directors. Any shareholder who returns a proxy may revoke it at any time prior to voting on any matter (without, however, affecting any vote taken prior to such revocation) by (i) delivering written notice of revocation to the Secretary of Data I/O at Data I/O’s principal offices, (ii) executing and delivering to Data I/O another proxy dated as of a later date, or (iii) voting in person at the Annual Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS

The only outstanding voting securities of Data I/O are shares of common stock (the “Common Stock”). As of the Record Date, there were 7,788,566 shares of Common Stock issued and outstanding, and each such share is entitled to one vote at the Annual Meeting. The presence in person or by proxy of holders of record of a majority of the outstanding shares of Common Stock is required for a quorum for transacting business at the Annual Meeting. Shares of Common Stock underlying abstentions will be considered present at the Annual Meeting for the purpose of calculating a quorum. Under Washington law and Data I/O’s charter documents, if a quorum is present, the five nominees for election to the Board of Directors who receive the greatest number of affirmative votes cast at the Annual Meeting will be elected directors. Abstentions and broker non-votes will have no effect on the election of directors because they are not cast in favor of any particular candidate.

The proposal to ratify the continued appointment of Grant Thornton as Data I/O’s independent auditors will be approved, if a quorum is present, if the number of votes cast in favor of the proposal exceeds the number of votes cast against the proposal. Abstentions and broker non-votes on the proposal will have no effect because approval of the proposal is based solely on the votes cast.

Say on Pay – The advisory vote on the compensation of Data I/O’s named executive officers will be approved, if a quorum is present, if the number of votes cast in favor of the advisory resolution exceeds the number of votes cast against the advisory resolution. Abstentions and broker non-votes on the advisory resolution will have no effect because approval of the advisory resolution is based solely on the votes cast.

Proxies and ballots will be received and tabulated by Computershare Shareowner Services LLC, an independent business entity not affiliated with Data I/O.

Effect of Not Casting Your Vote

If you hold your shares in street name, it is critical that you instruct your broker or bank how to vote if you want it to count in Proposal 1, the election of directors; and Proposal 3, Say on Pay. Regulations no longer allow your bank or broker to vote your uninstructed shares in the election of directors on a discretionary basis. If you hold your shares in street name and you do not instruct your bank or broker how to vote in the Proposal 1, election of directors; and Proposal 3, Say on Pay, votes will not be cast on your behalf for these Proposals. Your bank or broker will, however, continue to have discretion to vote any uninstructed shares on Proposal 2, ratification of the appointment of Data I/O’s independent auditors. If you are a shareholder of record and you do not cast your vote, votes will not be cast on your behalf on any of the items of business at the Annual Meeting.

The Common Stock is traded on The NASDAQ Capital Market under the symbol “DAIO”. The last sale price for the Common Stock, as reported by The NASDAQ Capital Market on March 20, 2014, was \$2.75 per share.

Principal Holders of Data I/O’s Common Stock

The following table sets forth information for to all shareholders known by Data I/O to be the beneficial owners of more than five percent of its outstanding Common Stock as of March 20, 2014. Except as noted below, each person or entity has sole voting and investment powers with for the shares shown.

<u>Name and Address</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Shares Outstanding</u>
Penbrook Management, LLC AnKap Partners, L.P. AnKap, LLC Robert S. Anderson, Ralph Kaplan Barbara Burke DiCostanzo Ward Anderson 570 Lexington Avenue, 12 th Floor New York, NY 10022	579,550 (1)	7.4%

- (1) The holding shown is as of December 31, 2013 as jointly reported by Penbrook Management, LLC; AnKap Partners, L.P.; AnKap, LLC; Robert S. Anderson; Ralph Kaplan; Barbara Burke DiCostanzo; and Ward Anderson, on the most recent (filed January 17, 2013) Schedule 13G/A filed pursuant to Rule 13d-1 under the Securities Exchange Act of 1934. The Schedule 13G/A indicates that Penbrook Management has sole dispositive power of 579,500 shares and disclaims beneficial ownership of them; AnKap Partners has sole voting power and dispositive power for 100,000 shares; AnKap, LLC has sole voting power and dispositive power for 100,000 shares and disclaims beneficial ownership of them; Robert S. Anderson has sole voting and dispositive power for 51,300 shares, shared voting power for 100,000 shares and shared dispositive power for 525,150 shares, with an aggregate amount of 576,450 shares, however disclaiming beneficial ownership of shares managed by Penbrook Management and AnKap Partners; Ralph Kaplan has shared voting power for 100,000 shares and shared dispositive power for 525,150 shares, with an aggregate amount of 525,150 shares, however disclaiming beneficial ownership of shares managed by Penbrook Management and AnKap Partners; Barbara Burke DiCostanzo has sole voting and dispositive power for 2,100 shares and shared voting power for 100,000 share and shared dispositive power for 525,150 shares; with an aggregate amount of 527,250 shares, however disclaiming beneficial ownership of shares managed by Penbrook Management and AnKap Partners; and Ward Anderson has sole voting and dispositive power for 1,000 shares and shared voting power for 0 shares and shared dispositive power for 472,800 shares, with an aggregate amount of 473,850 shares, however disclaiming beneficial ownership of these shares managed by Penbrook Management.

Directors' and Officers' Share Ownership

The following table indicates ownership of Data I/O's Common Stock by each director of Data I/O, each executive officer named in the compensation tables appearing later in this Proxy Statement, and by all directors and executive officers as a group, all as of March 20, 2014. Data I/O is not aware of any family relationships between any director, director nominee or executive officer of Data I/O.

<u>Name</u>	<u>Amount and Nature of Beneficial Ownership</u>		<u>Percent of Shares Outstanding</u>
Anthony Ambrose	95,146	(1)	1.2%
Joel S. Hatlen	256,776	(2)	3.3%
Rajeev Gulati	18,750	(3)	(10)
Douglas W. Brown	49,900	(4)	(10)
Kenneth B. Myer	27,400	(5)	(10)
Brian T. Crowley	22,550	(6)	(10)
Alan B. Howe	12,050	(7)	(10)
Mark J. Gallenberger	12,050	(8)	(10)
All current directors and executive officers as a group (8 persons)	494,622	(9)	6.4%

(1) Includes options to purchase 75,000 shares exercisable within 60 days.

(2) Includes options to purchase 108,750 shares exercisable within 60 days.

(3) Includes options to purchase 18,750 shares exercisable within 60 days.

(4) Includes options to purchase 27,500 shares exercisable within 60 days.

(5) Includes options to purchase 10,000 shares exercisable within 60 days.

(6) Includes options to purchase 8,750 shares exercisable within 60 days.

(7) Includes options to purchase 6,250 shares exercisable within 60 days.

(8) Includes options to purchase 6,250 shares exercisable within 60 days.

(9) Includes options to purchase 261,250 shares exercisable within 60 days.

(10) Less than 1 percent each.

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

CORPORATE GOVERNANCE

Board Charters

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

Code of Ethics

Our Code of Ethics is posted on the corporate governance page of our website at www.dataio.com/company/corporategovernance.aspx. Data I/O's Code of Ethics apply to all directors, officers and employees of Data I/O, including the named executive officers. The key principles of the Code are to act legally, and with integrity in all work for Data I/O. We will post any amendments to our Code of Ethics on the corporate governance page of our website at www.dataio.com/company/investorrelations/corporategovernance.aspx. In the unlikely event that the Board of Directors approves any waiver to the Code of Ethics for our executive officers or directors, information concerning such waiver will also be posted on our website. In addition to posting information regarding amendments and

waivers on our website, the same information will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting of such amendments or waivers is permitted by the rules of The NASDAQ Stock Market LLC.

Risk Oversight

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

Director Independence

Messrs. Crowley, Gallenberger, Howe and Brown are independent directors, as defined by applicable NASDAQ listing standards. Mr. Myer served as a consultant to the company from February 2011 to October 2011 during which he received consulting fees of \$123,750 and had been granted 5,000 stock options vesting over a one year period of which half vested and half were forfeited. As a result of this compensation, Mr. Myer is not an independent director; however he will not be standing for reelection. Mr. Ambrose, our Chief Executive Officer, is not an independent director.

Leadership Structure

Data I/O has separated our Chairman and Chief Executive Officer positions to emphasize the independent roles of the Chairman of our Board and the executive role of our Chief Executive Officer. We believe this separation more clearly supports the Board of Director's independence, as opposed to a structure that combines the Chairman and Chief Executive Officer roles. Our Chairman, Mr. Brown functions as our lead independent director and Mr. Ambrose is our Chief Executive Officer, President and Director.

PROPOSAL 1: ELECTION OF DIRECTORS

At the 2013 Annual Meeting, the shareholders elected six directors to serve until the next Annual Meeting or until such director's successor has been qualified and elected or such director's earlier death, resignation or removal. On February 25, 2014, the Board decided to reduce the number of directors to five effective at the 2014 Annual Meeting of Shareholders. Mr. Myer will not be standing for reelection. For the 2014 Annual Meeting the Board of Directors has approved the five nominees named below. All the nominees are currently members of the Board of Directors. Each of the nominees has indicated that they are willing and able to serve as directors. However, should one or more of the nominees not accept the nomination, or otherwise be unwilling or unable to serve, it is intended that the proxies will be voted for the election of a substitute nominee or nominees designated by the Board of Directors.

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

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

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

Douglas W. Brown, age 58, was appointed a director of Data I/O effective April 1, 2011. Mr. Brown is the President and CEO of All Star Directories, Inc. in Seattle, Washington a Web-based publisher of post-secondary online and career school directories, which he joined in 2005. From 2003 to 2005, he provided governance and interim executive services, with engagements as President or Board member of venture backed clients. From 1998 to 2003, he was a Board member of GoAhead Software and was appointed its President in 2001. From 1993 to 1999, he was a President of a Seattle-area manufacturing company which became a Division of Leggett & Platt in 1996. Prior to that time, he was the Chief Financial Officer ("CFO") of Oculon and Seattle Silicon, and Executive Vice President, Finance and Operations at Phamis. He started his career as a Certified Public Accountant at Arthur Young & Co, now Ernst & Young in Seattle. Mr. Brown has a Bachelors degree in Business from University of Idaho.

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

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

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

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

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

Alan B. Howe, age 52, was appointed a director of Data I/O effective January 31, 2013. He has served as the Co-founder and Managing Partner of Broadband Initiatives LLC, a boutique corporate advisory and consulting firm, since 2001. Currently, he also has a consulting arrangement as Interim Chief Executive Officer at Sunrise Telecom, Inc. since August 2012. Sunrise sold all of its operating assets in June of 2013. He served as Vice President of Strategic and Wireless Business Development for Covad Communications, Inc., a national broadband telecommunications company from May 2005 to October 2008. He served as CFO and Vice President of Corporate Development for Teletrac, Inc. from April 1995 to April 2001. Previously, he held various executive management positions for Sprint PCS, and Manufacturers Hanover Trust Company. He is currently a board member and Vice Chairman of Selectica, Inc. (NASDAQ: SLTC) and a board member of Qualstar (NASDAQ: QBAK) and has served on a number of private and public boards including in the past five years former reporting companies Ditech Networks, Inc, Altigen Communications, Inc., Proxim Wireless Corporation, and Crossroads Systems, Inc.. He has a Masters of Business Administration in Finance from Indiana University and a Bachelors of Science – Business Administration and Marketing from University of Illinois.

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

THE BOARD OF DIRECTORS

Communications with the Board of Directors

Shareholders may communicate with the Board of Directors by sending an email or by sending a letter to Data I/O Corporation Board of Directors, c/o the Secretary, 6464 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, 2013, there were six meetings of the Board of Directors. Each of the incumbent directors who was on the Board of Directors during 2013 attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which he served during his term of service on the Board of Directors. Data I/O does not have a policy requiring members of the Board of Directors to attend the Annual Meeting, although we typically encourage our Board of Directors to attend. Mr. Ambrose and Mr. Brown attended our 2013 Annual Meeting and Mr. Howe attended via telephone. No other Director attended, as our Board of Directors did not have a meeting scheduled for that day.

The Board of Directors had three standing Committees during 2013: the Corporate Governance and Nominating Committee, the Audit Committee, and the Compensation Committee. Each committee comprised solely of independent directors during 2013, as defined by applicable NASDAQ listing standards and the Sarbanes-Oxley Act of 2002, except for Mr. Myer on the Corporate Governance and Nominating Committee. During 2013 and through the date of this Proxy Statement the committees were composed as shown in the following table:

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

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee, or “CGNC”, develops, recommends to the Board of Directors, and monitors a set of corporate governance principles applicable to Data I/O. The CGNC seeks qualified candidates to serve on the Board of Directors, and until March 8, 2012 when the CGNC charter was amended, recommended them for the Board of Directors’ consideration for election as directors at the Annual Meeting of Shareholders and proposes candidates to fill vacancies on the Board of Directors. The CGNC met six times in 2013. Under the current CGNC charter, as long as Mr. Myer is not an independent director and is on the CGNC, the CGNC continues to seek qualified candidates, but the CGNC may not recommend the director nominees to the Board of Directors. Instead, director nominees are recommended for the Board’s selection by a majority of the independent directors of the Board in a Board vote in which only independent directors participate. The independent directors of the Board identify, evaluate, and recommend director nominees using the same methods employed by the CGNC, which are described in greater detail below.

Audit Committee

The Audit Committee appoints, oversees, evaluates, and engages independent certified public accountants for the ensuing year and approves the compensation and other terms of such engagement; reviews the scope of the audit; periodically reviews Data I/O’s program of internal control and audit functions; receives and reviews the reports of the independent accountants; and reviews the annual financial report to the directors and shareholders of Data I/O. Each member of the Audit Committee is an independent director, as defined by applicable NASDAQ listing standards and the Sarbanes-Oxley Act of 2002. During 2013 and through the date of this Proxy statement, all Audit Committee members have been “audit committee financial experts” as defined by the applicable Securities and Exchange (“SEC”) rules adopted pursuant to the Sarbanes-Oxley Act of 2002. The Audit Committee met five times during 2013. See the “Report of the Audit Committee” for additional information.

Compensation Committee

The Compensation Committee is composed entirely of independent directors, as defined by applicable NASDAQ listing standards. The Compensation Committee is responsible for setting and administering the policies which govern all of the compensation programs of Data I/O.

The Compensation Committee makes recommendations to the Board of Directors concerning the compensation of Data I/O's executive officers. The Compensation Committee administers Data I/O's long-term equity incentive plans. The Compensation Committee reviews all employee benefit programs and approves significant changes in major programs and all new programs. The Compensation Committee met six times during 2013.

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

Consideration of Director Nominees

The Corporate Governance and Nominating Committee as part of its succession plan developed, and the Board has approved, Board Responsibilities and Director Recruitment Objectives, which further outline our directors roles and responsibilities and desired traits, characteristics, experience and criteria for selection. The Corporate Governance and Nominating Committee, or the independent members of the Board of Directors, as applicable, in evaluating and determining whether to recommend a person as a candidate for election as a director consider, in light of the Board Responsibilities and Director Recruitment Objectives, the relevant management and/or technology industry experience of potential director candidates (such as experience as chief executive, operations or financial officer, or similar positions); business development, mergers and acquisitions experience, public/corporate board experience, diversity, knowledge of Data I/O; educational experience; commitment to maximizing shareholder value; certain values such as integrity, accountability, judgment and adherence to high performance standards; independence pursuant to applicable guidelines; ability and willingness to undertake the required time commitment to Board functions; shareholder input; and an absence of conflicts of interest with Data I/O.

Director Diversity

The Corporate Governance and Nominating Committee also considers issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. The CGNC does not have a formal policy on Board diversity; however, the CGNC believes that it is important for Board members to represent diverse viewpoints. In considering candidates for the Board, the CGNC considers the entirety of each candidate's credentials in the context of these standards. With respect to evaluating the nomination of continuing directors for re-election, the individual's contributions to the Board are also considered.

Identifying Director Nominees; Consideration of Nominees of the Shareholders

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

The Corporate Governance and Nominating Committee will consider candidates recommended by shareholders, when the nominations are properly submitted, under the criteria summarized above in "Consideration of Director Nominees" and in accordance with the procedures described below in "Shareholder Nominations and Proposals for the 2015 Annual Meeting of Shareholders." Following verification of the shareholder status of persons proposing candidates, the CGNC makes an initial analysis of the qualifications of any candidate recommended by shareholders or others pursuant to the criteria summarized above to determine if the candidate is qualified for service on the Data I/O Board of Directors before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a shareholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the CGNC as part of its review. Other than the verification of compliance with procedures and shareholder status, and the initial analysis performed by the CGNC, a potential candidate nominated by a shareholder is treated like any other potential candidate during the review process by the CGNC. For eligible shareholder nominees to be placed on the ballot for the 2014 Annual Meeting of Shareholders, shareholders were required to deliver nominations for proposed director nominees to Data I/O by February 20, 2014. While no formal candidate nominations were made by shareholders for election at the

2014 Annual Meeting, candidates added in 2013 were identified and recommended by shareholders and included in the selection process for new nominations. Mr. Brown and Mr. Crowley were initially identified by members of the Board of Directors and management. Mr. Howe and Mr. Gallenberger were initially identified by discussions with significant shareholders and the Board.

Certain Relationships and Related Transactions

Our Audit Committee is charged with monitoring and reviewing issues involving potential conflicts of interest, and reviewing and approving related party transactions as set forth in the Code of Ethics, which is posted on the corporate governance page of our website at www.dataio.com/company/investorrelations/corporategovernance.aspx. Under our Code of Ethics, our directors, officers and employees are expected to avoid conflicts of interest with Data I/O and are required to report any such conflicts of interest to our Chief Executive Officer or Chief Financial Officer, or to the Chair of our Audit Committee. Our Audit Committee reviews all such transactions and relationships by our directors and executive officers that come to its attention either through the director and officer questionnaires or otherwise, and considers whether to approve or take other appropriate action with respect to such transactions or relationships. During 2013, no related party transactions that were significant or material occurred.

BOARD COMPENSATION

Employee directors (Anthony Ambrose) do not receive additional compensation for serving on the Board of Directors. During 2013, non-employee directors received a cash retainer of \$7,750 for each quarter of service. Data I/O paid additional quarterly compensation to the non-employee directors who served as Chairman of the Board of Directors or as a Committee chair: \$3,750 for Chairman of the Board of Directors; \$2,500 for Chairman of the Audit Committee; \$2,000 for Chairman of the Compensation Committee; and \$2,000 for Chairman of the Corporate Governance and Nominating Committee. Fees are prorated based on time served for changes in directors and assignments.

In addition, each non-employee Board of Directors member as of May 20, 2013, was granted a restricted stock award for 5,800 shares of Data I/O stock. New non-employee members who join the Board of Directors are granted 15,000 nonqualified stock options as an initial grant. The stock options are granted under the provisions and terms of the Amended and Restated 2000 Stock Compensation Incentive Plan ("2000 Plan"). Data I/O also reimburses non-employee directors for actual travel and out-of-pocket expenses incurred in connection with service to Data I/O.

At the January 25, 2012 Board of Directors meeting, the Board determined that, with the revised cash retainer amount, each Data I/O non-employee member of the Board of Directors will be required to achieve ownership of Data I/O stock at least equal to three times the annual director cash retainer fee based on Data I/O's then current share price. Non-employee directors have five years from their initial election or appointment to meet the ownership target requirement. Amounts that count toward meeting the target requirement include: shares owned; shared ownership (shares owned or held in trust by immediate family); and the gain amount from in-the-money vested options. If the stock ownership target requirement has not been met by any non-employee director, until such time as such director reaches the target requirement, he or she will be required to retain any Data I/O shares issued by Data I/O to such director (other than those disposed of to pay for the exercise and associated taxes on those shares). As of the Record Date, none of the current non-employee directors met the stock ownership target requirement, but they have from 3 to 5 years to meet the stock ownership target requirement.

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

DIRECTOR COMPENSATION

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

Name	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)
Steven M. Quist (4)	\$3,358	\$7,203	\$0	\$0	\$0	\$0	\$10,561
William R. Walker(4)	\$3,530	\$7,203	\$0	\$0	\$0	\$0	\$10,733
Douglas W. Brown (1)(2)	\$46,000	\$12,151	\$0	\$0	\$0	\$0	\$58,151
Kenneth B. Myer (1)(2)(3)	\$39,000	\$12,151	\$0	\$0	\$0	\$0	\$51,151
Brian T. Crowley (1)(2)	\$32,861	\$12,151	\$0	\$0	\$0	\$0	\$45,012
Alan B. Howe (1)(2)(5)	\$35,257	\$12,151	\$10,762	\$0	\$0	\$0	\$58,170
Mark J. Gallenberger (1)(2)(5)	\$33,889	\$12,151	\$10,762	\$0	\$0	\$0	\$56,802

- (1) Each outside director elected at the annual meeting in 2013 was awarded 5,800 shares of restricted stock with a fair value of \$12,151 on May 21, 2013 vesting in one year or the next annual meeting, if earlier. Quist and Walker had vesting of 4,200 restricted stock awards accelerated on January 31, 2013.
- (2) Each outside director had the following aggregate number of option awards outstanding at December 31, 2013: Brown, 27,500; Myer, 17,500; Crowley, 15,000, Gallenberger 15,000 and Howe 15,000.
- (3) Mr. Myer was appointed as a director effective March 8, 2012. In connection with his previous consulting engagement with Data I/O during 2011, he received consulting fees of \$123,750 and a February 24, 2011 grant of 5,000 options at a grant price of \$5.975 per share, vesting quarterly over one year, with a life and exercise period of 3 years. He vested in 2,500 of those options and forfeited 2,500 at the end of his engagement in October 2011.
- (4) Mr. Quist and Mr. Walker retired from the Board on January 31, 2013.
- (5) Mr. Howe and Mr. Gallenberger were appointed as directors January 31, 2013. On being appointed a director, an initial option grant of 15,000 shares was made to Mr. Howe and Mr. Gallenberger on January 31, 2013, with a 6 year life and 3 year quarterly vesting.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

To Data I/O's knowledge, based solely on its review of copies of such reports furnished to Data I/O and representations that no other reports were required, all Section 16(a) filing requirements applicable to its Reporting Persons were complied with during 2013, except a Form 4 by Messrs. Hatlen, Ambrose, Bluechel, Gallenberger, Howe, and Myer that each was filed one day late for a grant transaction.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees Data I/O's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the consolidated financial statements and the reporting process, including the systems of internal controls. Audit Committee members are not professional accountants, or auditors and their functions are not intended to duplicate or to certify the activities of management or the independent auditors. In fulfilling its oversight responsibilities, the Committee reviewed the

audited consolidated financial statements in the Annual Report (Form 10-K) with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited consolidated financial statements with generally accepted accounting principles in the United States, their judgments as to the quality, not just the acceptability, of Data I/O's accounting principles and such other matters as are required to be discussed by PCAOB AU Section 380 with the Committee under generally accepted auditing standards. In addition, the Committee has discussed with the independent auditors the auditors' independence from management and Data I/O including the matters in the written disclosures and the letter provided by the independent auditors, as required by the applicable requirements of the Public Company Oversight Board for independent auditor communications with Audit Committees concerning independence, and considered the compatibility of non-audit services with the auditors' independence.

The Committee selects and engages Data I/O's independent auditors and discusses the overall scope and plans for their audits. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of Data I/O's internal controls, and the overall quality of Data I/O's financial reporting. The Committee held five meetings during 2013, of which four were attended by Data I/O's independent auditors.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited consolidated financial statements be included in Data I/O's Annual Report (Form 10-K) for the year ended December 31, 2013 for filing with the Securities and Exchange Commission. The Committee has selected Grant Thornton LLP as Data I/O's auditors for the current year.

Respectfully submitted,

AUDIT COMMITTEE

Douglas W. Brown
Brian T. Crowley
Alan B. Howe (Chair)

April 2, 2014

PRINCIPAL ACCOUNTANT'S FEES AND SERVICES

Audit Fees: Aggregate fees billed by Grant Thornton LLP for professional services rendered for the audit of Data I/O's financial statements for each of the years ended December 31, 2013 and 2012 and for review of the financial statements included in each of Data I/O's quarterly reports on Form 10-Q during each of the years ended December 31, 2013 and 2012, were approximately \$176,978 and \$194,650 respectively.

Audit Related Fees: No aggregate fees were billed for the years ended December 31, 2013 and 2012 for assurance and subsidiary related services by Grant Thornton LLP that are reasonably related to the performance of the audit or review of Data I/O's financial statements that are not reported under the caption "Audit Fees" above, including accounting treatment consultations.

Tax Fees: No aggregate fees were billed for the years ended December 31, 2013 and 2012 for professional services rendered by Grant Thornton LLP for tax compliance, tax advice, tax examination support, and tax planning.

All Other Fees: No aggregate fees were billed for the years ended December 31, 2013 and 2012 for all other products and services provided by Grant Thornton LLP that are not otherwise disclosed above.

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

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

During the year, circumstances may arise when it may become necessary to engage the independent auditors for additional services not contemplated in the original pre-approval. In those circumstances, the Audit Committee has delegated pre-approval authority to

the Chair of the Audit Committee for those instances when pre-approval is needed prior to a scheduled Audit Committee meeting. These additional approvals should be reported at the next scheduled Audit Committee meeting.

For 2013, all services provided by the independent auditors were pre-approved.

EXECUTIVE COMPENSATION

Shareholder Vote

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

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

Elements of Our Company’s Compensation Plan

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

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

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

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

- **Annual Base Salary.** The Compensation Committee establishes a base salary structure for each executive officer position. This structure defines the salary levels and the relationship of base salary to total cash compensation. The Compensation Committee reviews the salary structure periodically. Effective July 1, 2012 base salary adjustments were made for executive officers and employees. In 2013, no base salary adjustments were made for executive officers as part of cost control measures.
- **MICP.** The MICP offers each executive officer a performance-based opportunity to earn the variable component of annual cash compensation in an amount tied to a percentage of the executive officer’s base salary. The Compensation Committee’s philosophy in setting executive MICP percentages and the formulas for MICP payout is to pay above average total compensation for better than average historical or expected financial performance and below average compensation for lower than or average historical or expected financial performance. The percentages of base salary targeted for MICP payout (“the MICP Target”) for specific executive officers for a given year are generally the same as the previous year, but can be changed by the Compensation Committee on an annual basis. The 2012 and 2013 MICP Target percentages for our executive officers were as follows: Mr. Hatlen 40% of base salary; Mr. Gulati 45% of base salary for 2013; and Mr. Bluechel 30% of base salary. Mr. Ambrose was provided a signing bonus of \$25,000 in lieu of 2012 MICP participation and 60% of base salary target percentage for 2013 MICP participation. The MICP payout can range from 0% to 200% of each executive’s MICP Target. If the maximum target measures in the applicable year’s MICP Variable Compensation Matrix were achieved under the MICP measures, the Chief Executive Officer, Mr. Ambrose, would earn a cash bonus of 120% of his base salary; Mr. Gulati would earn 90% of his base salary; Mr. Hatlen would earn 80% of his base salary; and Mr. Bluechel would have earned 60% of his base salary.

For 2012 the Compensation Committee determined that it was critical to emphasize revenue, as measured by revenue growth percentage, along with profitability, as measured by operating profit as a percentage of revenue, as the critical measures for the MICP payout. See below for the 2012 MICP Variable Compensation Matrix. The Compensation Committee retains

discretion to adjust the calculation of the two measures for changes outside normal business operations such as acquisitions or asset sales. The measurement periods for 2012 were quarterly with 15% of the incentive opportunity allocated to each quarter and 40% to annual results.

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

The Compensation Committee believes that for 2012, 2013 and 2014, the applicable measures of key results for Data I/O have affected or will affect near-term and long-term shareholder value. A greater or lesser percentage of MICP Target is to be paid based on Data I/O’s actual achievement of these measures with the payout target typically based on company financial plans as the Board determines appropriate. For 2012 the MICP payout was 0% of target. For 2013 the MICP payout was approximately 20% of target with payout achieved only under the PSP measure.

Data I/O Corporation 2012 MICP Variable Compensation Matrix

Range of Payouts (actual results interpolated) factor times 100%

2012 Revenue \$M-YEAR	\$ 25.4	\$ 25.8	\$ 26.2	\$ 26.6	\$ 27.0	\$ 28.3	\$ 29.6	\$ 30.9	\$ 32.2	\$ 33.5	\$ 34.8
% Rev Growth v. 2011Q/Y	-4.7%	-3.2%	-1.7%	-0.2%	1.3%	6.1%	11.0%	15.9%	20.8%	25.6%	30.5%
OP as a % of Rev											
21.9%	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2.0
19.9%	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9
17.9%	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8
15.9%	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7
13.9%	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.6
11.9%	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5
9.9%	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4
8.4%	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3
6.9%	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2
5.4%	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1
3.9%	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0
0.0%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Data I/O Corporation 2013 MICP Variable Compensation Matrix

Range of Payouts (actual results interpolated)

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

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

Financial Performance Matrix (FP)

	Target Payout				Target 200% Payout
Operating Profit as a % of Revenue	0.0%	2.5%	5.0%	7.5%	10.0%
FP matrix payout as a % of Target	0%	50%	100%	150%	200%

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

Award Criteria

The Compensation Committee grants options or restricted stock awards based primarily on its perception of the executive’s ability to affect future shareholder value and secondarily on the competitive conditions in the market for highly-qualified executives who typically command compensation packages which include a significant equity incentive. All options and restricted stock awards granted to our executive officers in 2011 and 2012 were based on these criteria.

Exercise Price

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

Vesting and Exercise

Options granted to employees vest at a rate of 6.25% per quarter and have a six year term. Options granted to non-employee Directors are also non-qualified options and vest quarterly over a three year period. Restricted stock grants to employees vest annually over a 4 year period. Restricted stock grants to non-employee Directors vest in one year or on the next annual meeting date, if earlier. All grants are subject to acceleration of vesting in connection with certain events leading to a change in control of Data I/O or in the advent in a change in control or at any other time at the discretion of the Compensation Committee. All options granted to executive officers are issued in tandem with limited stock appreciation rights (“SARs”), which become exercisable only in the event of a change in control of Data I/O. See “Change in Control and other Termination Arrangements.”

Award Process

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

- **Benefits.** Executive Officers of Data I/O are eligible for the same benefits as other Data I/O employees. Data I/O has no defined benefit pension programs. Data I/O has a 401(k) tax qualified retirement savings plan in which all U.S. based employees, including U.S. executive officers, are able to contribute the lesser of up to 100% of their annual salary or the limit prescribed by the IRS on a Roth or pre-tax basis. Data I/O will match up to 4% of pay contributed. Matching contributions in any year require employment on December 31, except in the case of retirement per the plan, and vest after three years of service credit.
- **Perquisites and Other Personal Benefits.** We believe perquisites are not conditioned upon performance, create divisions among employees, undermine morale, and are inconsistent with our compensation philosophy and policy of equitable treatment of all employees based upon their contribution to our business. No executive officer received perquisites valued at \$10,000 or more in 2011 or 2012, except in connection with his hiring and relocation. Mr. Ambrose was provided temporary living and relocation expenses of \$5,746 in 2012 and \$50,661 in 2013. Mr. Gulati was provided temporary living and relocation expenses of \$5,828 in 2013 with a remaining relocation allowance of up to \$19,172 available in 2014.
- **Individual Executive Officers' Performance.** The base salary of each executive officer is reviewed annually by the President and Chief Executive Officer. This is done on the basis of a review by the President and Chief Executive Officer, evaluating the executive's prior year performance against their individual job responsibilities and attainment of corporate objectives and Data I/O's financial performance. In developing executive compensation packages to recommend to the Compensation Committee, the President and Chief Executive Officer considers, in addition to each executive's prior year performance, the executive's long-term value to Data I/O, the executive's pay relative to that for comparable surveyed jobs, the executive's experience and ability relative to executives in similar positions, and the current year increases in executive compensation projected in industry surveys.

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

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

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

Consideration of Risk in Compensation

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

- Our long-term incentives in the form of stock options or restricted stock are at the discretion of the Compensation Committee and not formulaic.
- Stock options become exercisable over a four year period and remain exercisable for up to six years from the date of grant and restricted stock awards vest over a four year period, encouraging executives to look to long-term appreciation in equity values.
- We balance short and long-term decision-making with the annual cash incentive program and stock options and restricted stock that vest over four years.

- Because of the extent of the CEO and CFO's direct stock ownership, they could lose significant wealth if Data I/O were exposed to inappropriate or unnecessary risks which in turn affected our stock price.
- The metrics used in the MICP are measures the Committee believes drive shareholder value. Moreover, the Committee attempts to set ranges for these measures that encourage success without encouraging excessive risk taking to achieve short-term results.
- In addition, the overall MICP incentive compensation cannot exceed two times the MICP Target amount, no matter how much financial performance exceeds the ranges established at the beginning of the year.

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. We are required to value granted stock options under the fair value method and expense those amounts in the income statement over the stock option's remaining vesting period. Restricted stock is valued at its fair value on the award date and is expensed over its vesting period.

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 covered employees (generally the chief executive officer and the three other most highly compensated executive officers, other than the chief financial officer, whose compensation must be disclosed pursuant to rules and regulations under the Securities Exchange Act of 1934) exceeding \$1 million 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 2013 will exceed the \$1 million limitation, except possibly related to a change of control.

Change in Control and other Termination Arrangements

- **Change in Control Arrangements.** Data I/O has entered into agreements (the "Executive Agreements") with Messrs. Ambrose, Gulati 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, 2011, the Executive Agreement of Mr. Hatlen was amended and restated and the term of his Executive Agreement was extended until December 31, 2014. The term of the Executive Agreement with Mr. Ambrose ends October 25, 2015. The term of the Executive Agreement with Mr. Gulati ends July 25, 2016. The Executive Agreements ensure appropriate incentives are in place for Messrs. Ambrose, Gulati 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 Executive Agreements 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 (See: "Other Termination Arrangements" below for current severance policy). The Executive Agreements 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 Executive Agreements also have a transaction closing incentive of one half year's annual salary for Messrs. Ambrose, Gulati and Hatlen to encourage the consideration of all forms of strategic alternatives.

In order to better ensure appropriate incentives were in place for Mr. Bluechel and certain other key individuals 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 Mr. Bluechel and certain other key individuals:

- 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 Qualifying Awards (stock options and restricted stock) 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.

Data I/O's option grants and stock awards have been granted pursuant to the provisions of the 2000 Plan. The Change in Control provision applicable to the 2000 Plan is as follows:

2000 Plan

The 2000 Plan allows for the granting of “Awards”, which include options, restricted stock and other awards made pursuant to the Plan. 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 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 other Award that has been held for at least 180 days as of the Change of Control. “Qualifying Shares” means 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 the holder’s termination of services to Data I/O.

Treatment of Awards on a Change in Control	Acceleration of Vesting
The outstanding Awards do not remain outstanding or are not assumed by the surviving entity or replaced with comparable Awards.	Subject to certain limitations, the vesting of Qualifying Awards are accelerated in full. Restricted stock will vest and options will be exercisable in full prior to the effective date of the Change of Control.
The outstanding Awards remain outstanding after a Change of Control or are assumed by the surviving entity or replaced with comparable Awards.	Subject to certain limitations, the vesting of outstanding Qualifying 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 Awards remain outstanding after a Change of Control or are assumed by the surviving entity or replaced with comparable Awards, but the holder of a Qualifying Award is terminated involuntarily within 180 days of the Change of Control.	All Awards held by such person will be accelerated in full. Restricted stock will vest and options will be 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.

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 current formula, effective March 1, 2014, is 1 week pay for each year of service with a limit of six months’ pay. For Mr. Hatlen, the prior standard formula applies, with pay and service years frozen at March 1, 2014, providing 1.5 weeks of pay for each year of service for those with 10 or more years of service. Mr. Ambrose, Mr. Hatlen and Mr. Gulati had at March 19, 2014 approximately 1, 22 and 1 years of service, respectively. Mr. Ambrose is entitled to a one year of base salary severance, except in the case of a change in control, as part of his employment arrangement. Mr. Gulati is entitled to a one-half year of base salary severance, except in the case of a change in control, as part of his employment arrangement. 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.

Change in Control and Other Termination Arrangements

Name (6)	Termination without cause and Change in Control not applicable	Termination without cause and Change in Control applicable	Option/SAR/RSA Vesting (1)	Change in Control applicable without termination	Option/SAR/RSA Vesting (1)
	Compensation (3)	Compensation (2)		Compensation (4)	
Anthony Ambrose (5)	\$310,000	\$527,775	228,750	\$155,000	228,750
Joel S. Hatlen	\$134,351	\$480,135	56,874	\$103,500	56,874
Rajeev Gulati (7)	\$112,500	\$375,388	87,500	\$112,500	87,500

- (1) Maximum vesting on Change in Control as of March 20, 2014.
- (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 March 20, 2014.
- (3) Minimum amount per Data I/O standard employee severance plan; no formal executive severance plan is in place as of March 20, 2014. See (5) below for Mr. Ambrose and (7) below for Mr. Gulati.
- (4) Represents change in control transition/closing incentive as of March 20, 2014.
- (5) Mr. Ambrose entitled to a one year of base salary severance, except in the case of a change in control, as part of his employment arrangement.
- (6) Mr. Bluechel (former Vice President terminated January 4, 2014) entered into a standard severance agreement and release January 4, 2014 which included severance under the standard employee severance plan of \$101,386 and reimbursement of up to \$7,500 of outplacement services and has no remaining arrangements at March 20, 2014.
- (7) Mr. Gulati is entitled to a one-half year of base salary severance, except in the case of a change in control, as part of his employment arrangement.

SUMMARY COMPENSATION TABLE

The following table shows compensation paid by Data I/O for services rendered during 2012 and 2013 to each of our named executive officers.

Name ¹ (a)	Year (b)	Salary ² (c)	Bonus ³ (d)	Stock Awards ⁴ (e)	Option Awards ^{4,5} (f)	Non- Equity Incentive Plan Compensation ⁶ (g)	Non- Qualified Deferred Compensation Earnings ⁷ (h)	All Other Compensation ⁸ (i)	Total (j)
Anthony Ambrose Chief Executive Officer & President									
	2013	\$310,000	\$0	\$72,275	\$0	\$36,704	\$0	\$61,922	\$480,901
	2012	\$57,629	\$25,000	\$140,250	\$154,615	\$0	\$0	\$5,923	\$383,417
Joel Hatlen Vice President Chief Financial Officer, Secretary Treasurer									
	2013	\$207,000	\$0	\$51,625	\$0	\$16,339	\$0	\$9,111	\$284,075
	2012	\$203,500	\$0	\$0	\$46,629	\$0	\$0	\$10,397	\$260,526
Gordon Bluechel Vice President Operations & Administration									
	2013	\$166,000	\$0	\$30,975	\$0	\$9,827	\$0	\$8,068	\$214,870
	2012	\$163,000	\$0	\$0	\$34,972	\$0	\$0	\$8,600	\$206,572
Rajeev Gulati Vice President Chief Technical Officer									
	2013	\$103,990	\$0	\$0	\$209,000	\$9,234	\$0	\$10,157	\$332,381

- (1) Data I/O currently has three named executive officers at March 19, 2014. Mr. Bluechel terminated January 4, 2014. Mr. Ambrose started October 25, 2012 and Mr. Gulati started July 15, 2013.
- (2) Annual pay adjustments were made effective July 1, 2012 and no pay adjustments were made in 2013.
- (3) Signing bonus at hire in lieu of 2012 MICP Participation for Mr. Ambrose.
- (4) Amount represents the fair value of restricted stock or the fair value of stock options granted during the year.
- (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) Amounts earned under the MICP variable compensation arrangement in place for the year.
- (7) Not applicable for Data I/O.
- (8) These amounts represent for Mr. Ambrose, Mr. Hatlen, Mr. Gulati and Mr. Bluechel, Data I/O's matching contributions to Data I/O's 401(k) Plan, and the value of group term life insurance in excess of premiums paid by each of the executive officers. For Mr. Ambrose it includes temporary living and relocation expenses of \$5,746 for 2012 and \$50,661 for 2013). For Mr. Gulati it includes temporary living and relocation expenses of \$5,828 (\$19,172 of an allowance for temporary living and relocation expenses remain available for 2014).

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised 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 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)
Anthony Ambrose	50,000	150,000		1.87	10/25/2018	91,250	\$236,794	0	\$0
Joel Hatlen	20,000	0		5.98	5/19/2014	25,000	\$64,875	0	\$0
	25,000	0		3.07	5/14/2015				
	21,875	3,125		4.30	5/11/2016				
	15,625	9,375		6.02	5/17/2017				
	15,000	25,000		2.82	5/10/2018				
Rajeev Gulati	6,250	93,750		2.09	7/26/2013	0	\$0	0	\$0
Gordon Bluechel	15,000	0		5.98	5/19/2014	15,000	\$38,925	0	\$0
(1)	18,750	0		3.07	5/14/2015				
	17,500	7,500		4.30	5/11/2016				
	12,500	12,500		6.02	5/17/2017				
	11,250	18,750		2.82	5/10/2018				

(1) All of Mr. Bluechel's outstanding vested options could only be exercised within three months following his termination date of January 4, 2014 and his unvested options and restricted stock were forfeited.

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, 2013.

	(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)	607,169	\$4.25	814,059
Equity compensation plans not approved by the security holders (3)	300,000	\$1.94	-
Total	907,169	\$3.49	814,059

- (1) Represents shares of Data I/O's Common Stock issuable pursuant to our 2000 Plan, 1992 Employee Stock Purchase Plan, and Director Fee Plan (not currently in use). Table excludes unvested restricted stock awards of 190,825 from the 2000 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.
- (3) Inducement grants to Anthony Ambrose consisting of 200,000 non-qualified stock options and to Rajeev Gulati consisting of 100,000 non-qualified stock options. Table excludes unvested restricted stock award inducement grants of 56,250 to Anthony Ambrose.

PROPOSAL 2: RATIFICATION OF INDEPENDENT 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 2014. Grant Thornton LLP examined the consolidated financial statements of Data I/O for the year ended December 31, 2013. 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.

The Board recommends a vote "FOR" the continued appointment of Grant Thornton LLP to serve as Data I/O's independent auditors for calendar year 2014.

PROPOSAL 3: SAY ON PAY - ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Board of Directors requests that the shareholders approve, on an advisory basis, the compensation paid to Data I/O's Named Executive Officers, as described in "Executive Compensation", pursuant to the following Advisory Resolution:

"RESOLVED, that Data I/O's shareholders approve, on an advisory basis, the compensation of Data I/O's named executive officers, as disclosed in Data I/O's Proxy Statement for the 2014 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the 2013 Summary Compensation Table and the other related tables and disclosure."

Our executive compensation program contains elements of cash, incentive and equity-based compensation and is designed to align the interests of our executives with those of our shareholders. The "Executive Compensation" section of this proxy statement, describes in detail our executive compensation programs.

The Board has implemented an executive compensation program that is intended to reward performance based on goals established by the Board. The Board fosters a performance-oriented culture by linking a significant portion of each executive officer's compensation

to overall Company performance, as measured in 2014 by operating income as a percentage of revenue and/or achievement of key development projects and corporate cost and spending objectives, which the Company believes to be important metrics for Data I/O and its shareholders. We believe that equity awards align the interests of our executives with those of our long-term shareholders by encouraging long-term performance and incentivizing our executives to increase long-term shareholder value. Equity awards represent a key component, and are a significant portion, of our executive compensation.

The Board has designed Data I/O's executive compensation program to attract, motivate, reward and retain our executive officers to achieve Data I/O's corporate objectives and increase shareholder value.

The Say on Pay vote is advisory and not binding on Data I/O or the Board of Directors, however the Board will consider the outcome of the vote when making future compensation decisions for our executive officers.

The Board recommends a vote "FOR" the Advisory Resolution (Say on Pay) approving the compensation of the Company's named executive officers as described in this Proxy Statement.

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 2015 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 at its principal offices on or before February 18, 2015 in the case of the 2015 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. Data I/O's Bylaws also provide that advance notice of business to be brought before the 2015 Annual Meeting of Shareholders by a shareholder must be submitted in writing and delivered to or mailed and received by Data I/O on or before February 18, 2015.

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 2015 Annual Meeting is February 18, 2015. 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 2014 Annual Meeting.

Eligible shareholders who intend to have a proposal considered for inclusion in Data I/O's proxy materials for presentation at the 2015 Annual Meeting must submit the proposal to Data I/O at its principal offices no later than December 12, 2014. Shareholders who intend to present a proposal at the 2015 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 18, 2015, as further directed above.

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.

STOCKHOLDERS SHARING THE SAME ADDRESS

To reduce the expenses of delivering duplicate materials, we are taking advantage of the SEC's "house holding" rules which permit us to deliver only one set of proxy materials (or one Notice of Internet Availability of Proxy Materials) to shareholders who share an address unless otherwise requested. If you share an address with another shareholder and have received only one set of these materials, you may request a separate copy at no cost to you by contacting Investor Relations by email at investorrelations@dataio.com, by phone at (425) 881-6444, by fax at (425) 881-2917 or by writing to Data I/O investor relations, attention Joel Hatlen, 6464 185th Avenue NE, Suite 101, Redmond WA 98052. For future annual meetings, you may request separate materials, or request that we send only one set of materials to you if you are receiving multiple copies, by contacting Investor Relations as noted 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 such 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, 2013 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 c/o Secretary, 6464 185th Avenue NE, Suite 101, Redmond, WA 98052 or by calling (425) 881-6444. Copies of the exhibits to our annual report on Form 10-K are available for a nominal fee or may be viewed at <http://www.dataio.com/company/investorrelations/annualmeeting.aspx> or www.sec.gov in the EDGAR filing of our report.

By Order of the Board of Directors

/s/ Anthony Ambrose
Anthony Ambrose
President and Chief Executive Officer

Redmond, Washington
April 2, 2014

Board of Directors

Anthony Ambrose (2012)
President/CEO

Douglas W. Brown (2011)
President/CEO
All Star Directories, Inc.
(Web Services Software)

Brian T. Crowley (2012)
Vice President Engineering
Snupi Technologies
(Sensor to Cloud)

Mark J. Gallenberger (2013)
Sr. Vice President/CFO/COO
LTX-Credence Corporation
(Semiconductor Test Equipment)

Alan B. Howe (2013)
Managing Partner
Broadband Initiatives, LLC
(Corporate Advisory & Consulting)

Kenneth B. Myer (2012)*
Partner
Vantage Point, LLC
(Strategy Consulting & Interim
Executive Services)

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

**Not standing for re-election*

Corporate Officers

Anthony Ambrose
President/CEO

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

Rajeev Gulati
Vice President
Chief Technology Officer

Corporate Offices:

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

Sales and Service Offices:

China
Data I/O Electronics (Shanghai)
Co. Ltd
27F Majesty Building
138 Pudong Avenue
Shanghai, China PRC 200120

Germany
Data I/O GmbH
Lochhamer Schlag 5
82166 Graefelfing

Legal Counsel:

Dorsey & Whitney LLP
Columbia Center
701 5th Ave #6100,
Seattle, WA 98101

Auditors:

Grant Thornton LLP
520 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/company/investorrelations/financialreports.aspx> or contact Joel Hatlen, Vice President and Chief Financial Officer, 6464 185th Ave NE, Suite 101, Redmond, WA 98052.

Shareholders Meeting:

The 2014 Annual Meeting of Shareholders will be held on Monday, May 19, 2014 at 10:00 a.m. Pacific Time at the Company's headquarters:

Data I/O Corporation
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:

Computershare
P.O. Box 30170
College Station, TX 77842-3170
(888) 540-9882

Overnight correspondence

Computershare
211 Quality Circle, Suite 210
College Station, TX 77845

Shareholder website:

www.computershare.com/investor

Shareholder online inquiries:

<https://www-us.computershare.com/investor/Contact>

Exchange Listing:

Stock Symbol: DAIO
NASDAQ



6464 185th Ave NE
Suite 101
Redmond, WA 98052

Programming Matters

Since 1972 Data I/O has developed innovative solutions to enable the design and manufacture of electronic products for automotive, wireless, consumer electronics, industrial controls, medical, and military/aerospace markets. Today, our customers manufacture tens of millions of products each year using Data I/O programming solutions to reliably, securely, and cost-effectively deliver their Intellectual Property into programmable devices. Data I/O provides programming solutions for devices in any package, whether programmed in a socket or on a circuit board. Our expertise in programmable integrated circuits, global supply chain processes, and IP management and protection helps bring innovative new products to life. These solutions are backed by a global network of Data I/O support and service providers, assuring success for our customers.