

DATA I/O CORP
Form DEF 14A
April 06, 2006

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

[] Preliminary Proxy Statement

[] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[] Definitive Additional Materials

[] Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

Data I/O Corporation

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

DATA I/O CORPORATION

NOTICE OF 2006

ANNUAL MEETING

and

PROXY STATEMENT

DATA I/O CORPORATION

March 31, 2006

To Our Shareholders:

You are cordially invited to attend the 2006 Annual Meeting of Data I/O Corporation, which will be held at Data I/O's headquarters at 10525 Willows Road N.E., Redmond, Washington 98052. The meeting will begin at 2:00 p.m. Pacific Daylight Time on Wednesday, May 24, 2006. Following the meeting, there will be an opportunity to see some of Data I/O's exciting new products.

Officers of Data I/O will be attending and would be pleased to respond to questions after the meeting. We will review the business operations of Data I/O for 2005 and the first quarter of 2006 and report on Data I/O's strategic plan for the future. Formal business will include the election of directors, consideration of a proposal to amend Data I/O's 2000 Stock Compensation Plan, and ratification of the continued appointment of Grant Thornton LLP as Data I/O's independent auditors.

Please read the proxy materials carefully. Your vote is important. Data I/O appreciates you considering and acting on the proposals presented. I am looking forward to seeing you on May 24th.

Sincerely,

Frederick R. Hume
President and Chief Executive Officer

DATA I/O CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS May 24, 2006

To the Shareholders of Data I/O Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Data I/O Corporation (the Company or Data I/O) will be held at 2:00 p.m. Pacific Daylight Time, on Thursday, May 24, 2006, at Data I/O's principal offices, 10525 Willows Road N.E., Redmond, Washington 98052, for the following purposes:

To the Shareholders of Data I/O Corporation:

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- (1) **Election of Directors:**
To elect six directors, each to serve until the next annual meeting of shareholders or until his or her successor is elected and qualified or until such director's earlier death, resignation, or removal.
- (2) **2000 Stock Compensation Incentive Plan:**
To consider and vote on a proposal to amend the Data I/O Corporation 2000 Stock Compensation Incentive Plan (the 2000 Plan) to increase the number of shares reserved for issuance under the 2000 Plan by an additional 300,000 shares of common stock.
- (3) **Ratification of Independent Auditors:**
To ratify the continued appointment of Grant Thornton LLP as Data I/O's independent auditors for the calendar year ended December 31, 2006.
- (4) **Other Business:**
To consider and vote upon such other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board of Directors has fixed the close of business on March 27, 2006, as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the 2006 Annual Meeting and any adjournment or postponement thereof.

By Order of the Board of Directors

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

Redmond, Washington
March 31, 2006

YOUR VOTE IS IMPORTANT

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

**DATA I/O CORPORATION
10525 Willows Road N.E.
Redmond, Washington 98052**

PROXY STATEMENT

**ANNUAL MEETING OF SHAREHOLDERS
May 24, 2006**

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 Wednesday, May 24, 2006, at 2:00 p.m. Pacific Daylight Time at Data I/O s principal offices, 10525 Willows Road N.E., Redmond, Washington 98052, and at any adjournment thereof (the Annual Meeting). Shareholders of record at the close of business on March 27, 2006 (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 2004 Annual Report to Shareholders are being mailed to shareholders on or about April 13, 2006.

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

A proxy in the accompanying form, which is properly signed, dated and returned and not revoked, will be voted in accordance with the instructions contained therein. To vote on the election of directors, check the appropriate box under Item No. 1 on your proxy card. You may (a) vote for all of the director nominees as a group, (b) withhold authority to vote for all director nominees as a group, or (c) vote for all director nominees as a group except those nominees indicated to the contrary. To vote on a proposal to amend the Data I/O Corporation 2000 Stock Compensation Incentive Plan (the 2000 Plan) to increase the number of shares reserved for issuance under the 2000 Plan by an additional 300,000 shares of common stock, check the appropriate box under Item No. 2 on your proxy card. You may (a) vote FOR approval of the amendment to the 2000 Plan, (b) vote AGAINST approval of the amendment to the 2000 Plan, or (c) ABSTAIN from voting on the approval of the amendment to the 2000 Plan. To vote on the proposal to ratify Grant Thornton LLP as Data I/O s independent auditors for the calendar year ended December 31, 2006, check the appropriate box under Item No. 3 on your proxy card. You may (a) vote FOR approval of the ratification of Grant Thornton LLP as Data I/O s independent auditors, (b) vote AGAINST approval of the ratification of Grant Thornton LLP as Data I/O s independent auditors, or (c) ABSTAIN from voting on the ratification of Grant Thornton LLP as Data I/O s independent auditors. Proxies which are returned to Data I/O without instructions will be voted as recommended by the Board of Directors. Any shareholder who returns a proxy may revoke it at any time prior to the voting thereof on any matter (without, however, affecting any vote taken prior to such revocation) by (i) delivering written notice of revocation to the Secretary of Data I/O at Data I/O s principal offices, (ii) executing and delivering to Data I/O another proxy dated as of a later date, or (iii) voting in person at the Annual Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS

The only outstanding voting securities of Data I/O are shares of common stock (the Common Stock). As of the Record Date, there were 8,410,961 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 to constitute a quorum for the transaction of 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 six nominees for election to the Board of Directors who receive the greatest number of affirmative votes cast at the Annual Meeting shall be elected directors. Abstentions will have no effect on the election of directors because they are not cast in favor of any particular candidate. There can be no broker non-votes on the election of directors

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because brokers who hold shares for the accounts of their clients have discretionary authority to vote such shares with respect to the election of directors. The proposals to amend the amendment to the 2000 Plan and to ratify the continued appointment of Grant Thornton as Data I/O's independent auditors will be approved, if a quorum is present, if the number of votes cast in favor of the proposals exceeds the number of votes cast against the proposals. Abstentions and broker non-votes on the proposals will have no effect because approval of the proposals are based solely on the votes cast. Proxies and ballots will be received and tabulated by Mellon Investor Services, an independent business entity not affiliated with Data I/O.

The Common Stock is traded on the NASDAQ Capital Market under the symbol DAIO. The last sale price for the Common Stock, as reported by the NASDAQ Capital Market on March 15, 2006, was \$4.17 per share.

The following table sets forth information with respect 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 15, 2006. Except as noted below, each person or entity has sole voting and investment powers with respect to the shares shown.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Shares Outstanding
Leviticus Partners, L.P. Adam M. Hutt AMH Equity LLC Parameter Partners LLC 30 Park Avenue Suite 12F New York, NY 10016	789,445 (1)	9.39%
John W. Stanton & Theresa E. Gillespie 3650 - 131st Ave. SE Bellevue, WA 98006	546,600 (2)	6.50%
Glen F. Ceiley Bisco Industries, Inc. 1500 N. Lakeview Ave Anaheim, CA 98207	475,250 (3)	5.65%

- (1) The holding shown is as of April 20, 2005 as jointly reported by Leviticus Partners, L.P. (Leviticus); AMH Equity, LLC (AMH); Adam Hutt; and Parameter Partners, LLC (Parameter), on the most recent Schedule 13G filed pursuant to Rule 13d-1(b) or 13d-2(b) under the Securities Exchange Act of 1934. The Schedule 13D/A indicates Leviticus holds sole voting and dispositive power with respect to 750,000 shares; Parameter holds a sole voting and dispositive power with respect to 39,445 shares; AMH is the general partner of Leviticus and Parameter; and Adam Hutt is the controlling person of AMH. AMH and Adam Hutt each are deemed to be the beneficial owner of 639,445 shares and each disclaim any beneficial ownership of these shares.
- (2) The holding shown is as of January 30, 2002, as reported by John W. Stanton and Theresa E. Gillespie, husband and wife, on a Schedule 13G filed pursuant to Rule 13d-1 of the Securities Exchange Act of 1934. We confirmed the holding as unchanged with a representative of Stanton and Gillespie on March 3, 2005. The Schedule 13G indicates that Mr. Stanton and Ms. Gillespie share voting and dispositive power with respect to 546,600 shares, which they own as tenants-in-common.
- (3) The holding shown is as of March 3, 2006 including as reported to Data I/O by Glen F. Ceiley on behalf of himself, Bisco Industries, Inc. (Bisco), and Bisco Industries, Inc. Profit Sharing and Savings Plan (the Bisco Plan) on a Schedule 13D/A filed March 3, 2006 pursuant to Rule 13-d (b) or 13d-2(b) under the

Securities Exchange Act of 1934. Mr. Glen Ceiley reported that he holds sole voting and dispositive power with respect to 29,807 shares, Bisco holds sole voting and dispositive power with respect to 298,893 shares, and the Bisco Plan holds sole voting and dispositive power with respect to 146,550 shares. Mr. Glen Ceiley is the President, Chief Executive Officer, director, and sole shareholder of Bisco and is also the sole trustee of the Bisco Plan. In addition, the holding shown includes 7,500 shares from an exercise of stock options on March 15, 2006. Mr. Ceiley's beneficial ownership exclude options for 15,000 shares that were forfeited on March 19, 2006.

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 15, 2006. Data I/O is not aware of any family relationships between any director, director nominee or executive officer of Data I/O.

Name	Amount and Nature of Beneficial Ownership	Percent of Shares Outstanding
Frederick R. Hume	260,205 (1)	3.09%
Joel S. Hatlen	160,637 (2)	1.91%
Paul A. Gary	145,282 (3)	1.73%
Harald A. Weigelt	58,114 (4)	(10)
Edward D. Lazowska	52,348 (5)	(10)
Daniel A. DiLeo	48,125 (6)	(10)
Steven M. Quist	35,625 (7)	(10)
William R. Walker	18,750 (8)	(10)
All current directors and executive officers as a group (8 persons)	779,086 (9)	9.27%

- (1) Includes options to purchase 168,750 shares exercisable within 60 days.
- (2) Includes options to purchase 55,156 shares exercisable within 60 days.
- (3) Includes options to purchase 43,125 shares exercisable within 60 days.
- (4) Includes options to purchase 38,126 shares exercisable within 60 days.
- (5) Includes options to purchase 43,125 shares exercisable within 60 days.
- (6) Includes options to purchase 43,125 shares exercisable within 60 days.
- (7) Includes options to purchase 30,625 shares exercisable within 60 days.
- (8) Includes options to purchase 18,750 shares exercisable within 60 days.
- (9) Includes options to purchase 440,782 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

In October 2003, the Board of Directors adopted a Corporate Governance Charter. In February 2004, the Board of Directors adopted a Nominating Committee Charter, in March 2004, adopted an updated Code of Ethics, and in February 2005, adopted a Compensation Committee Charter, all of which are posted, together with our amended and restated charter for the Audit Committee, that was approved in February 2005, on the corporate governance page of our website. The corporate governance page can be accessed on our website at www.dataio.com/corporate/ir.asp. All of these Charters are consistent with the applicable requirements of the Sarbanes-Oxley Act of 2002 and

our NASDAQ listing standards.

Data I/O's Code of Ethics applies to all directors, officers and employees of Data I/O, including the Chief Executive Officer and the Chief Financial Officer. 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

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website at www.dataio.com/corporate/ir.asp. In the unlikely event that the Board of Directors approves any sort of waiver to the Code of Ethics for our executive officers or directors, information concerning such waiver will also be posted on our website. In addition to posting information regarding amendments and waivers on our website, the same information will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting of such amendments or waivers is permitted by the rules of The NASDAQ Stock Market, Inc.

PROPOSAL 1: ELECTION OF DIRECTORS

At the Annual Meeting, the shareholders will vote on the election of six directors to serve until the next Annual Meeting or until his or her successor has been qualified and elected or such director's earlier death, resignation or removal. The Board of Directors has approved the six nominees named below, all of whom 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.

Daniel A. DiLeo, age 58, has been a director of Data I/O since May 2000. Mr. DiLeo has more than 30 years experience in both the system and semiconductor divisions of Lucent Technologies and AT&T Companies. In March 2002, Mr. DiLeo retired as the Executive Vice President of Optoelectronics at Agere Systems, Inc., a former Lucent subsidiary, where he had served in such capacity since February 2001. From June 1998 through February 2001, Mr. DiLeo was the President of the Optoelectronics Division at Lucent Technologies, Microelectronics Group. From January 1996 to June 1998, Mr. DiLeo was the Vice President of the Wireless Business Unit at Lucent Technologies, Inc. Mr. DiLeo is also a director of RF Micro Devices.

Paul A. Gary, age 64, has been a director of Data I/O since March 1998 and was named Chairman of the Board in May 1999. From 1987 until his retirement in 1996, Mr. Gary worked for Lucent Microelectronics (now Agere Systems, Inc.) as Vice President of the High Performance IC and NETCOM business units. From 1981 to 1987, he held various leadership positions with (the former) Western Electric Company, including Director of Engineering and Manufacturing and General Manager. From 1967 to 1981, Mr. Gary worked for Bell Laboratories, finishing there as Laboratory Director. Mr. Gary is also a director of TriQuint Semiconductors, Inc. and Broad Air, a private wireless internet provider in New Jersey.

Frederick R. Hume, age 63, became President and Chief Executive Officer of Data I/O on February 23, 1999. He has been a director of Data I/O since January 1999. From 1988 until his retirement in 1998, Mr. Hume was Vice President and General Manager of Keithley Instruments in Cleveland, Ohio. From 1972 to 1988, he held various management positions at John Fluke Manufacturing, including Group Vice President for Manufacturing and Research and Development. Mr. Hume is also a director of a private corporation; ILX Lightwave Corporation.

Edward D. Lazowska, age 55, has been a director of Data I/O since August 1996. Since 1977, Dr. Lazowska has been a member of the faculty of the University of Washington's Department of Computer Science & Engineering. From 1993 to 2001, he held the position of Department Chair. He currently holds the Bill and Melinda Gates Endowed Chair. From 2003 to 2005 he co-chaired the President's Information Technology Advisory Committee. Dr. Lazowska is also a director of Intrepid Learning Solutions, a private company.

Steven M. Quist, age 60, has been a director of Data I/O since March 2001. From 1998 to 2003, he was the President and Chief Executive Officer of CyberOptics Corporation. He served as a Director of CyberOptics from 1991 until May 2004. From 1992 to February 1998, Mr. Quist was the President of Rosemount, Inc., a subsidiary of Emerson Electric Company, St. Louis, Missouri. Mr. Quist is also a director of Rimage Corporation and is a director of three private corporations; ILX Lightwave Corporation, Scientific Materials Corporation, and Nervonix Corporation.

William R. Walker, age 64, has been a director of Data I/O since October 2003. Since 1997, Mr. Walker has been the Chief Financial Officer, Secretary, Vice President of Hi/fn, Inc., a manufacturer of integrated circuits and software for storage and network infrastructure developers. From 1996 to 1997, he was the Chief Financial Officer,

Secretary, Vice President of MMC Networks, Inc. From 1984 to 1996, Mr. Walker was Senior Vice President and Chief Financial Officer of Zilog, Inc.

THE BOARD OF DIRECTORS

Director Independence

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

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, P.O. Box 97046, Redmond, WA 98073-9746. 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, 2005, there were five meetings of the Board of Directors. Each of the incumbent directors who were on the Board of Directors during 2005 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. Lazowska and Mr. Hume attended our Annual Meeting held on May 19, 2005. No other member of our Board of Directors attended our 2005 Annual Meeting because our Board of Directors did not have a meeting scheduled for that day.

The Board of Directors has four standing Committees: the Corporate Governance Committee, the Audit Committee, the Compensation Committee, and the Nominating Committee. The Audit Committee consisted of Messrs. DiLeo, Quist, and Walker (Chair) throughout 2005. The Compensation Committee consisted of Messrs. Ceiley (Chair) through December 19, 2005 when Mr. Ceiley resigned from the Board of Directors, DiLeo, and Walker throughout 2005, and Mr. Quist (Chair) beginning December 20, 2005. The Nominating Committee consisted of Messrs., Gary, Lazowska (Chair), and Quist throughout 2004. The Governance Committee consisted of Mr. Ceiley through December 19, 2005, and Messrs. DiLeo (Chair), Gary, Lazowska, Quist, and Walker throughout 2005.

Corporate Governance Committee

In April 2003, the Board of Directors created a Corporate Governance Committee consisting of all independent directors. The Corporate Governance Committee develops, recommends to the Board of Directors, and monitors a set of corporate governance principles applicable to Data I/O. The Corporate Governance Committee met four times in 2005 and otherwise conducted its business at Board of Directors meetings in 2005.

Audit Committee

The Audit Committee considers and recommends to the Board of Directors the engagement of independent certified public accountants for the ensuing year and the terms of such engagement; reviews the scope of the audit; periodically reviews Data I/O's program of internal control and audit functions; receives and reviews the reports of the independent accountants; and reviews the annual financial report to the directors and shareholders of Data I/O. Each member of the Audit Committee is an independent director, as defined by the NASDAQ listing standards and the Sarbanes-Oxley Act of 2002. The Audit Committee includes a financial expert, William R. Walker, as defined in the Securities and Exchange (SEC) rules adopted pursuant to the Sarbanes-Oxley Act of 2002. Mr. Walker also has the financial sophistication required by Rule 4350(d)(2) of the NASD Rules. The Audit Committee met five times during 2005. See the Report of the Audit Committee.

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Compensation Committee

The Compensation Committee makes recommendations to the Board of Directors concerning the compensation of Data I/O's executive officers. The committee administers Data I/O's management incentive compensation program and its stock option, stock purchase and stock appreciation rights plans. The Compensation Committee reviews all employee benefit programs and approves significant changes in major programs and all new programs. The Compensation Committee met five times during 2005.

Nominating Committee

The Nominating Committee seeks qualified candidates to serve on the Board of Directors, recommends them for the Board of Directors consideration for election as directors at the Annual Meeting of Shareholders and proposes candidates to fill vacancies on the Board of Directors. The Nominating Committee also recommends nominees for the various committees of the Board of Directors. The Nominating Committee did not meet separately in 2005 but conducted its business at Board of Director meetings in 2005.

Consideration of Director Nominees

The Nominating Committee, in evaluating and determining whether to recommend a person as a candidate for election as a director, considers relevant management and/or technology experience; certain values such as integrity, accountability, judgment and adherence to high performance standards; independence pursuant to applicable guidelines; ability and willingness to undertake the required time commitment to Board functions; and an absence of conflicts of interest with Data I/O.

Identifying Director Nominees; Consideration of Nominees of the Shareholders

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

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These candidates are evaluated at regular or special meetings of the Committee, and may be considered at any point during the year.

The 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 2007 Annual Meeting of Shareholders." Following verification of the shareholder status of persons proposing candidates, the Committee makes an initial analysis of the qualifications of any candidate recommended by shareholders or others pursuant to the criteria summarized above to determine if the candidate is qualified for service on the Data I/O Board of Directors before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a shareholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the Committee as part of its review. Other than the verification of compliance with procedures and shareholder status, and the initial analysis performed by the Committee, a potential candidate nominated by a shareholder is treated like any other potential candidate during the review process by the Committee. For eligible shareholder nominees to be placed on the ballot for the 2006 Annual Meeting of Shareholders, shareholders were required to deliver nominations for proposed director nominees to Data I/O by February 18, 2006. Shareholders did not propose any candidates for election at the 2006 Annual Meeting.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

For the year ended December 31, 2005, the Compensation Committee of the Board of Directors consisted of Messrs. Ceiley through December 19, 2005, DiLeo, and Walker, and Mr. Quist beginning in December 2005. None of these individuals has served at any time as an officer or employee of Data I/O or as a member of the board of directors or compensation committee of any entity that has had one or more executive officers which served as a member of the Board of Directors or the Compensation Committee.

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BOARD COMPENSATION

Employee directors (Frederick R. Hume) do not receive additional compensation for serving on the Board of Directors. Non-employee directors received a cash retainer for 2005 of \$5,000 for each quarter of service, plus \$1,000 for each full Board of Directors meeting attended and \$500 for each teleconference Board of Directors meeting attended. Data I/O paid additional quarterly compensation to the non-employee directors for serving as Chairman of the Board of Directors or as a committee chair: \$3,750 for Chairman of the Board of Directors; and \$1,250 for the Audit, Compensation, Nominating and Corporate Governance Committee chairs. In addition, each non-employee Board of Directors member as of May 19, 2005, was granted an option for 7,500 shares of Data I/O stock. New members who join the Board of Directors are granted 15,000 shares as an initial grant. The stock options were granted under the provisions and terms of the 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. In 2006 the meeting fees for non-employee directors increased to \$1,500 for each full Board of Directors meeting attended and \$750 for each teleconference Board of Directors meeting attended, and the planned annual stock option grant for non-employee directors will increase to 12,500 shares.

The following table shows compensation paid by Data I/O to non-employee directors during 2005.

Name	Cash Compensation			Stock Option Grants
	Board Retainer(\$)	Chairman of the Board/ Committee Chairman Retainer(\$)	Meeting Fees(\$)	Number of Options#(1)
Glen F. Ceiley	*\$19,294	*\$ 4,823	\$3,500	7,500
Daniel A. DiLeo	\$20,000	\$ 5,000	\$5,000	7,500
Paul A. Gary	\$20,000	\$15,000	\$5,000	7,500
Edward D. Lazowska	\$20,000	\$ 5,000	\$5,000	7,500
Steven M. Quist	\$20,000	**\$ 177	\$5,000	7,500

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		Cash Compensation		Stock Option Grants
William R. Walker	\$20,000	\$ 5,000	\$5,000	7,500

*Prorated through December 19, 2005

**Prorated as of effective date of December 20, 2005

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- (1) Stock Options were granted to the directors in May 2005 at an exercise price of \$2.695 per share. The options granted vest 8.333% quarterly over three years and expire at the end of six years.
 - (2) Mr. Ceiley resigned from the Board of Directors on December 19, 2005

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

To Data I/O's knowledge, based solely on its review of copies of such reports furnished to Data I/O and written representations that no other reports were required, all Section 16(a) filing requirements applicable to its officers and directors were complied with during 2005, except Mr. Ceiley filed two Form 4's with a total of three transactions from one to seven days late.

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

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

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

The Committee selects and engages Data I/O's independent auditors and discusses the overall scope and plans for their audits. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of Data I/O's internal controls, and the overall quality of Data I/O's financial reporting. The Committee held five meetings during 2005.

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, 2005 for filing with the Securities and Exchange Commission. The Committee has selected Grant Thornton LLP as Data I/O's auditors for the current year.

Respectfully submitted,

AUDIT COMMITTEE

Daniel A. DiLeo
Steven M. Quist
William R. Walker

March 27, 2006

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, 2004 and 2005 and for review of the financial statements included in each of Data I/O's Form 10-Q, were approximately \$151,600, and \$178,906 respectively.

Audit Related Fees: Aggregate fees billed for each of the years ended December 31, 2004 and 2005 for assurance and related services by Grant Thornton LLP that are reasonably related to the performance of the audit or review of Data I/O's financial statements that are not reported under the caption *Audit Fees* above, including pension plan audit, S-8 related services, audit committee attendance and accounting treatment consultations, were approximately \$13,800 and \$ 15,680, respectively.

Tax Fees: Aggregate fees billed for each of the years ended December 31, 2004 and 2005 for professional services rendered by Grant Thornton LLP for tax compliance, tax advice, tax examination support, and tax planning, were approximately \$3,000 and \$2,313, respectively.

All Other Fees: Aggregate fees billed for each of the years ended December 31, 2004 and 2005 for all other products and services provided by Grant Thornton LLP that are not otherwise disclosed above, including consultations on foreign business practices and liquidation of a foreign subsidiary, were approximately \$4,400 and \$0 for 2004 and 2005, respectively.

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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 2005, all services provided by the independent auditors were pre-approved.

REPORT OF COMPENSATION COMMITTEE ON ANNUAL COMPENSATION

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

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I/O are eligible for the same benefits as other Data I/O employees.

The Committee has established a compensation plan for executive officers with three components: annual base salary, incentive compensation, and long-term equity based incentives. Each of these components is described below. This executive officer compensation plan is evaluated annually by the Committee by reviewing Data I/O's overall financial performance, individual executive officer performance, and executive officer total compensation compared with other public companies approximately the same size as Data I/O, located in the Pacific Northwest and in the United States. For any executive officers based outside of the United States, the Committee also considers local compensation practices.

Annual Base Salary Structure. The Committee establishes a base salary structure for each executive officer position. This structure defines the salary levels and the relationship of salary to total cash compensation. The Committee reviews the salary structure periodically based on surveys of compensation paid to executives performing similar duties with public companies of approximately the same size as Data I/O, located in the Pacific Northwest and in the United States. This group was selected as it is believed to be representative of the companies with which Data I/O competes for key employees.

The Committee's objective is to maintain a salary structure which, when combined with annual incentive compensation, provides Data I/O's executive officers with total cash compensation which is near the market median for executives with similar responsibilities, experience and ability. In light of the previous economic situation, we froze executive management salaries at the 2001 level and deferred consideration of normal annual adjustments through the end of 2004 as part of Data I/O's short-term cost control efforts. During 2005, we believe the executive officer group as a whole received cash compensation, which according to the surveys described above, was within the second and third quartiles of the aggregate annual base salary, but below the aggregate median cash compensation, paid to officers in similar positions at similar-sized public companies.

In February 2006, Data I/O increased the annual base salary for our Executive officers to \$300,000 for the President and Chief Executive Officer, \$169,000 for the Vice President/Chief Financial Officer/Secretary/Treasurer, and 143,000(euro)(or approximately \$172,000) for the Vice President, Worldwide Sales and Service. We believe, based on the surveys described above, that these annual base salaries are now at a more appropriate level within the second and third quartiles of the aggregate annual base salary paid to officers in similar positions at similar-sized public companies.

Management Incentive Compensation Plan (MICP). The MICP offers each executive officer a performance-based opportunity to earn additional annual cash compensation in an amount tied to a percentage of the executive officer's base salary. The Committee's objective in setting executive MICP percentages and the formulas for MICP payout is to pay above industry average total compensation for better than expected or industry average historical financial performance and below industry average compensation for worse than expected or industry average

financial historical performance. The percentages of base salary targeted for MICP payout (the MICP Guideline) for executives for a given year are established by the Committee early in the year. The 2005 MICP Guideline for Mr. Hume and Mr. Hatlen was 40% of base salary. Mr. Weigelt had an incentive compensation structure of 30% of base salary with the following components: MICP Guideline 5% of base salary; commissions 20% of base salary based on European orders; and commissions of 5% of base salary based on worldwide contribution margin.

The actual MICP payout portion of incentive compensation to an executive officer, in relation to his MICP Guideline for 2005, was a function of three measures of Data I/O's pre-tax profit: 1) quarterly profit; 2) growth in annual profit; and 3) record annual profit. The Committee believes that these measures of key results for Data I/O during 2005 will affect near-term and long-term shareholder value. A greater or lesser percentage of MICP Guideline is to be paid based on Data I/O's actual pre-tax profit.

MICP payouts for 2005 were based on the achievement of a certain level of the combined measures described above. For 2005, payouts were made for quarterly profit and, for growth in annual profit but not for record profit. Executive officers received an MICP payout in March 2006 of 24% of MICP Guideline for 2005. See Summary Annual Compensation Table.

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For 2006, the Committee has determined that revenue growth combined with profitability is critical for Data I/O. Therefore, for 2006 the MICP payout will now be a function of two measures: Data I/O's percentage growth in revenue; and Data I/O's percentage of EBITDA to sales. The Committee believes that these measures of key results for Data I/O during 2006 will affect near-term and long-term shareholder value. The 2006 MICP Guideline for the executive officers are as follows: Mr. Hume 50%; Mr. Hatlen 40%; and Mr. Weigelt 45%. Mr. Weigelt's incentive compensation structure changed to all MICP effective April 1, 2006. A greater or lesser percentage of MICP Guideline is to be paid based on Data I/O's actual achievement of these two measures.

Stock Option Plan. The Committee approves grants under the Data I/O Corporation 1986 Employee Stock Option Plan, as amended and restated (the 1986 Plan) and the 2000 Plan (collectively the Plans). These are Data I/O's only long-term incentive plans. The primary purpose of the Plans is to make a significant element of executive pay a reward for taking actions which maximize shareholder value over time. The Committee grants options 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 exceptionally talented executives who typically command compensation packages which include a significant equity incentive. All options granted to the President and Chief Executive Officer and any other executive officer in 2005 were based on these criteria.

In the electronics industry, stock options represent a key compensation element which attracts, retains and motivates exceptional executives. Accordingly, total outstanding options as a percentage of outstanding shares tends to be higher in electronics than in other industries. As of March 15, 2006, Data I/O's outstanding options represented approximately 13.4% of outstanding shares, which Data I/O believes is slightly below the average within the electronics industry.

Historically, all options granted by Data I/O have been granted with an exercise price equal to the fair market value 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 during 2000, 2001, 2002, 2003, 2004 and 2005 under the 2000 Plan become exercisable at a rate of 6.25% per quarter, except for a 50,000 option grant to Mr. Hume as described below. Options to Directors vest quarterly over a three year period.

Fifty thousand options granted to Mr. Hume under the 1986 Plan during 2000 are subject to 4-year cliff vesting and become exercisable at the end of the 4-year period, with acceleration provisions included for earlier vesting if predetermined revenue and profit targets are achieved. The targets were not achieved so none of the acceleration provisions will apply.

All grants are subject to acceleration of vesting in connection with certain events leading to a change in control of Data I/O or at any other time at the discretion of the 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 Severance Arrangements and Employment Agreements.

For additional information concerning the number of new options granted in 2005 to the Chief Executive Officer and other executive officers, see Option/SAR Grants in the Last Year.

Performance Evaluation. 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 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 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 performance

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evaluations and on the other criteria and survey data described above. In this process, the Committee consults extensively with Data I/O's President and Chief Executive Officer.

The Committee meets annually without the President and Chief Executive Officer to evaluate his performance and to develop a recommendation for his compensation for the coming year. In addition to reviewing Data I/O's financial performance for the prior year, the Committee reviews compensation surveys for chief executive officers in similar companies 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 and profitability, the achievement of which is expected to increase shareholder value. The Committee then approves base salary and MICP percentage changes for all executive officers.

The Committee determined the compensation package, including salary, bonus, stock option grants, and other benefits for Frederick R. Hume, President and Chief Executive Officer, based on the Committee's perception of his qualifications for the position, his ability to affect future shareholder value, compensation surveys (as noted above under "Annual Base Salary Structure"), and the competitive conditions in the market.

Data I/O has entered into agreements (the "Severance Agreements") with Messrs Hume and Hatlen whereby such individuals would be entitled to receive payments if they are terminated without cause or resign with good reason within specified periods following the occurrence of certain events deemed to involve a change in control of Data I/O. These Severance Agreements were extended for three years on April 22, 2004 by the Board of Directors. In addition Data I/O has entered into a Contract of Employment (the "Employment Agreement"), with Mr. Weigelt whereby Mr. Weigelt would be entitled to receive payments if he was terminated without cause. See "Change in Control and Severance Arrangements and Employment Agreements." Under the Omnibus Budget Reconciliation Act of 1993, the federal income tax deduction for certain types of compensation paid to the chief executive officer and the four other most highly compensated executive officers of publicly held companies is limited to \$1 million per officer per year unless such compensation meets certain requirements. The Committee is aware of this limitation and believes that no compensation to be paid by Data I/O during 2006 will exceed the \$1 million limitation, except possibly a portion of the sums payable pursuant to the Severance Agreements, if paid.

Respectfully submitted,

COMPENSATION COMMITTEE

Steven M. Quist
Daniel A. DiLeo
William R. Walker

March 15, 2006

SUMMARY COMPENSATION TABLE

The following table shows compensation paid by Data I/O for services rendered during years 2005, 2004, and 2003 to all persons who served as the Chief Executive Officer in 2005 and the other most highly compensated executive officer of Data I/O at December 31, 2005, whose salary and bonus exceeded \$100,000 in 2005.

Name and Principal Position	Annual Compensation			Long-Term Compensation Awards	All Other Compensation \$(5)(6)
	Year	Salary (\$)	Bonus \$(1)(2)(3)	Securites Underlying Options/SARS	

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		Annual Compensation		Long-Term Compensation Awards (#)(4)	
Frederick R. Hume President Chief Executive Officer	2005	290,000	29,870	50,000	9,806
	2004	250,000	7,443	50,000	9,806
	2003	250,000	74,148	50,000	9,806
Joel S. Hatlen Vice President/ Chief Financial Officer /Secretary/ Treasurer	2005	162,500	16,738	20,000	7,981
	2004	157,500	4,689	17,500	7,236
	2003	157,500	54,113	25,000	8,114
Harald A. Weigelt(7) Vice President Worldwide Sales and Service	2005	158,144	58,824	15,000	17,639
	2004	144,285	64,183	15,000	16,767
	2003	133,776	72,244	15,000	17,398

- (1) 2005 amount represents amounts earned under MICP in 2005 and paid in 2006 as well as commissions earned for Mr. Weigelt.
- (2) 2004 amount represents amounts earned under MICP in 2004 and paid in 2005 as well as commissions earned for Mr. Weigelt.
- (3) 2003 amount represents amounts earned under MICP in 2003 and paid in 2004 and a discretionary bonus of \$20,000 that was authorized and paid in March 2003 for Mr. Hatlen and Mr. Hume. For Mr. Weigelt 2003 amount represents commissions earned for 2003.
- (4) 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 Severance Arrangements and Employment Agreements.
- (5) These amounts represent for Mr. Hume and Mr. Hatlen Data I/O's contributions to Data I/O's 401K Plan, payment for excess unused benefit credits, and its payment of term life insurance premiums on behalf of the executive.
- (6) These amounts represent the provision of a leased vehicle for Mr. Weigelt including both business and personal usage.
- (7) Amounts for Mr. Weigelt were in Euros translated at average exchange rates of 1.2578, 1.3567 and 1.2384 for 2003, 2004 and 2005 respectively.