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DATA I/O CORP  
Form 10-K/A  
March 25, 2005

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

FORM 10-K/A (Amendment No.1)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2003  
or

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

Commission File No. 0-10394

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

Washington  
(State or other Incorporation)

91-0864123  
(I.R.S. Employer Identification Number)

P.O. Box 97046, 10525 Willows Road N.E., Redmond, Washington, 98052  
(425)881-6444

(Address, including zip code, of registrant's principle executive  
offices and telephone number, including area code)

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

NONE

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

Common Stock (No Par Value)  
Series A Junior Participating Preferred Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes \_\_\_ No X

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Aggregate market value of voting and non-voting  
Common Stock held by non-affiliates of the  
registrant as of June 30, 2003

\$ 15,688,788

8,008,561 shares of Common Stock, no par value, outstanding as of March 22, 2004

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating  
to its May 20, 2004 Annual Meeting of  
Shareholders are incorporated into Part III  
of this Annual Report on Form 10-K.

### EXPLANATORY NOTE

We filed a Form 8-K on February 14, 2005 regarding our intention to restate our annual financial statements for the fiscal year December 31, 2003. This amendment on Form 10-K/A amends our Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on March 30, 2003 and is being filed to reflect the restatement of the consolidated financial statements.

During the preparation of our 2004 year-end financial statements and more specifically the inter-company profit eliminations associated with demonstration inventory equipment amounts, Data I/O Corporation ("the Company") identified elimination calculation omission errors that had resulted in the understatement of inter-company expense eliminations on foreign subsidiary demonstration inventory equipment depreciation, with a corresponding overstatement of demonstration inventory equipment accumulated depreciation. The errors, which had occurred over a period of more than five years, overstate depreciation (international selling) expense associated with demonstration inventory equipment in service in the Company's foreign subsidiaries.

The errors resulted in a cumulative overstatement of demonstration inventory equipment accumulated depreciation and a corresponding overstatement of depreciation (international selling) expense of approximately \$112,000 through December 31, 2004. The cumulative impact of this error as of December 31, 2003, including the related income tax effect, resulted in a \$112,000 overstatement of demonstration inventory equipment accumulated depreciation reserve and a \$112,000 overstatement of depreciation (international selling) expense. The income tax effects from the cumulative effect of this error had no impact on income tax expense and just impacted the related disclosure of net operating losses in carry forward and the related valuation allowances.

While the Company believes the impacts of these elimination errors are not material to any previously issued financial statements, the Company determined that the cumulative adjustment required to correct these errors was material to record in 2004, and that the calculation errors were most appropriately corrected through restatement of previously issued financial statements for the fiscal years ended December 31, 2003. The Company's decision to restate previously issued financial statements was based on the impact of a cumulative correction on the 2004 financial statements rather than the impact on any previously issued financial statements.

The Company has evaluated that the adjustments to the quarters other than the fourth quarter are immaterial and the entire 2003 adjustment will be reflected as a correction to the fourth quarter of 2003 of \$65,000 in the restated Form

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10-K and that accordingly no restatement is necessary for the interim quarterly Form 10-Q filings.

This Form 10-K/A corrects the previously issued financial statements. See Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements including Notes to Consolidated Financial Statements, and Controls and Procedures, for the impact of the restatement.

This amendment to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 amends and restates only those items of the previously filed Form 10-K which have been affected by the restatement. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment to modify or update such disclosures except as required to reflect the effects of the restatement and to make non-substantive revisions to the notes to the consolidated financial statements. For additional information regarding the restatement, see "Note 3 to Consolidated Financial Statements" included in Part II, Item 8.

### DATA I/O CORPORATION

#### FORM 10-K/A

For the Fiscal Year Ended December 31, 2003

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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(R) Corporation's industry, management's beliefs and certain assumptions made by management. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward Looking Statements."

#### General

Data I/O Corporation ("Data I/O") designs, manufactures, and sells programming systems used by designers and manufacturers of electronic products. Our programming system products are used to program integrated circuits ("ICs" or "devices" or "semiconductors") so that the ICs will function as desired in the customer's electronic product. They are an important tool for the electronics industry experiencing growing use of programmable ICs. Data I/O markets and distributes our programming systems worldwide, and is a global leader in this market. Data I/O incorporated in the State of Washington in 1969.

Data I/O Mission. Data I/O's mission is to design and deliver innovative customer-focused programming solutions, which enable customers to manage their firmware supply chain, getting their products to market faster, while reducing costs in their process. We align our products and services to make programming easy, delight our customers and satisfy their whole product needs.

Helping customers manage their firmware supply chain. Much of the innovation and competitive advantage of today's electronic products comes from the software embedded inside the product, which is commonly referred to as "firmware." Companies use firmware to differentiate their products from their competitors' products, constantly writing new code to add features. This allows them to build multiple models with identical hardware and many versions of firmware, all on one production line. Any improvement in production efficiency boosts the profitability of all products on that line. Many original equipment manufacturers ("OEMs") now outsource production to specialists in electronic manufacturing services ("EMS") to maximize the profit impact from highly efficient production. The challenges of managing the firmware supply chain remain, however, and can even increase with this additional interface. Our

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systems allow our customers - both OEM and EMS companies - to build products with the exact firmware features that consumers specify, virtually real-time with the latest software release. We help our customers eliminate inventory risks, delays, rework, and lost market opportunities while enabling them to better serve their customers.

Connected Strategy. Data I/O's connected strategy leverages network capable products to move the customer's intellectual property seamlessly and securely up and down the supply chain. Our connected strategy allows customers to connect engineering to manufacturing to end customers.

Business Restructuring. During 2003, we completed the restructuring process, which began in 2001. We took restructuring charges in 2001 and 2002 that were associated with actions taken to reduce our breakeven point and realign Data I/O with our market opportunities. We required this operational repositioning because of the impact of the economic slowdown and the decline in capital spending across a high number of customer groups on general demand for programming equipment over the past few years. We believe these actions made possible our turnaround and profitable operations in 2003. At the end of 2003 our breakeven point was approximately \$6.2 million in net sales with 127 employees worldwide. Our breakeven point increased in 2003 primarily due to cost increases resulting from the impact of the weaker dollar on foreign currency based costs and from personnel costs due to salary increases, incentive compensation and selective hiring of individuals with critical skills to help position us as the continuing technology leader in our market.

During 2002, we reduced our quarterly breakeven point from approximately \$7 million of net sales at the beginning of 2002 to approximately \$5.7 million at the end of 2002. We achieved most of these reductions by reducing our personnel from 155 at the beginning of 2002 to 125 at the end of 2002.

During 2001, we took a number of strategic restructuring actions to reduce our breakeven point. Repositioning included the following: a reduction in our global workforce from 224 at the start of the year to 155 at the end of 2001; discontinuance or reallocation of numerous projects and activities not essential to our long-term goals; streamlining activities to decrease discretionary marketing, distribution and promotional expenses, consolidation of numerous functions across the organization to create a team, which was more productive and able to respond faster to global customer needs; and closure of a facility in Germany and moving its operations to other locations within Data I/O.

At December 31, 2003 all restructuring expenses associated with the activities detailed above were paid and the excess restructure accrual of \$39,000 had been reversed.

### Industry Background

Data I/O operates in a niche of the electronics equipment industry that provides programming systems used to load specific data and design information into programmable devices. Companies that design and manufacture electronic products that utilize programmable devices purchase these systems from us. These companies, our primary customers, design and manufacture a broad range of electronic products for both consumer and industrial use.

Programmable devices represent an over \$10 billion segment of the semiconductor industry, and have grown more rapidly than the semiconductor industry as a whole in recent years. Flash memory, NAND-Flash, and programmable micro-controllers are typical of these devices. Programmable devices offer advantages to the electronic product designer allowing them to bring products to market more quickly and inexpensively than using fixed-function devices, and can offer the advantage of simpler rapid product upgrades. Programmable devices also offer attractive functionality to the user of the electronic product, such as storing

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personal information or customizing product functionality. As a result, use of programmable devices is growing rapidly in both high-volume consumer electronic products and more complex electronic systems.

Due to this growth, more than 100 semiconductor manufacturers offer thousands of different programmable devices. The technology trends driving the programmable device market result in a broad range of requirements for programming information into these devices. Programmable memory devices continue to have higher capacity and occupy smaller circuit board space. Programmable microcontroller devices are now more prevalent because semiconductor vendors are standardizing their manufacturing processes. These technology advances require advanced programming equipment like Data I/O manufactures.

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

### Products

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

Data I/O's line of programming systems includes a broad range of products, systems, modules, and accessories, which we group into two general categories: automated programming systems and non-automated programming systems. We provide automated programming systems in two categories: off-line and in-line. 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 algorithms for devices and developing socket adapters to hold and connect to the device for programming.

Within the categories of automated and non-automated systems, Data I/O targets specific solutions at specific market segments. Data I/O optimizes the solution based on the customer's device, process and business needs. We think the market growth opportunity is not a relatively costly universal solution with very broad device support, but optimized systems focused on a narrower range of devices (such as Flash devices), which provide customers with the economical programming solutions for high volumes of devices and lean processes. Our recent product introductions have focused on these growth markets and targeted their specific needs.

TaskLink(R) is our software platform that provides a common intuitive user interface and enhances the quality of the customer's programming process. As part of our core technology, TaskLink also supports Data I/O's connected strategy, allowing customers to connect engineering to manufacturing to end customers.

### Automated Programming Systems

Data I/O provides our manufacturing and programming center customers with automated programming systems solutions that include robotic handlers, a variety of programmers, input and output media handling (such as tray stackers, tubes, loaders or taping), and marking solutions. Our ProLINE-RoadRunner(TM) is a unique in-line programming system with programming speed capability, which approaches the speed at which Flash devices can currently accept data. Many of our customers need to program Flash and microcontroller devices in large quantities and very quickly. ProLINE-RoadRunner mounts directly on the assembly machine in the production line (Siemens, Fuji, Universal, Panasonic and

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Assembleon machines) and delivers programmed parts from reels of blank devices to the production line in a just-in-time fashion. Our ProLINE-RoadRunner eliminates production bottlenecks associated with high-density Flash and microcontroller devices, allowing last minute firmware changes and eliminating programmed part inventories, ultimately streamlining and reducing the customer's production and process costs. ProLINE-RoadRunner enables customers to implement lean processes and is a key element in Data I/O's connected strategy, allowing customers and partners to more effectively manage their firmware supply chain. ProLINE-RoadRunner currently retails from \$60,000 to \$95,000, depending on programming capability. We continue to leverage our ProLINE-RoadRunner in our platform to reach a broader market, which during 2003 included focusing on the FlashCORE(TM) architecture by expanding its capability to address newer technologies like NAND Flash support for M-Systems DiskOnChip(R) technology.

Data I/O's PS family of automated programming solutions offers highly flexible solutions for off-line batch programming. Data I/O can configure PS systems to support not only Flash devices, but also a wide variety of other devices, such as microcontrollers. These systems provide a number of marking, labeling, and input/output options. Most importantly, customers can make changeovers extremely fast. This feature allows the customer to rapidly respond to diverse demands with very little downtime. Customers can optimize the PS family systems for any job to maximize throughput and, when combined with fast changeover times and high reliability, provide the highest levels of output during a production shift. Our latest product, the PS288, integrates the same FlashCORE programmer we use in our PS300 FlashCORE, ProLINE-RoadRunner and FlashPAK(TM) and builds on our connected strategy and common architecture. For smaller memory, microcontroller and logic devices, our ProMaster systems offer a cost-effective, high-yield automated solution. Prices for our off-line systems range from \$50,000 to \$500,000, with an average configuration selling between \$200,000-\$300,000.

### Non-Automated Programming Systems

Our line of non-automated programming systems provides solutions for both engineering and low to medium-volume manufacturing customers. Non-automated programming systems require a user to physically handle the devices being programmed. These types of programmers are also sometimes referred to as "manual" or "desktop" programmers. We now have three families of non-automated programmers: Sprint, UniSystem and FlashPAK.

Engineering customers typically use single-site programming systems during the prototype phase of a new design, and may purchase inexpensive systems for limited device needs or more expensive systems to support more complex devices or a large variety of device types. Single-site programming systems can perform programming on only one programmable device at a time.

Data I/O offers a range of high quality, universal single socket manual programming solutions through our UniSystem family of programming systems. Our UniSite and 3980 xpi programming systems offer the highest levels of signal integrity, which ensure the highest programming standards. Popular in military, aerospace, telecommunications and other mission critical applications, the systems range from \$11,000 to \$35,000.

For more cost constrained or higher volume applications, the Sprint family of products offers excellent value for the money and versatility. The Sprint Quad and Octal programming systems offer 4 and 8 socket universal programming configurations for the higher volume applications. These two families of products range in price from under \$1,000 to \$16,000 for the multiple socket solutions.

Our newest programmer, the FlashPAK, leverages the high-speed proprietary FlashCORE programming technology in the ProLINE-RoadRunner system. We believe

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FlashPAK, priced at \$6,000, is the world's fastest programming architecture, limited today only by the speed at which Flash devices can accept data. FlashPAK is another key element of Data I/O's connected strategy, providing OEMs and new product introduction facilities with a high performance Flash programming system that can be used to validate designs before moving down the firmware supply chain. For manufacturing applications, the FlashPAK, a high speed, multi-socket, small footprint desktop solution, provides manual programming operations with the highest level of flexibility at the lowest cost per part. Manufacturers that use manual programming because of lower labor costs in areas like Asia find FlashPAK an attractive solution.

Data I/O supports and completes our product offering with a full range of software and device update products and worldwide service and repair capability.

### Customers

Data I/O sells our products to customers worldwide in a broad range of industries, including wireless handset manufacturers and other telecommunication companies, consumer electronics, computers, test and measurement, medical, transportation, military, aerospace, electronic contract manufacturing, and semiconductors. Our principal customers include Motorola, Nokia, and Siemens. Our customers either design and/or manufacture electronic products that incorporate programmable devices or provide device programming services. During 2003, we sold products to over 2,000 customers throughout the world, and one customer accounted for 18% of our net sales and no others accounted for over 10%.

Programmable device consumption continues to grow as more and more electronic product manufacturers take advantage of the flexibility and cost effectiveness of programmable memory, microcontroller and logic devices. Electronic products today utilize programmable technology in one form or another, from microcontrolled home appliance devices to set top boxes and wireless devices, which use increasingly vast amounts of memory for Internet connectivity and new leading edge features. Therefore, our customers come from virtually all industries manufacturing electronic products, and include the consumer electronic products, cell phone, personal data assistants ("PDAs") and other wireless device manufacturers, home entertainment product sectors, aerospace and military applications, the personal computer ("PC") and PC peripheral industry and automotive electronics.

Flash memory growth. The Flash memory customer segment is experiencing some of the most impressive growth of all programmable devices. As cell phones, PDAs, games consoles, set top boxes and other consumer devices become more capable, powerful and compact, the demand for Flash units and megabytes continues to grow.

Microcontroller growth. As the demand for smarter electronic devices increases, demand for greater numbers of microcontroller devices increases. Many household appliances today contain a microcontroller to control the critical functions of the product and provide new features. Examples of these appliances include toasters, refrigerators, garage door openers and even thermostats. This growth creates new market opportunities for us and we have added support for these devices in our FlashCORE architecture. In addition, the number of microcontrollers in automotive electronic applications is growing rapidly, with some cars having as many as 80 or more microcontrollers that control functions from airbag and ABS systems to air conditioning, information centers and entertainment and communication systems. We are also targeting the automotive segment as a critical and growing target segment for our solutions.

### Geographic Markets and Distribution

Data I/O markets and sells our products through a combination of direct sales,



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internal telesales, and indirect sales representatives and distributors. We continually evaluate our sales channels against our evolving markets and customers.

### U.S. Sales

We market our products throughout the U.S. using a variety of sales channels, including our own field sales management personnel, independent sales representatives, and a direct telesales organization. Our U.S. independent sales representatives obtain orders on an agency basis, with shipments made directly to the customer by Data I/O. Sales of our semiconductor programming equipment products requiring installation by us that is other than perfunctory are recorded when installation is complete, or at the later of customer acceptance or installation, if an acceptance clause is specified in the sales terms. We recognize revenue from other product sales at the time of shipment. We record revenue from the sale of service and update contracts as deferred revenue and we recognize it on a straight-line basis over the contractual period. Net Sales in the United States for 2003, 2002 and 2001 were \$7,263,000, \$8,347,000 and \$9,526,000, respectively.

### Foreign Sales

Foreign sales represented approximately 70%, 63% and 64% of net sales of our programming systems in 2003, 2002 and 2001, respectively (see Note 16 of "Notes to Consolidated Financial Statements"). We make foreign sales through our wholly-owned subsidiaries in Germany, China and Canada, as well as through independent distributors and sales representatives located in 35 other countries. We record sales made through foreign subsidiaries requiring installation by Data I/O that is other than perfunctory when installation is complete, or at the later of customer acceptance or installation, if an acceptance clause is specified in the sales terms. We recognize revenue from other product sales at the time of shipment. We record revenue from the sale of service and update contracts as deferred revenue and recognize it on a straight-line basis over the contractual period. Our independent foreign distributors purchase Data I/O products in U.S. Dollars for resale and we recognize the sale at the time of shipment to the distributor. As with U.S. sales representatives, sales made by international sales representatives are on an agency basis with shipments made directly to the customer by us. We recognize sales, denominated in U.S. Dollars, upon shipment, if installation is perfunctory or does not need to be performed by us, or when the equipment is installed at the end-user's site, if installation is more than perfunctory and is to be performed by us, or in the case where acceptance is required, upon acceptance.

Net foreign sales for 2003, 2002 and 2001 were \$17,424,000, \$14,491,000 and \$17,300,000, respectively. We determine total foreign sales by the international geographic area into which the products are sold and delivered, and include not only sales by foreign subsidiaries but also export sales from the U.S. to our foreign distributors and to our representatives' customers. Foreign sales do not include transfers between Data I/O and our foreign subsidiaries. Export sales are subject to U.S. Department of Commerce regulations. We have not, however, experienced any difficulties to date as a result of these requirements.

Fluctuating exchange rates and other factors beyond our control, such as international monetary stability, tariff and trade policies, and U.S. and foreign tax and economic policies, affect the level and profitability of foreign sales. We cannot predict the effect of such factors on our business.

### Competition

The competition in the programming systems market is highly fragmented with a large number of smaller organizations offering inexpensive solutions. We

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estimate that prior to the past couple years the total number of programming systems sold each year has been less than \$150 million, with Data I/O capturing an estimated 20 to 25% of the global market. Over the last three years, we believe the amount has declined by about 50% and that Data I/O has gained market share versus our significant competitors.

Competitive factors often include prices, features, device support and programming speed, as the programming process impacts more on the major manufacturers' total production process. However, competitive factors are changing. The added value for customers is becoming the whole product solution that fits the customer's required process. As an example, ProLINE-RoadRunner offers a unique solution, which best addresses the customer's process needs in high volume Flash applications. To this extent, the value proposition of this specific programming solution is very different from traditional solutions.

Therefore, addressing customers' process needs is critical to increasing the opportunity for programming solutions beyond the current amount in this market niche. We estimate that customers are spending between \$1 to \$2 billion a year on programming memory, microcontroller and logic devices and much of this programming is achieved through the use of the customers' test equipment offered by companies like Agilent and Teradyne or homegrown solutions for specific markets like automotive. The main competitive solution in the programmable market is, therefore, the in-house solution, and the opportunity exists to substitute customers' solutions with more economical and more easily maintainable solutions to solve the problems, which traditional programmers do not address. Boundary scan tools also fall into this category, although still a very small market with a number of small companies participating who principally focus on test solutions. A number of companies are part of a trend towards using in-system programming, which Data I/O does not currently address but continues to evaluate.

### Manufacturing, Raw Materials, and Backlog

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

In accordance with industry practices, generally all orders are subject to cancellation prior to shipment without penalty, except for contracts calling for custom configuration. To date, such cancellations have not had a material effect on our sales volume. To meet customers' delivery requirements, we manufacture certain products based upon a combination of backlog and anticipated orders. Most orders are scheduled for delivery within 1 to 60 days after receipt of the order. Our backlog of pending orders was approximately \$1.5 million, \$1.3 million and \$1.9 million as of December 31, 2003, 2002 and 2001, respectively. The size of backlog at any particular date is not necessarily a meaningful indicator of the trend of our business.

### Research and Development

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Data I/O believes that continued investment in research and development is critical to our future success. We continue to develop new technologies and products and enhance existing products. Future growth is to a large extent dependent upon the timely development and introduction of new products, as well as the development of algorithms to support the latest programmable devices. We are currently focusing our research and development efforts on strategic growth markets, namely new programming technology and automated handling systems for the manufacturing environment, including support for NAND FLASH and for M-Systems DiskOnChip(R) technology, microcontroller support for FlashCORE and additional platforms and improvements for ProLINE-RoadRunner. We continue to also focus on increasing our capacity and responsiveness for new device support requests from customers and programmable IC manufacturers by revising and enhancing our internal processes and tools. During this past year, our research and development resulted in these new products: PS300, PS288, and the TF-30 Tray Feeder and extensions of ProLINE-RoadRunner.

During 2003, 2002 and 2001, we made expenditures for research and development of \$4,639,000, \$5,331,000 and \$6,740,000, respectively, representing 18.8%, 23.3% and 25.1% of net sales, respectively. Research and development costs are expensed as incurred.

### Patents, Copyrights, Trademarks, and Licenses

Intellectual property rights applicable to various Data I/O products include patents, copyrights, trade secrets and trademarks. Data I/O also relies on patents, copyrights, trade secrets and trademarks to protect our intellectual property, as well as product development and marketing skill to establish and protect our market position. We also grew our patent portfolio over the past few years as we developed strategic technologies like the ProLINE-RoadRunner and FlashCORE that are critical to our connected strategy.

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

Because of the rapidly changing technology in the semiconductor, electronic equipment and software industries, portions of our products might possibly infringe upon existing patents or copyrights, and we may, therefore, 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, 2003, we had 127 employees, of which 31 were located outside the U.S. 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

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represented by a collective bargaining unit and we believe relations with our employees are favorable.

### 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 22, 2004:

| Name              | Age | Position                                                             |
|-------------------|-----|----------------------------------------------------------------------|
| Frederick R. Hume | 61  | President and Chief Executive Officer                                |
| Joel S. Hatlen    | 45  | Vice President<br>Chief Financial Officer<br>Secretary and Treasurer |

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

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

### Cautionary Factors That May Affect Future Results

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

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future events or otherwise. The reader should not place undue reliance on such forward-looking statements. The reader is advised, however, to consult any future disclosures Data I/O makes on related subjects in our 10-Q, 8-K and 10-K reports to the SEC and press releases. Also, note that Data I/O provides the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause Data I/O's actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect Data I/O. This discussion is permitted by the Private Securities Litigation Reform Act of 1995.

### RISK FACTORS

#### Development, Introduction and Shipment of New Products

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

For example, we may encounter these problems:

- o technical problems in the development of a new programming system platform or the robotics for new automated handling systems
- o inability to hire qualified personnel
- o delays or failures to perform by third parties involved in our development projects

Delays in the development, completion and shipment of new products, or failure of customers to accept new products, may result in a decline in sales in 2004.

#### Variability in Quarterly Operating Results

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

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

- o increased competition
- o timing of new product announcements
- o product releases and pricing changes by us or our competitors
- o market acceptance or delays in the introduction of new products
- o production constraints
- o labor or material shortages
- o the timing of significant orders
- o war or terrorism

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- o customers' budgets
- o adverse movements in exchange rates, interest rates or tax rates
- o cyclical nature of demand for our customers' products
- o general economic conditions in the countries where we sell products

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

### Rapid Technological Change

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

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

If we cannot develop products in a timely manner in response to industry changes, or if our products do not perform well, our business and financial condition will be adversely affected. Also, our new products 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.

### Economic and Market Conditions

Our business is highly impacted by capital spending plans and other economic cycles that affect the users and manufacturers of ICs. These industries are highly cyclical and are characterized by rapid technological change, short product life cycles, fluctuations in manufacturing capacity and pricing and gross margin pressures. As we experienced in 2003 and the past few years, 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. These factors could have a material adverse effect on our business and financial condition.

### History of Losses

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

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will increase and our strategy may not be successful resulting in future losses.

### Affects of Restructuring Activities

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

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

### Need for Additional Funding

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

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

Therefore, we may seek additional funding through public or private debt or equity financing or from other sources. We have no commitments for additional financing, and 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 Data I/O's Common Stock ("Common Stock") and may dilute your ownership interest.

### Competition

Technological advances have reduced the barriers of entry into the programming systems markets. 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.

### Dependence on IC Manufacturers

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 line up to date and provide end-users with broad and current programmable device support. Our business may be adversely affected if

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our relationships with semiconductor manufactures deteriorate.

### Dependence on Suppliers

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 or we experience deterioration in our relationship with these suppliers, 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 under estimate our production schedule, suppliers may be unable to meet our demand for components. This delay in the supply of key components may materially adversely affect our business. Over estimation of demand will lead to excess inventories that may become obsolete.

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

### Reliance on Third-Party Distribution Channels

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

### International Operations

International sales represented 70% of our net revenue for the fiscal year ended December 31, 2003. We expect that international sales will continue to be a significant portion of our net revenue. International sales and operations may fluctuate due to various factors, including:

- o migration of manufacturing to low cost geographies
- o regulatory requirements and any changes to these requirements
- o tariffs and taxes
- o difficulties in staffing and managing foreign operations
- o longer average payment cycles and difficulty in collecting accounts receivable
- o fluctuations in foreign currency exchange rates
- o impact of the Euro
- o compliance with applicable export licensing requirements
- o product safety and other certification requirements



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- o difficulties in integrating foreign and outsourced operations
- o political and economic instability

The European Community and European Free Trade Association have established certain electronic emission and product safety requirements ("CE"). Although our products currently meet these requirements, failure to obtain either a CE certification or a waiver for any product may prevent us from marketing that product in Europe.

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

### Protection of Intellectual Property

Refer to the section "Patents, Copyrights, Trademarks and Licenses" in Item 1 above.

### Acquisitions

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

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

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

### Dependence on Key Personnel

Refer to the section "Employees" above.

### Potential Volatility of Stock Price

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

### Item 2. Properties

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In May 1997, Data I/O completed the sale of the land and building comprising our Redmond, Washington corporate headquarters and it is currently leasing the 96,000 square foot building on a 10-year leaseback agreement with an option to renew the lease for an additional 10 years. This lease required base annual rental payments in 2003 of approximately \$1,138,000. See Note 7 of "Notes to Consolidated Financial Statements." As part of our 1999 restructuring plan implementation, we vacated one floor of the leased Redmond facility (approximately 25,000 square feet) and sublet the majority of this space for a period of 28 months beginning January 1, 2000, at a rate of approximately \$33,000 per month through April 2002. The sublease terminated in June 2002. We have not been successful in subleasing this space and believe the market for this space is currently quite limited.

In addition to the Redmond facility, approximately 9,000 square feet is leased at five foreign locations, including our Canadian sales and service office located in Mississauga, Ontario, German sales, service and engineering operations located in Munich, Germany, and three sales and service offices in China.

### Item 3. Legal Proceedings

As of the date of this Annual Report, Data I/O is not a party to any legal proceedings, the adverse outcome of which in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position. From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

### Item 4. Submission of Matters to a Vote of Shareholders

No matters were submitted for a vote of shareholders of Data I/O during the fourth quarter of the fiscal year ended December 31, 2003.

## PART II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The following table shows, for the periods indicated, the high and low bid information for Data I/O's Common Stock as reported by the NASDAQ National and SmallCap Market tier of The NASDAQ Stock Market (NASDAQ symbol is DAIO). Effective December 31, 2002 Data I/O transferred to the NASDAQ SmallCap Market.

|      | Period         | High   | Low    |
|------|----------------|--------|--------|
| 2003 | Fourth Quarter | \$3.89 | \$2.78 |
|      | Third Quarter  | 4.18   | 2.00   |
|      | Second Quarter | 2.30   | 0.94   |
|      | First Quarter  | 1.27   | 0.75   |
| 2002 | Fourth Quarter | \$1.45 | \$0.60 |
|      | Third Quarter  | 1.55   | 0.41   |
|      | Second Quarter | 1.75   | 0.86   |
|      | First Quarter  | 2.00   | 1.20   |

The approximate number of shareholders of record as of March 22, 2004 was 738.

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

No sales of unregistered securities were made by Data I/O during the period ended December 31, 2003.

### 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, 2003. See Notes 12 and 13 of "Notes to Consolidated Financial Statements."

|                                                                    | (a) Number of securities<br>to be issued upon the<br>exercise of outstanding<br>options, warrants and rights<br>----- | (b) Weighted-average<br>exercise price of<br>outstanding options,<br>warrants and rights<br>----- | (c)<br>ava<br>equ<br>sec<br>----- |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-----------------------------------|
| Equity compensation plans approved by the security holders (1) (3) | 1,347,413                                                                                                             | \$2.24                                                                                            |                                   |
| Equity compensation plans not approved by the security holders (2) | 10,000                                                                                                                | \$5.19                                                                                            |                                   |

- (1) Represents shares of Data I/O's Common Stock issuable pursuant to our 2000 Stock Incentive Compensation Plan, 1986 Stock Option Plan, 1992 Employee Stock Purchase Plan, and Director Fee Plan.
- (2) Director option grant represents a one-time option grant to Directors in May 1998 prior to shareholder approval of an option plan covering Directors.
- (3) Stock Appreciation Rights Plan ("SAR") provides that directors, executive officers or holders of 10% or more of Data I/O's Common Stock have an accompanying SAR with respect to each exercisable option. While the plan has been approved by the security holders, no amounts are included in columns a, b or c relating to the SAR.

### Item 6. Selected Financial Data

During 2004, Data I/O identified elimination calculation omission errors that had resulted in the understatement of inter-company expense eliminations on foreign subsidiary demonstration inventory equipment depreciation, with a corresponding overstatement of demonstration inventory equipment accumulated depreciation at December 31, 2004. The errors, which had occurred over a period of more than five years, overstated depreciation (international selling) expense associated with demonstration inventory equipment in service in the Company's foreign subsidiaries. Because the cumulative impact of this error as of December 31, 2003 resulted in a \$112,000 error, the Company's previously issued consolidated financial statement for the year ended December 31, 2003, 2002, and 2001 have been restated.

The following selected consolidated financial data has been restated and should be read in conjunction with the consolidated financial statements and the notes thereto and the information contained herein in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." See Note 3 to

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the consolidated financial statement for further discussion of this matter.

Data I/O adopted SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101) in the fourth quarter of fiscal year 2000, effective beginning of the first quarter of fiscal year 2000. The pro forma information in the table below reflects the adoption of SAB 101. Historical results are not necessarily indicative of future results.

|                                                                                                            | Year Ende                    |                              |                          |
|------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|--------------------------|
| (in thousands, except employee and per share data)                                                         | Restated<br>Dec. 31,<br>2003 | Restated<br>Dec. 31,<br>2002 | Restat<br>Dec. 3<br>2001 |
| <b>For The Year:</b>                                                                                       |                              |                              |                          |
| Net sales                                                                                                  | \$24,687                     | \$22,838                     | \$26,                    |
| Cost of goods sold                                                                                         | 11,008                       | 11,556                       | 15,                      |
| <hr style="border-top: 1px dashed black;"/>                                                                |                              |                              |                          |
| Gross margin                                                                                               | 13,679                       | 11,282                       | 11,                      |
| Research and development                                                                                   | 4,639                        | 5,331                        | 6,                       |
| Selling, general and administrative(4)                                                                     | 7,715                        | 8,254                        | 9,                       |
| Net provision for business restructuring (2)                                                               | (39)                         | 632                          | 1,                       |
| <hr style="border-top: 1px dashed black;"/>                                                                |                              |                              |                          |
| Operating income (loss) (4)                                                                                | 1,364                        | (2,935)                      | (5,                      |
| Non-operating income (loss)                                                                                | (25)                         | (232)                        |                          |
| <hr style="border-top: 1px dashed black;"/>                                                                |                              |                              |                          |
| Income (loss) from continuing operations before income taxes and cumulative effect of accounting change(4) | 1,339                        | (3,167)                      | (5,                      |
| Income tax (expense) benefit                                                                               | (33)                         | 61                           | (                        |
| <hr style="border-top: 1px dashed black;"/>                                                                |                              |                              |                          |
| Income (loss) from continuing operations, before cumulative effect of accounting change(4)                 | 1,306                        | (3,106)                      | (6,                      |
| Income from discontinued operations (1)                                                                    | -                            | -                            |                          |
| Cumulative effect of accounting change (3)                                                                 | -                            | -                            |                          |
| <hr style="border-top: 1px dashed black;"/>                                                                |                              |                              |                          |
| Net income (loss) (4)                                                                                      | \$1,306                      | (\$3,106)                    | (\$6,                    |
| Pro forma net income (loss)                                                                                | -                            | -                            |                          |
| <hr style="border-top: 1px dashed black;"/>                                                                |                              |                              |                          |
| <b>At Year-end:</b>                                                                                        |                              |                              |                          |
| Working capital                                                                                            | \$11,032                     | \$9,125                      | \$12,                    |
| Total assets(4)                                                                                            | \$18,100                     | \$16,414                     | \$20,                    |
| Total debt                                                                                                 | -                            | -                            |                          |
| Stockholders' equity(4)                                                                                    | \$11,200                     | \$9,332                      | \$12,                    |
| Number of employees from continuing operations                                                             | 127                          | 125                          |                          |
| <hr style="border-top: 1px dashed black;"/>                                                                |                              |                              |                          |
| <b>Common Stock Data (3):</b>                                                                              |                              |                              |                          |
| Basic earnings per share:                                                                                  |                              |                              |                          |
| From continuing operations, after taxes, before cumulative effect of accounting change(4)                  | \$0.17                       | (\$0.40)                     | (\$0                     |
| Net income (loss) (4)                                                                                      | \$0.17                       | (\$0.40)                     | (\$0                     |
| Pro forma net income (loss)                                                                                | -                            | -                            |                          |
| Diluted earnings per share:                                                                                |                              |                              |                          |
| From continuing operations, after taxes, before cumulative effect of accounting change(4)                  | \$0.16                       | (\$0.40)                     | (\$0                     |
| Net income (loss) (4)                                                                                      | \$0.16                       | (\$0.40)                     | (\$0                     |
| Pro forma net income (loss)                                                                                | -                            | -                            |                          |
| Book value per share at year-end(4)                                                                        | \$1.40                       | \$1.20                       | \$1                      |
| Shares outstanding at year-end                                                                             | 7,976                        | 7,768                        | 7,                       |

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|                                             |       |       |    |
|---------------------------------------------|-------|-------|----|
| Weighted-average basic shares outstanding   | 7,910 | 7,704 | 7, |
| Weighted-average diluted shares outstanding | 8,117 | 7,704 | 7, |

**Key Ratios:**

|                                                      |       |         |     |
|------------------------------------------------------|-------|---------|-----|
| Current ratio                                        | 2.9   | 2.6     | 2   |
| Gross margin to sales                                | 55.4% | 49.4%   | 43  |
| Operating income (loss) to sales(4)                  | 5.5%  | (12.9%) | (22 |
| Income (loss) from continuing operations to sales(4) | 5.3%  | (13.6%) | (22 |
| Return on average stockholders' equity(4)            | 12.7% | (28.8%) | (39 |

**Footnotes:**

- (1) Discontinued operations are amounts that relate to the divestitures of the Synario and Reel Tech Divisions that took place in 1997.
- (2) For further discussion, see Note 2 of "Notes to Consolidated Financial Statements."
- (3) For further discussion, see Note 1 of "Notes to Consolidated Financial Statements."
- (4) For further discussion, see Note 3 of "Notes to Consolidated Financial Statements."

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

**FORWARD-LOOKING STATEMENTS**

Management's Discussion and Analysis of Financial Conditions and Results of Operations presented below reflect certain restatements to our previously reported operating results for the year ended December 31, 2003.

During 2004, the Company identified certain errors related to the inter-company profit eliminations associated with demonstration inventory equipment amounts. Because the errors resulted in a cumulative overstatement of demonstration inventory equipment accumulated depreciation and a corresponding overstatement of depreciation (international selling) expense, the Company's previously issued consolidated financial statements for the year ended December 31, 2003 have been restated. The Selling, General and Administrative expenses discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations have been adjusted to reflect the restated numbers. See Note 3 to the consolidated financial statement for further discussion of this mater.

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 industry prospects and trends; future results of operations or financial position; integration of acquired products and operations; market acceptance of our newly introduced or upgraded products; development, introduction and shipment of new products; establishing foreign operations; and any other guidance on future periods are forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Although Data I/O believes that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or other future events. Moreover, neither Data I/O nor anyone else assumes responsibility for the accuracy and completeness of these forward-looking statements. Data I/O is under no duty to update any of these forward-looking

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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 "Business - Cautionary Factors That May Affect Future Results" describes some, but not all, of the factors that could cause these differences.

### OVERVIEW

In 2003, our primary goal was to manage the business to achieve profitable operations, while developing and enhancing products to drive revenue and earnings growth. Our challenge continued to be the weak and uncertain economic environment with its limited capacity related demand and weak capital spending. We expect that demand for capacity should improve, based on forecasted increased unit sales for the semiconductor industry, which should provide improved business opportunities for Data I/O.

The restructuring actions that were initiated in 2001 and continued in 2002 were completed in 2003. This brought our quarterly breakeven point down below the level of net sales that we were experiencing in 2003, resulting in our turnaround and profitability. We are continuing our efforts to balance increasing costs and strategic investments in our business with the level of demand and mix of business we expect.

We are focusing our research and development efforts in our strategic growth markets, namely new programming technology and automated programming systems for the manufacturing environment, particularly extending the capabilities and support for our FlashCORE architecture and the ProLINE-RoadRunner and PS families. To better support our customers in their geographic areas and time zones, we have expanded device support operations in Germany and India and are in the process of setting up a new device support center in Shanghai, China.

Our customer focus has been on strategic high volume manufacturers and programming centers and the combination of our newer products with the NAND Flash and microcontroller support to gain new accounts and break into new markets, such as microcontrollers for the automotive market. We are in the process of setting up a new subsidiary in China, expanding our China operations to take advantage of the growth of manufacturing in China. We also increased our efforts in 2003 to partner with the semiconductor manufacturers to better serve our mutual customers.

### BUSINESS RESTRUCTURING PROGRESS

During 2003, we completed the restructuring that began during 2001, which included actions taken to reduce our breakeven point and realign Data I/O with our market opportunities. We required this operational repositioning because of the impact of the economic slowdown and the decline in capital spending across a high number of customer groups on general demand for programming equipment over the past few years. At the end of 2003, our quarterly breakeven point was approximately \$6.2 million in net sales with 127 employees worldwide. Our breakeven point increased in 2003, primarily due to cost increases resulting from the impact of the weaker dollar on foreign currency based costs and from personnel costs due to salary increases, incentive compensation and selective hiring of individuals with critical skills to help position us as the continuing technology leader in our market.

During 2002, we recorded restructuring charges of \$632,000 in connection with our actions to reduce our quarterly breakeven point from approximately \$7 million of net sales at the beginning of 2002 to approximately \$5.7 million at the end of 2002. We achieved most of these reductions by reducing our personnel from 155 at the beginning of 2002 to 125 at the end of 2002.

During 2001, we recorded restructuring charges of \$1,211,000 in connection with

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a number of strategic restructuring actions to reduce our breakeven point. This restructuring included the following: a reduction in our global workforce from 224 at the start of the year to 155 at the end of 2001; discontinuance or reallocation of numerous projects and activities not essential to our long-term goals; streamlining activities to decrease discretionary marketing, distribution and promotional expenses, consolidation of numerous functions across the organization to create a team, which was more productive and able to respond faster to global customer needs; and closure of a facility in Germany and moving our operations to other locations within Data I/O.

At December 31, 2003 all restructuring expenses associated with the activities detailed above had been paid and the excess expense accrual of \$39,000 was reversed during 2003.

### CRITICAL ACCOUNTING POLICY JUDGMENTS AND ESTIMATES

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

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

**Revenue Recognition:** Sales of our semiconductor programming equipment products requiring installation by us that is other than perfunctory are recorded when installation is complete, or at the later of customer acceptance or installation, if an acceptance clause is specified in the sales terms. We recognize revenue from other product sales at the time of shipment. We record revenue from the sale of service and update contracts as deferred revenue and we recognize it on a straight-line basis over the contractual period, which is typically one year. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items. If the actual future returns differ from historical levels, our revenue could be adversely affected.

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

**Inventory Provisions:** We base inventory purchases and commitments upon future demand forecasts and historic usage. If there is a significant decrease in demand for our products or there is a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, Data I/O may be required to increase our inventory provision adjustments and our gross margin could be adversely affected.

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

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### Results of Continuing Operations

#### NET SALES

| (in thousands)                    | 2003     | Change  | 2002     |
|-----------------------------------|----------|---------|----------|
| -----                             |          |         |          |
| Net sales by product line:        |          |         |          |
| Non-automated programming systems | \$10,767 | (6.6%)  | \$11,532 |
| Automated programming systems     | 13,920   | 23.1%   | 11,306   |
|                                   | -----    |         | -----    |
| Totals                            | \$24,687 | 8.1%    | \$22,838 |
|                                   | =====    |         | =====    |
|                                   |          |         |          |
| Net sales by location:            |          |         |          |
| United States                     | \$ 7,263 | (13.0%) | \$8,347  |
| % of total                        | 29.4%    |         | 36.5%    |
| International                     | \$17,424 | 20.2%   | \$14,491 |
| % of total                        | 70.6%    |         | 63.5%    |
| -----                             |          |         |          |

#### 2003 vs. 2002

Data I/O experienced a turnaround in sales during 2003, with a resurgence in sales of automated system products. In particular, automated systems aftermarket products and PS300 FlashCORE and related upgrades, which were new in 2003, drove the sales growth. Our non-automated systems continued a trend of declining sales in older products; however, FlashPAK, which was new in 2002, grew 292% in 2003, partially offsetting the decline. Also contributing to the non-automated system decline was the loss of a low cost programmer line. ICE Technology, our former supplier of the line, ceased business. In 2003, sales related to the Ice Technology products were approximately \$50,000, compared to \$250,000 in 2002.

International sales grew, particularly in Europe, while sales in the U.S. market continued to decline. The U.S. dollar continued to weaken in 2003, which we believe assisted our export sales, due to increased buying power of foreign currencies and the favorable effect of currency translation for sales denominated in foreign currency, and in particular the Euro. We see a continuing trend in migration of customers moving manufacturing operations to low-cost geographies, thereby increasing international sales opportunities. The weakened U.S. dollar, especially compared to the Euro, is expected to continue to assist our export sales.

We are continuing the transition to a common programming architecture for all of our products. This allows us to consolidate device support on a single platform and provides substantial cost benefits to Data I/O. The recently introduced PS288 FlashCORE automated programming system incorporates this common architecture. In 2003, we also introduced NAND and microcontroller support FlashCORE architecture, the TF-30 Tray Feeder System, and a version of our ProLINE-RoadRunner designed for Panasonic machines. We expect these products to increase our revenues; however, partially offsetting this increase is the trend of declining sales of our older product lines.

#### 2002 vs. 2001

Data I/O sales declined for the year 2002 compared to 2001. However, for the third and fourth quarters of 2002, sales increased over the same quarters in 2001. We attribute the overall decline to the continued economic downturn, especially in capital spending. Sales declined in all product categories, but



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the declines were offset in part by increased sales from our ProLINE-RoadRunner and new FlashPAK product lines. Sales declined in both in the US and international markets with the Americas and Europe declining the most.

### GROSS MARGIN

| (in thousands)          | 2003     | Change | 2002     | Change |
|-------------------------|----------|--------|----------|--------|
| Gross margin            | \$13,679 | 21.2%  | \$11,282 | (4.0%) |
| Percentage of net sales | 55.4%    |        | 49.4%    |        |

#### 2003 vs. 2002

Gross margins increased in both dollars and as a percentage of sales for 2003 compared to 2002. The increase in gross margin dollars was due to both the increase in revenue dollars as well as the savings related to our restructuring actions. The restructuring efforts lowered our annual breakeven point by implementing cost reductions as well as lowering inventory reserve charges compared to 2002. The continued product mix shift towards higher margin automated systems aftermarket continued to be a favorable factor in 2003.

#### 2002 vs. 2001

Gross margin decreased in dollars due primarily to the decline in sales volume. Gross margin increased as a percentage of sales primarily due to the savings from the restructuring and implementation of cost reductions, as well as lower inventory reserve and warranty charges. The product mix towards additional ProLINE-RoadRunner and related aftermarket products also improved the gross margin as a percentage of sales. The restructuring efforts lowered our breakeven point by bringing cost and operation expenditures, primarily personnel reductions, in line with the revenue levels we experienced at the end of 2002.

### RESEARCH AND DEVELOPMENT

| (in thousands)           | 2003    | Change  | 2002    | Change  |
|--------------------------|---------|---------|---------|---------|
| Research and development | \$4,639 | (13.0%) | \$5,331 | (20.9%) |
| Percentage of net sales  | 18.8%   |         | 23.3%   |         |

#### 2003 vs. 2002

Research and development ("R&D") spending for 2003 as compared to 2002 declined both in dollars and as a percentage of sales. This was again due to the restructuring actions, primarily personnel reductions and cost control efforts taken over the past two years. During 2003, Data I/O's R&D focused on the FlashCORE architecture, expanding its capability to address newer technologies like NAND Flash support for M-Systems DiskOnChip technology as well as microcontroller device support. New products in the PS family of automated systems included the PS300 FlashCORE, the TF-30 Tray Feeder system and, introduced in early 2004, the PS288 FlashCORE. Also, we released a ProLINE-RoadRunner version for Panasonic machines.

#### 2002 vs. 2001

R&D spending for 2002 as compared to 2001 declined both in dollars and as a percentage of sales. This was due primarily to the lower headcount related to our restructuring actions during 2001 and 2002. During 2002, Data I/O's R&D focused on the new FlashPAK gang programming system and PS300 FlashCORE

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automated programming system, which integrated the programming architecture first introduced in the ProLINE-RoadRunner. We also released the following new products: ProLINE Infinity, a ProLINE-RoadRunner utilizing an automated handler; ProLINE-RoadRunner Variable Capacity Options; TF-20 Tray Feeder System; and High Insertion Socket Adapters.

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. We are focusing our R&D efforts in our strategic growth markets, namely new programming technology and automated programming systems for the manufacturing environment, particularly extending the capabilities and support for our FlashCORE architecture and the ProLINE-RoadRunner. In 2004, we expect to add personnel and project related costs, so R&D spending is expected to increase in 2004.

### SELLING, GENERAL AND ADMINISTRATIVE

| (in thousands)                      | Restated<br>2003 | Change | 2002    | C |
|-------------------------------------|------------------|--------|---------|---|
| Selling, general and administrative | \$7,715          | (6.5%) | \$8,254 | ( |
| Percentage of net sales             | 31.3%            |        | 36.1%   | ) |

#### 2003 vs. 2002

Selling, General and Administrative ("SG&A") expenses decreased by \$539,000 in 2003 versus the prior year due primarily to the restructuring actions and reduced marketing expenses. Partially offsetting this decrease was our increased facility costs due to increased rent and loss of a sub-tenant; profit-based bonuses; and increased selling costs due to currency translation with the weaker US dollar and commissions.

#### 2002 vs. 2001

SG&A spending decreased by \$1.5 million in 2002 versus the prior year due primarily to the restructuring actions. We reduced our expense by lowering our bad debts reserve due to collection of accounts receivable, incurring less retirement plan costs and lower commissions, partially offsetting these reductions were higher rent and insurance costs.

### INTEREST

| (in thousands)   | 2003   | Change | 2002   | C |
|------------------|--------|--------|--------|---|
| Interest income  | \$112  | 28.7%  | \$87   |   |
| Interest expense | (\$23) | 27.8%  | (\$18) |   |

#### 2003 vs. 2001

Interest income for 2003 increased as compared to 2002 primarily due to the increase in cash, cash equivalents and marketable securities.

#### 2002 vs. 2001

Interest income for 2002 decreased as compared to 2001 primarily due to the

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reduction in interest rates that occurred during 2002 and 2001.

### INCOME TAXES

| (in thousands)               | 2003 | 2002   |
|------------------------------|------|--------|
| Income tax expense (benefit) | \$33 | (\$61) |

### 2003 vs. 2002 and 2002 vs. 2001

Income tax expense in all years relates to foreign income taxes. For financial reporting purposes, Data I/O established tax valuation reserves against our deferred tax assets because of the uncertainty relating to the realization of such asset values. We had valuation allowances of \$9.7 million, \$10.1 million and \$9.0 million at December 31, 2003, 2002 and 2001, respectively.

### 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 losses of \$81,000, \$150,000 and \$222,000 in 2003, 2002 and 2001, respectively. The transaction losses resulted primarily from sales by our German subsidiary to our main customers, which were invoiced in US dollars. We hedge our foreign currency exposure on sales of inventory and certain loans to our foreign subsidiaries through the use of foreign exchange contracts. See Note 1 of "Notes to Consolidated Financial Statements."

### Financial Condition

### LIQUIDITY AND CAPITAL RESOURCES

| (in thousands)  | 2003     | Change  | 2002    |
|-----------------|----------|---------|---------|
| Working capital | \$11,032 | \$1,907 | \$9,125 |

In 2003, cash and marketable securities increased by \$1,275,000, primarily resulting from funds generated by operations. Key elements of working capital changes reflected the increase in business: inventories increased by \$131,000; accounts receivable increased by \$726,000; and accounts payable and accrued expenses together increased \$274,000. The increase in accounts receivable also reflects the longer collection period typically associated with international sales.

We estimate that capital expenditures for property, plant and equipment during 2004 are planned to be approximately \$700,000. Although we expect to make such expenditures, we had no significant outstanding purchase commitments at December 31, 2003. Such 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, and selling and marketing efforts, Data I/O has required substantial working capital to fund our operations. Over the last few years, we restructured our operations to lower our costs and operating expenditures to lower our breakeven point, preserve our cash position and return to profitable operations, as reflected in

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our 2003 results. We believe that we have sufficient working capital available under our operating plan to fund our operations and capital requirements through at least December 31, 2004. 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.

### Aggregate Contractual Obligations and Commitments

Data I/O has purchase obligations for inventory and production costs as well as other obligations such as capital expenditures, service contracts, marketing, and development agreements. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice, typically less than 90 days. Any amounts reflected on the balance sheet as accounts payable and accrued liabilities are excluded from the table below. Data I/O has no long-term debt. Data I/O has commitments under non-cancelable operating leases and other agreements, primarily for factory and office space, with initial or remaining terms of one year or more as follows:

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

|                     | Purchase<br>obligations | Operating<br>leases |
|---------------------|-------------------------|---------------------|
| 2004                | \$1,386                 | \$1,440             |
| 2005                | 54                      | 1,413               |
| 2006                | -                       | 1,257               |
| 2007                | -                       | 1                   |
| 2008 and thereafter | -                       | -                   |
| Total               | \$1,440                 | \$4,111             |

### SHARE REPURCHASE PROGRAM

Under a previously announced share repurchase program, Data I/O is authorized to repurchase up to 1,123,800 shares of our outstanding Common Stock. We may execute these purchases through open market purchases at prevailing market prices, through block purchases or in privately negotiated transactions, and we may commence or discontinue at any time. As of December 31, 2003, Data I/O has repurchased 1,016,200 shares under this repurchase program at a total cost of approximately \$7.1 million. Data I/O has not repurchased shares under this plan since the second quarter of 1997, although it still has the authority to do so.

### NEW ACCOUNTING PRONOUNCEMENTS

During 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143 "Accounting for Asset Retirement Obligations" and, during 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit and Disposal Activities". The adoption of SFAS Nos. 143 and 146 during fiscal 2003 did not have a material impact on our consolidated financial statements.

In November 2002, the Emerging Issues Task Force (EITF) released Issue No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor", applicable to Data I/O for arrangements entered into beginning in fiscal 2003. Data I/O records vendor allowances and

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discounts in the income statement when the purpose for which those monies were designated is fulfilled. As such, the adoption of EITF No. 02-16 during fiscal 2003 did not have a material impact on our consolidated financial statements.

In November 2002, the Emerging Issues Task Force reached a consensus opinion on EITF 00-21, "Revenue Arrangements with Multiple Deliverables." The consensus provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration for the arrangement should be allocated to the separate units of accounting based on their relative fair values, with different provisions if the fair value of all deliverables are not known or if the fair value is contingent on delivery of specified items or performance conditions. Applicable revenue recognition criteria should be considered separately for each separate unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Entities may elect to report the change as a cumulative effect adjustment in accordance with APB Opinion 20, Accounting Changes. Data I/O has adopted the provisions of the statement, which has had no material impact.

In January 2003, the FASB issued Interpretation 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 interprets ARB No. 51, "Consolidated Financial Statements," as amended by FASB Statement No. 94, "Consolidation of All Majority-Owned Subsidiaries," which requires the preparation of consolidated financial statements when one entity has a controlling financial interest in a second entity. FIN 46 specifies disclosures that are required for financial statements issued after January 31, 2003 but prior to the effective date of the Interpretation for entities created before February 1, 2003 and interests in those entities acquired before that date, as well as disclosures that will be required for financial statements of primary beneficiaries and others with variable interests in variable interest entities issued after the effective date. The FASB has published a revision to Interpretation 46 to clarify some of the provisions of FIN 46 and to exempt certain entities from its provisions. The adoption of this interpretation did not have a material impact on our results of operations or financial position, as we do not have variable interest entities.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. Data I/O has adopted the provisions of the statement, which has had no material impact.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The statement requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. This statement is effective for all financial instruments entered into or modified after May 31, 2003." The adoption of SFAS No 150 during fiscal 2003 did not have a material impact on our consolidated financial statements.

### Item 7A. Quantitative and Qualitative Disclosure About Market Risk

With respect to our foreign currency exchange rate risk, we currently use only foreign currency hedge derivative instruments, which, at a given date, are not material. However, Data I/O is exposed to interest rate risks. We generally invest in high-grade commercial paper with original maturity dates of twelve months or less and conservative money market funds to minimize our exposure to interest rate risk on our marketable securities, which are classified as available-for-sale as of December 31, 2003 and December 31, 2002. We believe that the market risk arising from holdings of these financial instruments is not material.

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The table below provides information about our marketable securities, including principal cash flows and the related weighted average interest rates (in thousands):

|                                 | Principal<br>Cash Flows<br>For 2004 | Estimated Fair<br>Value at<br>December 31,<br>2003 | Principa<br>Cash Flo<br>For 200 |
|---------------------------------|-------------------------------------|----------------------------------------------------|---------------------------------|
|                                 | -----                               | -----                                              | -----                           |
| Corporate bonds                 | \$ 754<br>1.315%                    | \$ 754                                             | \$ 734<br>2.936%                |
| Euro-dollar bonds               | -                                   | -                                                  | 342<br>2.100%                   |
| Taxable Auction Securities      | 500<br>1.136%                       | 500                                                | -                               |
| Tax Advantaged Auction Security | 1,100<br>1.286%                     | 1,100                                              | -                               |
| Total portfolio value           | \$ 2,354                            | \$ 2,354                                           | \$ 1,076                        |

Item 8. Financial Statements and Supplementary Data

See pages 23 through 41.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Data I/O Corporation as of December 31, 2003, and 2002 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Data I/O Corporation as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the Company's consolidated financial statements as of and for the year ended December 31, 2003 have been restated.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule as Schedule II is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

//S//GRANT THORNTON LLP

Seattle, Washington

February 6, 2004

(March 5, 2005 as to the effects of the restatement described in Note 3)

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### REPORT OF MANAGEMENT

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The Management of Data I/O Corporation is responsible for the preparation and integrity of Data I/O's consolidated financial statements and related information that appears in this Annual Report on Form 10-K/A. Management believes that the financial statements fairly reflect the form and substance of transactions and reasonably present Data I/O's financial condition and results of its operations, in conformity with accounting principles generally accepted in the United States of America. Management has included in Data I/O's financial statements, amounts that are based on estimates and judgments, which it believes are reasonable under the circumstances.

Data I/O maintains a system of internal control, which is designed to safeguard Data I/O's assets and ensure that transactions are recorded in accordance with Company policies.

The Board of Directors of Data I/O has an Audit Committee composed of non-management Directors. The Committee meets with financial management and the independent auditors to review internal accounting controls and accounting, auditing and financial reporting matters.

//S//Frederick R. Hume  
FREDERICK R. HUME  
President and Chief Executive Officer

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

DATA I/O CORPORATION

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## CONSOLIDATED BALANCE SHEETS

December 31,

|                                                                                            | Restated<br>2003 |
|--------------------------------------------------------------------------------------------|------------------|
| (in thousands, except share data)                                                          |                  |
| ASSETS                                                                                     |                  |
| CURRENT ASSETS:                                                                            |                  |
| Cash and cash equivalents                                                                  | \$ 4,380         |
| Marketable securities                                                                      | 2,354            |
| Trade accounts receivable, net of allowance for<br>doubtful accounts of \$202 and \$187    | 5,054            |
| Inventories                                                                                | 4,607            |
| Other current assets                                                                       | 431              |
| TOTAL CURRENT ASSETS                                                                       | 16,826           |
| Property, plant and equipment - net                                                        | 1,263            |
| Other assets                                                                               | 11               |
| TOTAL ASSETS                                                                               | \$18,100         |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                                       |                  |
| CURRENT LIABILITIES:                                                                       |                  |
| Accounts payable                                                                           | \$1,285          |
| Accrued compensation                                                                       | 1,186            |
| Deferred revenue                                                                           | 1,430            |
| Other accrued liabilities                                                                  | 1,543            |
| Accrued costs of business restructuring                                                    | -                |
| Income taxes payable                                                                       | 350              |
| TOTAL CURRENT LIABILITIES                                                                  | 5,794            |
| Deferred gain on sale of property                                                          | 1,106            |
|                                                                                            | 6,900            |
| COMMITMENTS                                                                                |                  |
| STOCKHOLDERS' EQUITY                                                                       |                  |
| Preferred stock -                                                                          |                  |
| Authorized, 5,000,000 shares, including<br>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, 7,976,296<br>and 7,767,630 shares                                  | 18,797           |
| Retained deficit                                                                           | (7,926)          |
| Accumulated other comprehensive income (loss)                                              | 329              |
| TOTAL STOCKHOLDERS' EQUITY                                                                 | 11,200           |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                                                 | \$18,100         |



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See notes to consolidated financial statements.

DATA I/O CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

| For the years ended December 31,                    | Restated<br>2003 |
|-----------------------------------------------------|------------------|
| (in thousands, except per share data)               |                  |
| Net sales                                           | \$24,687         |
| Cost of goods sold                                  | 11,008           |
|                                                     | -----            |
| Gross margin                                        | 13,679           |
|                                                     | -----            |
| Operating expenses:                                 |                  |
| Research and development                            | 4,639            |
| Selling, general and administrative                 | 7,715            |
| Net provision (reversal) for business restructuring | (39)             |
|                                                     | -----            |
| Total operating expenses                            | 12,315           |
|                                                     | -----            |
| Operating income (loss)                             | 1,364            |
| Non-operating income (expense):                     |                  |
| Interest income                                     | 112              |
| Interest expense                                    | (23)             |
| Foreign currency exchange                           | (114)            |
|                                                     | -----            |
| Total non-operating income (loss)                   | (25)             |
|                                                     | -----            |
| Income (loss) before income taxes                   | 1,339            |
| Income tax (expense) benefit                        | (33)             |
|                                                     | -----            |
| Net income (loss)                                   | \$1,306          |
|                                                     | =====            |
| Basic earnings (loss) per share                     | \$0.17           |
| Diluted earnings (loss) per share                   | \$0.16           |
| Weighted-average basic shares                       | 7,910            |
| Weighted-average diluted shares                     | 8,117            |

See notes to consolidated financial statements

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DATA I/O CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended December 31,                                                                  | Restated<br>2003 |
|---------------------------------------------------------------------------------------------------|------------------|
| (in thousands)                                                                                    |                  |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                             |                  |
| Income (loss) from continuing operations                                                          | \$1,306          |
| Adjustments to reconcile income (loss)<br>to net cash provided by (used in) operating activities: |                  |
| Depreciation and amortization                                                                     | 684              |
| Write-off of assets                                                                               | 172              |
| Amortization of deferred gain on sale                                                             | (330)            |
| Net change in:                                                                                    |                  |
| Trade accounts receivable                                                                         | (806)            |
| Inventories                                                                                       | (129)            |
| Recoverable income taxes                                                                          | -                |
| Other current assets                                                                              | 94               |
| Accrued cost of business restructuring                                                            | (204)            |
| Accounts payable and accrued liabilities                                                          | 587              |
| Deferred revenue                                                                                  | (178)            |
| Net cash provided by (used in) operating activities                                               | 1,196            |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                                             |                  |
| Additions to property, plant and equipment                                                        | (486)            |
| Purchases of available-for-sale securities                                                        | (4,815)          |
| Proceeds from maturities of available-for-sale securities                                         | 3,536            |
| Cash provided by (used in) investing activities                                                   | (1,765)          |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                                             |                  |
| Sale of common stock                                                                              | 119              |
| Proceeds from exercise of stock options                                                           | 40               |
| Cash provided by financing activities                                                             | 159              |
| Increase (decrease) in cash and cash equivalents                                                  | (410)            |
| Effects of exchange rate changes on cash                                                          | 407              |
| Cash and cash equivalents at beginning of year                                                    | 4,383            |
| Cash and cash equivalents at end of year                                                          | \$4,380          |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:                                                |                  |
| Cash paid during the year for:                                                                    |                  |
| Interest                                                                                          | \$ 23            |
| Income taxes                                                                                      | \$ 33            |

See notes to consolidated financial statements.

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## DATA I/O CORPORATION

### CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (AS RESTATED)

|                                           | Common Stock |          | Retained              | Accumul                       |
|-------------------------------------------|--------------|----------|-----------------------|-------------------------------|
|                                           | Shares       | Amount   | Earnings<br>(Deficit) | Other<br>Comprehe<br>Income ( |
|                                           | -----        | -----    | -----                 | -----                         |
| (in thousands, except share data)         |              |          |                       |                               |
| Balance at December 28, 2000:             |              |          |                       |                               |
| As previously reported                    | 7,494,542    | \$18,292 | (\$163)               |                               |
| Prior period adjustment (see Note 3)      |              |          | 47                    |                               |
|                                           | -----        | -----    | -----                 | -----                         |
| Balance at December 28, 2000, as restated | 7,494,542    | \$18,292 | (\$116)               |                               |
| Issuance of stock through                 |              |          |                       |                               |
| Employee Stock Purchase Plan              | 119,212      | 208      | -                     |                               |
| Comprehensive loss:                       |              |          |                       |                               |
| Net loss                                  | -            | -        | (6,010)               |                               |
| Translation adjustment                    | -            | -        | -                     |                               |
| Unrealized gain on                        |              |          |                       |                               |
| Marketable securities                     | -            | -        | -                     |                               |
| Total comprehensive loss                  |              |          |                       |                               |
|                                           | -----        | -----    | -----                 | -----                         |
| Balance at December 31, 2001, as restated | 7,613,754    | 18,500   | (6,126)               |                               |
| Stock options exercised                   | 5,000        | 8        | -                     |                               |
| Issuance of stock through                 |              |          |                       |                               |
| Employee Stock Purchase Plan              | 148,876      | 130      | -                     |                               |
| Comprehensive loss:                       |              |          |                       |                               |
| Net loss                                  | -            | -        | (3,106)               |                               |
| Translation adjustment                    | -            | -        | -                     |                               |
| Total comprehensive loss                  |              |          |                       |                               |
|                                           | -----        | -----    | -----                 | -----                         |
| Balance at December 31, 2002, as restated | 7,767,630    | 18,638   | (9,232)               |                               |
| Stock options exercised                   | 14,189       | 40       | -                     |                               |
| Issuance of stock through                 |              |          |                       |                               |
| Employee Stock Purchase Plan              | 194,477      | 119      | -                     |                               |
| Comprehensive loss:                       |              |          |                       |                               |
| Net income, as restated                   | -            | -        | 1,306                 |                               |
| Translation adjustment                    | -            | -        | -                     |                               |
| Unrealized gain on                        |              |          |                       |                               |
| Marketable securities                     | -            | -        | -                     |                               |
| Total comprehensive loss                  |              |          |                       |                               |
|                                           | -----        | -----    | -----                 | -----                         |
| Balance at December 31, 2003, as restated | 7,976,296    | \$18,797 | (\$7,926)             | -----                         |
|                                           | =====        | =====    | =====                 | =====                         |

See notes to consolidated financial statements.

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DATA I/O CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

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

As a result of our significant product development, customer support, and selling and marketing efforts in a period of weak capital spending, Data I/O has required substantial working capital to fund our operations. We believe that we have sufficient working capital available under our operating plan to fund our operations and capital requirements through at least December 31, 2004. Any substantial inability to achieve the current business plan could have a material adverse impact on our financial position, liquidity, or result of operations and may require us to reduce expenditures and/or seek additional financing.

#### Principles of Consolidation

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

#### Reporting Period

In 2001, Data I/O converted to reporting on a calendar year-end basis. The first quarter of 2001 covered the period December 29, 2000 to March 31, 2001.

#### Use of Estimates

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

#### Stock-Based Compensation

Data I/O has stock-based employee compensation plans that are described more fully in Note 13. Data I/O applies APB Opinion 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for our plans. Stock expense in 2003, 2002, and 2001 would have been the result of options issued with an exercise price below the underlying stock's market price. The following table illustrates the effect on net income (loss) and earnings (loss) per share if Data I/O had applied the fair value recognition provisions of FASB Statement 123, Accounting for Stock-Based Compensation, using the assumptions described in Note 13, to our stock-based employee plans.

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Data I/O's pro forma information follows (in thousands, except per share data):

|                                                                                                                                                                       | Year Ended De    |           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------|
|                                                                                                                                                                       | Restated<br>2003 | 2002      |
| Net income (loss) - as reported                                                                                                                                       | \$1,306          | (\$3,106) |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for awards granted, modified, or settled, net of related tax effects | (338)            | (392)     |
| Net income (loss) - pro forma                                                                                                                                         | \$968            | (\$3,498) |
|                                                                                                                                                                       |                  |           |
| Basic earnings (loss) per share - as reported                                                                                                                         | \$0.17           | (\$0.40)  |
| Diluted earnings (loss) per share - as reported                                                                                                                       | \$0.16           | (\$0.40)  |
| Basic earnings (loss) per share - pro forma                                                                                                                           | \$0.12           | (\$0.45)  |
| Diluted earnings (loss) per share - pro forma                                                                                                                         | \$0.12           | (\$0.45)  |

### 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. 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.

In an effort to minimize the effect of exchange rate fluctuations on the results of our operations, Data I/O hedges portions of our foreign currency exposure through the use of forward exchange contracts, none of which are speculative. At December 31, 2003, we had a notional value of approximately \$623,000 in five foreign exchange contracts outstanding, the fair value of which was a liability of \$31,000. The contract terms are 43-90 days. The hedges are perfectly effective, as currency, settlement date and amount of the underlying receivables and of the forward contracts coincide, and as spot rates are the same for both the hedge and the hedged item.

### Cash and Cash Equivalents

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

### Marketable Securities

Data I/O generally invests in debt securities with original maturities of twelve months or less and money market funds, all of which are classified as available-for-sale securities and recorded at fair value, as defined below. We record unrealized holding gains and losses, net of any tax effect, as a component of accumulated other comprehensive income (loss) within stockholders' equity. We report interest earned in non-operating income as interest income. Marketable securities are classified in the balance sheet as current and noncurrent based on maturity dates and our expectation of sales and redemptions

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in the following year.

### Fair Value of Financial Instruments

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

### Accounts Receivable

The majority of Data I/O's accounts receivable are due from companies in the electronics manufacturing industries. Credit is extended based on an evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are typically due within 30 to 60 days and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. Data I/O determines our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, Data I/O's previous loss history, the customer's current ability to pay our obligation to Data I/O, and the condition of the general economy and the industry as a whole. Data I/O writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Interest is allowed to accrue, 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 only 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.

### Property, Plant and Equipment

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

Long-lived and other assets are evaluated on an annual basis for impairment. In this connection, we reviewed the expected cash flows to be generated by the Sprint product line to determine that they are adequate compared to the remaining net book value of long-lived assets from the SMS acquisition.

### Revenue Recognition

Sales of Data I/O's semiconductor programming equipment products requiring installation by us that is other than perfunctory are recorded when installation is complete, or at the later of customer acceptance or installation, if an acceptance clause is specified in the sales terms. We recognize revenue from other product sales at the time of shipment. We record revenue from the sale of service and update contracts as deferred revenue and we recognize it on a straight-line basis over the contractual period. Sales were recorded net of associated sales return reserves, which were \$300,000 and \$450,000 at December 31, 2003 and 2002, respectively.

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Data I/O previously recognized revenue from product sales at the time of shipment, or at customer acceptance, if an acceptance clause was specified in the sales terms. Effective December 31, 1999, we changed our method of accounting for product sales requiring Company installation, when installation is other than perfunctory, to recognize such revenues when installation is complete, or at the later of customer acceptance or installation, if an acceptance clause is specified in the sales terms. We believe the change in accounting principle is preferable based on guidance provided in SEC Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements. This change in accounting principle did not impact taxes, as all affected jurisdictions had net operating loss carryforwards.

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

### Research and Development

Research and development costs are expensed as incurred.

### Advertising Expense

Data I/O expenses advertising costs as incurred. Total advertising expenses related to continuing operations were \$248,000, \$468,000, and \$487,000 in 2003, 2002, and 2001, respectively.

### Warranty Expense

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

### Earnings (Loss) Per Share

Basic earnings (loss) per share exclude any dilutive effects of stock options. Basic earnings (loss) per share are computed using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share are computed using the weighted-average number of common shares and common stock equivalent shares outstanding during the period. Common stock equivalent shares are excluded from the computation if their effect is antidilutive.

Earnings per share as presented on the statement of operations exclude employee stock options that were antidilutive of 1,141,412 and 1,115,508 in 2002, and 2001, respectively.

### Diversification of Credit Risk

Financial instruments, which potentially subject Data I/O to concentrations of credit risk, consist primarily of trade receivables. Our cash, cash equivalents and marketable securities consist of high quality financial instruments. Data I/O maintains cash balances in financial institutions, which at times may exceed federally insured limits. We have not experienced any losses in such accounts

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and believe we are not exposed to any significant credit risk on cash and cash equivalents. Our trade receivables are geographically dispersed and include customers in many different industries. We believe that any 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, whenever deemed necessary.

### Derivatives

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

Data I/O utilizes forward foreign exchange contracts to reduce the impact of foreign currency exchange rate risks where natural hedging strategies cannot be effectively employed. All of our hedging instruments are fair value hedges. Generally, these contracts have maturities less than one year and require us to exchange foreign currencies for U.S. dollars at maturity. The fair value of the open hedge contracts as of December 31, 2003 is a liability of \$31,000 and is included in accounts payable on the balance sheet.

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

### New Accounting Pronouncements

During 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143 "Accounting for Asset Retirement Obligations" and, during 2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit and Disposal Activities". The adoption of SFAS Nos. 143 and 146 during fiscal 2003 did not have a material impact on our consolidated financial statements.

In November 2002, the Emerging Issues Task Force (EITF) released Issue No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor", applicable to Data I/O for arrangements entered into beginning in fiscal 2003. Data I/O records vendor allowances and discounts in the income statement when the purpose for which those monies were designated is fulfilled. As such, the adoption of EITF No. 02-16 during fiscal 2003 did not have a material impact on our consolidated financial statements.

In November 2002, the Emerging Issues Task Force reached a consensus opinion on EITF 00-21, "Revenue Arrangements with Multiple Deliverables." The consensus provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The consideration for the arrangement should be allocated to the separate units of accounting based on their relative fair values, with different provisions if the fair value of all deliverables are not known or if the fair value is contingent on delivery of specified items or performance conditions. Applicable revenue recognition criteria should be considered separately for each separate unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods



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beginning after June 15, 2003. Entities may elect to report the change as a cumulative effect adjustment in accordance with APB Opinion 20, Accounting Changes. Data I/O has adopted the provisions of the statement, which has had no material impact.

In January 2003, the FASB issued Interpretation 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 interprets ARB No. 51, "Consolidated Financial Statements," as amended by FASB Statement No. 94, "Consolidation of All Majority-Owned Subsidiaries," which requires the preparation of consolidated financial statements when one entity has a controlling financial interest in a second entity. FIN 46 specifies disclosures that are required for financial statements issued after January 31, 2003 but prior to the effective date of the Interpretation for entities created before February 1, 2003 and interests in those entities acquired before that date, as well as disclosures that will be required for financial statements of primary beneficiaries and others with variable interests in variable interest entities issued after the effective date. The FASB has published a revision to Interpretation 46 to clarify some of the provisions of FIN 46 and to exempt certain entities from its provisions. The adoption of this interpretation did not have a material impact on our results of operations or financial position, as we do not have variable interest entities.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. Data I/O has adopted the provisions of the statement, which has had no material impact.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The statement requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. This statement is effective for all financial instruments entered into or modified after May 31, 2003." The adoption of SFAS No 150 during fiscal 2003 did not have a material impact on our consolidated financial statements.

### NOTE 2 - PROVISION FOR BUSINESS RESTRUCTURING

During 2003, we completed the restructuring that began during 2001, which included actions taken to reduce our breakeven point and realign Data I/O with our market opportunities. We required this operational repositioning because of the impact of the economic slowdown and the decline in capital spending across a high number of customer groups on general demand for programming equipment over the past few years. At the end of 2003 our breakeven point was approximately \$6.2 million in net sales with 127 employees worldwide. Our breakeven point increased in 2003, primarily due to cost increases resulting from the impact of the weaker dollar on foreign currency based costs and from personnel costs due to salary increases, incentive compensation and selective hiring of individuals with critical skills to help position us as the continuing technology leader in our market.

During 2002, we recorded restructuring charges of \$632,000 in connection with our actions to reduce our quarterly breakeven point from approximately \$7 million of net sales at the beginning of 2002 to approximately \$5.7 million at the end of 2002. We achieved most of these reductions by reducing our personnel from 155 at the beginning of 2002 to 125 at the end of 2002.

During 2001, we recorded restructuring charges of \$1,211,000 in connection with a number of strategic restructuring actions to reduce our breakeven point. This restructuring included the following: a reduction in our global workforce from 224 at the start of the year to 155 at the end of 2001; discontinuance or reallocation of numerous projects and activities not essential to our long-term

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goals; streamlining activities to decrease discretionary marketing, distribution and promotional expenses; consolidation of numerous functions across the organization to create a team, which was more productive and able to respond faster to global customer needs; and closure of a facility in Germany and moving our operations to other locations within Data I/O.

At December 31, 2003 all restructuring expenses associated with the activities detailed above had been paid and the excess expense accrual of \$39,000 was reversed during 2003.

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

| Description                       | 2002<br>Expenses | 2002<br>Payments/<br>Write-offs | Reserve<br>Balance at<br>Dec. 31, 2002 | 2003<br>Expenses<br>(Reversals) | 2003<br>Payments/<br>Write-offs |
|-----------------------------------|------------------|---------------------------------|----------------------------------------|---------------------------------|---------------------------------|
| -----                             |                  |                                 |                                        |                                 |                                 |
| Downsizing U.S.<br>Operations:    |                  |                                 |                                        |                                 |                                 |
| Employee severance                | \$556            | \$391                           | \$169                                  | \$ (21)                         |                                 |
| Redmond facility<br>consolidation | 10               | 46                              | 10                                     | -                               |                                 |
| Consulting and legal<br>expenses  | 58               | 52                              | 25                                     | (18)                            |                                 |
| Downsizing foreign<br>operations  | 8                | 27                              | -                                      | -                               |                                 |
| -----                             |                  |                                 |                                        |                                 |                                 |
| Total                             | \$632            | \$516                           | \$204                                  | (\$39)                          |                                 |
| =====                             |                  |                                 |                                        |                                 |                                 |

### NOTE 3 - RESTATEMENT OF FINANCIAL STATEMENTS

During the preparation of our 2004 year-end financial statements and more specifically the inter-company profit elimination associated with demonstration inventory equipment amounts, the Company identified elimination calculation omission errors that had resulted in the understatement of inter-company expense elimination on foreign subsidiary demonstration inventory equipment depreciation, with a corresponding overstatement of demonstration inventory equipment accumulated depreciation (international selling) expense associated with the Company's foreign subsidiaries.

The cumulative impact of this error as of December 31, 2003, including the related income tax effect, resulted in a \$112,000 overstatement of demonstration inventory equipment accumulated depreciation reserve and a \$112,000 overstatement of depreciation (international selling) expense. The income tax effects from the cumulative effect of this error had no impact on income tax expense and only impacted the related disclosure of net operating losses in carry forward and the related valuation allowances.

The Company has evaluated that the adjustments to the quarters other than the fourth quarter are immaterial and that the entire 2003 adjustment will be reflected as a correction to the fourth quarter of 2003 in the amount of \$65,000 and that accordingly no restatement is necessary for the interim quarterly Form 10-Q filings. The Company has determined that there were no material impacts on the 2002 and 2001 Consolidated Statement of Operations.

The impacts of this restatement on the financial statements for the year ended December 31, 2003 are summarized below (in thousands, except per share information):

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| Consolidated Balance Sheet:          | Previously<br>Reported | Adjustment | R  |
|--------------------------------------|------------------------|------------|----|
| For the year ended December 28, 2000 |                        |            |    |
| Property, plant and equipment -net   | \$2,190                | \$47       | \$ |
| Total Assets                         | 28,746                 | 47         | 2  |
| Total Stockholder's Equity           | 18,039                 | 47         | 1  |

| Consolidated Balance Sheet:          | Previously<br>Reported | Adjustment | R  |
|--------------------------------------|------------------------|------------|----|
| For the year ended December 31, 2001 |                        |            |    |
| Property, plant and equipment -net   | \$1,741                | \$47       | \$ |
| Total Assets                         | 20,340                 | 47         | 2  |
| Total Stockholder's Equity           | 12,154                 | 47         | 1  |

| Consolidated Balance Sheet:          | Previously<br>Reported | Adjustment | R  |
|--------------------------------------|------------------------|------------|----|
| For the year ended December 31, 2002 |                        |            |    |
| Property, plant and equipment -net   | \$1,508                | \$47       | \$ |
| Total Assets                         | 16,367                 | 47         | 1  |
| Total Stockholder's Equity           | 9,285                  | 47         |    |

| Consolidated Balance Sheet:          | Previously<br>Reported | Adjustment | R  |
|--------------------------------------|------------------------|------------|----|
| For the year ended December 31, 2003 |                        |            |    |
| Property, plant and equipment -net   | \$1,151                | \$112      | \$ |
| Total Assets                         | 17,988                 | 112        | 1  |
| Total Stockholder's Equity           | 11,088                 | 112        | 1  |

| Consolidated Statement of Operations: | Previously<br>Reported | Adjustment | R  |
|---------------------------------------|------------------------|------------|----|
| For the year ended December 31, 2003  |                        |            |    |
| Selling, general and administrative   | \$7,780                | (\$65)     | \$ |
| Total operating expenses              | 12,380                 | (65)       | 1  |
| Operating income (loss)               | 1,299                  | 65         |    |
| Income (loss) before income taxes     | 1,274                  | 65         |    |
| Net Income (loss)                     | 1,241                  | 65         |    |
| Basic earnings (loss) per share       | 0.16                   | .01        |    |
| Diluted earnings (loss) per share     | 0.15                   | .01        |    |

| Consolidated Statement of Cash Flows: | Previously<br>Reported | Adjustment | R |
|---------------------------------------|------------------------|------------|---|
|---------------------------------------|------------------------|------------|---|

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For the year ended December 31, 2003

|                                          |         |      |
|------------------------------------------|---------|------|
| Income (loss) from continuing operations | \$1,241 | \$65 |
| Depreciation and amortization            | 749     | (65) |

### NOTE 4 - MARKETABLE SECURITIES

The estimated fair value of marketable securities consisted of the following (in thousands):

|                                   | Dec. 31,<br>2003 | Dec. 31,<br>2002 |
|-----------------------------------|------------------|------------------|
|                                   | -----            | -----            |
| Corporate bonds                   | \$754            | \$734            |
| Euro-dollar bonds                 | -                | 342              |
| Taxable auction securities        | 500              | -                |
| Tax advantaged auction securities | 1,100            | -                |
|                                   | -----            | -----            |
|                                   | \$2,354          | \$1,076          |
|                                   | =====            | =====            |

At December 31, 2003, cost approximated market value for Data I/O's portfolio of marketable securities and there were no significant unrealized gains or losses. The marketable securities are all classified as current assets due to their maturity date or because of the available for sale holding intent, as in the case of corporate bonds having a maturity date in the second quarter of 2005. The cost of securities sold is determined by the specific identification method.

### NOTE 5 - ACCOUNTS RECEIVABLE

Receivables consist of the following (in thousands):

|                                         | Dec. 31,<br>2003 | Dec. 31,<br>2002 |
|-----------------------------------------|------------------|------------------|
|                                         | -----            | -----            |
| Trade receivables                       | \$5,249          | \$4,436          |
| Other                                   | 7                | 79               |
|                                         | -----            | -----            |
| Total                                   | 5,256            | 4,515            |
| Less allowance for doubtful receivables | 202              | 187              |
|                                         | -----            | -----            |
| Net receivables                         | \$5,054          | \$4,328          |
|                                         | =====            | =====            |

Trade receivables relate to sales of parts, for which credit is extended based on the customer's credit history. Other receivables represent amounts due for subcontracting work performed for others.

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

|                             | Dec. 31,<br>2003 | Dec. 31,<br>2002 |
|-----------------------------|------------------|------------------|
|                             | -----            | -----            |
| Beginning balance           | \$187            | \$372            |
| Bad debt expense (reversal) | 43               | (162)            |
| Accounts written-off        | (28)             | (37)             |

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|                |       |       |
|----------------|-------|-------|
| Recoveries     | -     | 14    |
|                | ----- | ----- |
| Ending balance | \$202 | \$187 |
|                | ===== | ===== |

NOTE 6 - INVENTORIES

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

|                 | Dec. 31,<br>2003 | Dec. 31,<br>2002 |
|-----------------|------------------|------------------|
|                 | -----            | -----            |
| Raw material    | \$2,100          | \$2,308          |
| Work-in-process | 1,411            | 875              |
| Finished goods  | 1,096            | 1,293            |
|                 | -----            | -----            |
|                 | \$4,607          | \$4,476          |
|                 | =====            | =====            |

Reserves for excess and obsolete inventory were \$2,296,000 and \$3,267,000 at December 31, 2003 and December 31, 2002, respectively. The \$971,000 decline in the reserve related primarily to scrapping and disposal of the related inventory and reversal of \$96,000 in cost of goods sold. Freight expense for incoming raw materials and freight out for product shipments is charged to cost of goods sold.

Certain parts used in Data I/O's products are currently available from either a single supplier or from a limited number of suppliers. If we cannot develop alternative sources for these components, or if we experience deterioration in our relationship with these suppliers, there may be delays or reductions in product introductions or shipments, which may materially adversely affect our operating results.

Because Data I/O relies on a small number of suppliers for certain parts, we are subject to possible price increases by these suppliers. Also, we may be unable to accurately forecast our production schedule. If we underestimate our production schedule, suppliers may be unable to meet our demand for components. This delay in the supply of key components may materially adversely affect our business.

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

NOTE 7 - SALE - LEASEBACK

In May 1997, Data I/O completed the sale of the land and building comprising our Redmond, Washington, corporate headquarters. The sale includes a 10-year leaseback of the building to Data I/O. The sale represented an overall pre-tax gain to Data I/O of \$5.6 million. Of this amount, we recognized \$2.3 million in 1997, with the remainder being amortized over the life of the lease.

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

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

| Dec. 31,<br>2003 | Dec. 31,<br>2002 |
|------------------|------------------|
|------------------|------------------|

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|                                     | Restated<br>----- | Restated<br>----- |
|-------------------------------------|-------------------|-------------------|
| Leasehold improvements              | \$ 259            | \$ 239            |
| Equipment                           | 12,016            | 12,132            |
|                                     | -----             | -----             |
|                                     | 12,275            | 12,371            |
| Less accumulated depreciation       | 11,012            | 10,816            |
|                                     | -----             | -----             |
| Property, plant and equipment - net | \$ 1,263          | \$ 1,555          |
|                                     | =====             | =====             |

Total depreciation recorded for 2003, 2002, and 2001 was \$602,000, \$670,000, and \$940,000, respectively.

NOTE 9 - OTHER ASSETS

Other assets consisted of the following components (in thousands):

|                                  | Dec. 31,<br>2003<br>----- | Dec. 31,<br>2002<br>----- |
|----------------------------------|---------------------------|---------------------------|
| Long-term lease deposits         | \$ 11                     | \$ 66                     |
| Investment in product lines: SMS | 3,272                     | 3,272                     |
|                                  | -----                     | -----                     |
|                                  | 3,283                     | 3,338                     |
| Less accumulated amortization    | 3,272                     | 3,251                     |
|                                  | -----                     | -----                     |
| Other assets - net               | \$ 11                     | \$ 87                     |
|                                  | =====                     | =====                     |

Total amortization recorded for 2003, 2002, and 2001 was \$59,000, \$81,000, and \$969,000, respectively.

Investment In Product Lines: SMS

In November 1998, Data I/O acquired SMS Holding GmbH. In related transactions, we acquired a license to the technology, manufacturing and worldwide distribution rights to Unmanned Solutions' AH 400 robotic handler, which is used in the fine pitch automated programming system, now the PS product family. Of the total acquisition costs of these transactions, approximately \$3.3 million of developed technology and other various intangible assets are reported as Other Assets in the accompanying balance sheets and are being amortized ratably over the economic life of the specific assets acquired (three to five years). The net book value of the assets capitalized in Other Assets related to this acquisition is \$0 and \$59,000 at December 31, 2003 and 2002, respectively.

NOTE 10 - WARRANTY

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

|                                                    | December 31,<br>2003<br>----- | Decemb<br>200<br>----- |
|----------------------------------------------------|-------------------------------|------------------------|
| Liability, beginning of year                       | \$519                         | \$57                   |
| Net expense, accrual revisions and warranty claims | 44                            | (5                     |

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Liability, end of year

-----  
\$563  
=====

-----  
\$51  
=====

NOTE 11 - AGGREGATE CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Data I/O has purchase obligations for inventory and production costs as well as other obligations such as capital expenditures, service contracts, marketing, and development agreements. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice, typically less than 90 days. Any amounts reflected on the balance sheet as accounts payable and accrued liabilities are excluded from the below table. Data I/O has no long-term debt. Data I/O has commitments under non-cancelable operating leases and other agreements, primarily for factory and office space, with initial or remaining terms of one year or more as follows:

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

|                     | Purchase<br>obligations | Operating<br>leases |
|---------------------|-------------------------|---------------------|
|                     | -----                   | -----               |
| 2004                | \$1,386                 | \$1,440             |
| 2005                | 54                      | 1,413               |
| 2006                | -                       | 1,257               |
| 2007                | -                       | 1                   |
| 2008 and thereafter | -                       | -                   |
|                     | -----                   | -----               |
| Total               | \$1,440                 | \$4,111             |
|                     | =====                   | =====               |

Lease and rental expense was \$1,476,000, \$1,387,000 and \$1,342,000 in 2003, 2002 and 2001, respectively. Data I/O has renewal options on substantially all of our major leases. The initial lease on the Redmond facility expires on December 31, 2006. So long as we are not in material default of the terms of the lease and there has not been a material adverse change in the financial condition of Data I/O, we have the option to extend the lease for an additional five years on the same terms as the balance of the lease, except the rent shall be at the then-prevailing fair market rental rate. We will also have the right for a second five-year extension by giving written notice at least six months prior to the end of the first extension.

As part of our restructuring plan implementation, Data I/O vacated one floor of our leased Redmond facility (approximately 25,000 square feet) and sublet the majority of this space for a period of 28 months beginning January 1, 2000. This sublease ended in June 2002. We have not been successful in subleasing this space since June 2002 and believe the market for this space is currently quite limited.

NOTE 12 - STOCK AND RETIREMENT PLANS

Stock Option Plans

At December 31, 2003, there were 1,595,215 shares of Common Stock reserved for issuance of which 268,410 shares are available for future grant under Data I/O's employee stock option plans. Pursuant to these plans, options are granted to our officers and key employees with exercise prices equal to the fair market value

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of the Common Stock at the date of grant and generally vest over four years. Certain options granted during 1998 and 1999 vest over two years. Options granted under the plans generally have a maximum term of six years from the date of grant, except for certain options granted in January 1999, which have a maximum term of ten years. On May 15, 2002, Data I/O's shareholders approved an amendment to the Data I/O Corporation 2000 Stock Incentive Compensation Plan increasing the number of shares reserved for issuance under the 2000 Plan by an additional 200,000 shares of Common Stock.

### Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, eligible employees may purchase shares of Data I/O's Common Stock at six-month intervals at 85% of the lower of the fair market value on the first or 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 2003, 2002 and 2001, a total of 194,477, 148,876, and 119,212 shares, respectively, were purchased under the plan at average prices of \$0.61, \$0.87, and \$1.66 per share, respectively. At December 31, 2003, a total of 274,638 shares were reserved for future issuance.

### Stock Appreciation Rights Plan

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

### Director Fee Plan

Data I/O has a Director Fee Plan, not currently in use, which had provided for payment to directors who are not employees of Data I/O Corporation by delivery of shares of Data I/O's Common Stock. No shares were issued from the plan for 2003, 2002 or 2001 board service and 151,332 shares remain available in the plan.

### Retirement Savings Plan

Data I/O has a savings plan that qualifies as a cash or deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer their pre-tax salary, subject to IRS limitations. In fiscal years 2003, 2002 and 2001, Data I/O contributed one dollar for each dollar contributed by a participant, with a maximum contribution of 4% of a participant's earnings. Data I/O's matching contribution expense for the savings plan was approximately \$161,000, \$173,000 and \$271,000 in 2003, 2002 and 2001, respectively.

### Share Repurchase Program

Under a previously announced share repurchase program, Data I/O is authorized to repurchase up to 1,123,800 shares of our outstanding Common Stock. These purchases may be executed through open market purchases at prevailing market prices, through block purchases or in privately negotiated transactions, and may commence or be discontinued at any time. In years, prior to 2003, we have



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repurchased 1,016,200 shares under this repurchase program at a total cost of approximately \$7.1 million. We have not repurchased shares under this plan since the second quarter of 1997, although we still have the authority to do so.

### NOTE 13- STOCK-BASED COMPENSATION

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if Data I/O had accounted for our employee stock options, employee stock purchase plan options and directors' fee shares under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

|                                         | Employee Stock<br>Options |       |       | Employee Stock<br>Purchase Plan |       |       |
|-----------------------------------------|---------------------------|-------|-------|---------------------------------|-------|-------|
|                                         | 2003                      | 2002  | 2001  | 2003                            | 2002  | 2001  |
| Risk-free interest rates                | 2.21%                     | 3.80% | 4.81% | 1.14%                           | 1.66% | 4.86% |
| Volatility factors                      | 1.03                      | .94   | .70   | .97                             | .94   | .70   |
| Expected life of the option<br>in years | 4.31                      | 4.31  | 4.31  | .50                             | .50   | .50   |
| Expected dividend yield                 | None                      | None  | None  | None                            | None  | None  |

For purposes of pro forma disclosures, the estimated fair value of the options granted, which is estimated to be \$1.01, \$0.92 and \$1.36 per share for 2003, 2002 and 2001, respectively, is amortized to expense over the options' vesting period.

A summary of Data I/O's stock option activity, and related information follows:

|                                  | December 31, 2003 |                                           | December 31, 2002 |                                           |
|----------------------------------|-------------------|-------------------------------------------|-------------------|-------------------------------------------|
|                                  | Options           | Weighted-<br>Average<br>Exercise<br>Price | Options           | Weighted-<br>Average<br>Exercise<br>Price |
| Outstanding at beginning of year | 1,141,412         | \$2.56                                    | 1,115,508         | \$2.89                                    |
| Granted                          | 299,500           | 1.39                                      | 328,000           | 1.33                                      |
| Exercised                        | (14,408)          | 2.40                                      | (5,000)           | 1.33                                      |
| Expired or forfeited             | (99,699)          | 3.10                                      | (297,096)         | 2.48                                      |
| Outstanding - end of year        | 1,326,805         | 2.25                                      | 1,141,412         | 2.56                                      |
| Exercisable at end of year       | 829,572           | \$2.52                                    | 705,477           | \$2.80                                    |

The following table summarizes information about stock options outstanding at December 31, 2003:

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| Range of Exercise Prices | Options Outstanding |                                                      |                                 | Options            |
|--------------------------|---------------------|------------------------------------------------------|---------------------------------|--------------------|
|                          | Number Outstanding  | Weighted-Average Remaining Contractual Life in Years | Weighted-Average Exercise Price | Number Exercisable |
| \$1.00 - \$1.25          | 252,188             | 5.15                                                 | \$1.04                          | 45,758             |
| \$1.33 - \$1.61          | 226,561             | 4.19                                                 | 1.35                            | 89,356             |
| \$1.75 - \$2.41          | 398,000             | 2.53                                                 | 1.99                            | 347,625            |
| \$2.45 - \$3.47          | 206,556             | 2.94                                                 | 2.96                            | 153,770            |
| \$3.48 - \$5.19          | 243,500             | 1.45                                                 | 4.16                            | 193,063            |
| \$1.00 - \$5.19          | 1,326,805           | 3.18                                                 | \$2.25                          | 829,572            |

NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| (in thousands)                                      | December 31, 2003 |
|-----------------------------------------------------|-------------------|
| Unrealized currency gain (loss)                     | \$331             |
| Unrealized gain (loss) on marketable securities     | (2)               |
| Total accumulated other comprehensive income (loss) | \$329             |

NOTE 15- INCOME TAXES

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

Components of income (loss) before taxes:

| (in thousands)     | Year Ended    |      |
|--------------------|---------------|------|
|                    | Restated 2003 | 2002 |
| U.S. operations    | \$698         | (\$) |
| Foreign operations | 641           |      |
|                    | \$1,339       | (\$) |

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Income tax expense (benefit) consists of:

|                                               |    |       |
|-----------------------------------------------|----|-------|
| Current tax expense (benefit):                |    |       |
| U.S. federal                                  | \$ | -     |
| State                                         |    | -     |
| Foreign                                       |    | 33    |
|                                               |    | ----- |
|                                               |    | 33    |
| Deferred tax expense (benefit) - U.S. federal |    | -     |
|                                               |    | ----- |
| Total income tax expense (benefit)            |    | \$33  |
|                                               |    | ===== |

For federal income tax purposes, a deduction is received for stock option compensation gains.

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

|                                                                 | Year En       |
|-----------------------------------------------------------------|---------------|
|                                                                 | -----         |
|                                                                 | Restated 2003 |
|                                                                 | -----         |
| Statutory rate                                                  | 34.0%         |
| State and foreign income tax, net of federal income tax benefit | (13.7)        |
| Valuation allowance for deferred tax assets                     | (17.9)        |
| Other                                                           | -             |
|                                                                 | -----         |
|                                                                 | 2.4%          |
|                                                                 | =====         |

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

|                                                  | Dec. 31       | De    |
|--------------------------------------------------|---------------|-------|
|                                                  | Restated 2003 | Resta |
|                                                  | -----         | ----- |
| Deferred income tax assets:                      |               |       |
| Allowance for doubtful accounts                  | \$ 58         | \$    |
| Inventory and product return reserves            | 1,448         | 2     |
| Compensation accruals                            | 133           |       |
| Accrued liabilities                              | 675           | 1     |
| Book-over-tax depreciation and amortization      | 735           |       |
| Foreign net operating loss carryforwards         | 30            |       |
| U.S. net operating loss and credit carryforwards | 6,605         | 5     |
| Other, net                                       | 16            |       |
|                                                  | -----         | ----- |
|                                                  | 9,700         | 10    |
| Valuation allowance                              | (9,700)       | (10   |
|                                                  | -----         | ----- |
| Total deferred income tax assets                 | \$ -          | \$    |

The valuation allowance for deferred tax assets decreased \$424,000 during the year ended December 31, 2003, due primarily to the 2003 net income that allowed the utilization of tax deferred assets reducing the valuation allowance. The valuation allowance for deferred tax assets increased \$1,173,000 during the year ended December 31, 2002, due primarily to taxable losses and to credit carryforwards generated in 2002. The net deferred tax assets have a full valuation allowance provided due to uncertainty regarding Data I/O's ability to utilize such assets in future years. Credit carryforwards consist primarily of research and experimental and alternative minimum tax credits. Net operating loss carryforwards expire in 2019 to 2023. 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.

NOTE 16 - SEGMENT AND GEOGRAPHIC INFORMATION

In 2003, one customer accounted for 18% of Data I/O's consolidated revenues and no other customer accounted for more than 10%. No customer accounted for more than 10% of consolidated revenues in 2002 and 2001. Major operations outside the U.S. include sales and service support subsidiaries in Germany, Canada and China.

We present geographic information of the continuing operations for the three years ended December 31, 2003 in the table that follows. Net sales, as shown in the table below, are based upon the geographic area into which the products were sold and delivered. Export sales are subject to U.S. Department of Commerce regulations, and to the market conditions in the countries in which the products are sold. For purposes of the table below, the profit on the transfers between geographic areas has been shown in operating income in the geographic area where the final sale to non-affiliated customers took place. Certain general corporate expenses are charged to the U.S. segment. Identifiable assets are those assets that can be directly associated with a particular geographic area. All Company financial instruments, consisting of cash and marketable securities, are included in U.S. operations.

| (in thousands)           | Year Ended December |                  |
|--------------------------|---------------------|------------------|
|                          | Restated<br>2003    | Restated<br>2002 |
| Net sales:               |                     |                  |
| U.S.                     | \$7,263             | \$8,347          |
| Europe                   | 10,678              | 7,662            |
| Rest of World            | 6,746               | 6,829            |
|                          | -----               | -----            |
|                          | \$24,687            | \$22,838         |
|                          | =====               | =====            |
| Operating income (loss): |                     |                  |
| U.S.                     | (\$709)             | (\$2,754)        |
| Europe                   | 2,848               | 772              |
| Rest of World            | (775)               | (953)            |
|                          | -----               | -----            |
|                          | \$1,364             | (\$2,935)        |
|                          | =====               | =====            |

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|                      |          |          |
|----------------------|----------|----------|
| Identifiable assets: |          |          |
| U.S.                 | \$11,128 | \$10,273 |
| Europe               | 3,949    | 3,244    |
| Rest of World        | 3,023    | 2,897    |
|                      | -----    | -----    |
|                      | \$18,100 | \$16,414 |
|                      | =====    | =====    |

### NOTE 17 - QUARTERLY FINANCIAL INFORMATION (unaudited)

The following table sets forth unaudited selected quarterly financial data for Data I/O for 2003 and 2002. Although our business is not seasonal, growth rates of sales and earnings have varied from quarter to quarter as a result of factors such as stocking orders from international distributors, the timing of new product introductions, business acquisitions and dispositions, business restructuring, and short-term industry and general U.S. and international economic conditions. Information as to any one or more quarters is, therefore, not necessarily indicative of trends in our business or profitability.

(in thousands except per share data)

|                                          | Year Ended December |         |              |
|------------------------------------------|---------------------|---------|--------------|
| For the quarters ended                   | Mar 31              | June 30 | September 30 |
| Net sales                                | \$6,155             | \$5,578 |              |
| Gross margin                             | 3,437               | 3,299   |              |
| Net income                               | 317                 | 332     |              |
| Basic and diluted earnings per share (1) | \$0.04              | \$0.04  |              |

(in thousands except per share data)

|                                                 | Year Ended December |          |              |
|-------------------------------------------------|---------------------|----------|--------------|
| For the quarters ended:                         | Mar 31              | June 30  | September 30 |
| Net sales                                       | \$5,389             | \$4,797  |              |
| Gross margin                                    | 2,502               | 2,005    |              |
| Net income (loss)                               | (1,154)             | (1,368)  |              |
| Basic and diluted earnings (loss) per share (1) | (\$0.15)            | (\$0.18) |              |

(1) The sum of quarterly per share amounts may not equal per share amounts reported for year-to-date periods. This is due to changes in the number of weighted-average shares outstanding and the effects of rounding for each period.

### NOTE 18 - LONG-TERM DEBT

As of December 31, 2003 and December 31, 2002, Data I/O had no long-term debt outstanding. Data I/O established a foreign line of credit for 50,000 Euros in February 2002 that was renewed in 2003, but we did not renew it in January 2004.

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

Not Applicable

#### Item 9A. Controls and Procedures

##### (a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, Data I/O evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to the material information relating to Data I/O (or our consolidated subsidiaries) required to be included in our periodic SEC filings and Form 8-K reports.

##### (b) Changes in internal controls.

There were no significant changes made in our internal controls or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

During the preparation of our 2004 year-end financial statements, Data I/O identified a calculation error that had resulted in the understatement of inter-company expense eliminations on foreign subsidiary demonstration inventory equipment depreciation, with a corresponding overstatement of demonstration inventory equipment accumulated depreciation. While Data I/O believes the impacts of this calculation error are not material to any previously issued financial statement, Data I/O determined that this calculation error was most appropriately corrected through restatement of previously issued financial statements.

Process changes have since been instituted to appropriately eliminate the inter-company foreign subsidiary demonstration inventory equipment depreciation amounts.

See Note 3 to the Consolidated Financial Statements for the impact of this restatement on previously issued financial statements.

## PART III

### Item 10. Directors and Executive Officers of the Registrant

Information regarding the Registrant's directors is set forth under "Election of Directors" in Data I/O's Proxy Statement relating to Data I/O's annual meeting of shareholders to be held on May 20, 2004 and is incorporated herein by reference. Such Proxy Statement will be filed within 120 days of Data I/O's year-end. Information regarding the Registrant's executive officers is set forth in Item 1 of Part I herein under the caption "Executive Officers of the Registrant." Information regarding the Registrant's Equity Compensation Plan Information is set forth in Item 5 of Part II herein under the caption "Equity Compensation Plan Information."

#### Code of Ethics

We have adopted an updated Code of Ethics that applies to all directors,

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officers and employees of Data I/O, including the Chief Executive Officer and Chief Financial Officer. The key principles of the Code of Ethics are to act legally and with integrity in all work for Data I/O. The Code of Ethics is posted on the corporate governance page of our website at <http://www.dataio.com/corporate/governance.asp>. We will post any amendments to our Code of Ethics at that location. 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 at that location. 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 five business days following the date of the amendment or waiver, unless website posting of such amendments or waivers is permitted by the rules of The Nasdaq Stock Market, Inc.

### Item 11. Executive Compensation

Information called for by Part III, Item 11, is included in Data I/O's Proxy Statement relating to Data I/O's annual meeting of shareholders to be held on May 20, 2004 and is incorporated herein by reference. The information appears in the Proxy Statement under the caption "Executive Compensation." Such Proxy Statement will be filed within 120 days of Data I/O's year-end.

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

Information called for by Part III, Item 12, is included in Data I/O's Proxy Statement relating to Data I/O's annual meeting of shareholders to be held on May 20, 2004 and is incorporated herein by reference. The information appears in the Proxy Statement under the caption "Voting Securities and Principal Holders." Such Proxy Statement will be filed within 120 days of Data I/O's year-end.

### Item 13. Certain Relationships and Related Transactions

None.

### Item 14. Accounting Fees

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 for our annual meeting of shareholders to be held on May 20, 2004.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

#### Executive Compensation Plans and Arrangements

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

- (1) Amended and Restated 1982 Employee Stock Purchase Plan. See Exhibit 10.7, 10.22, and 10.24.
- (2) Amended and Restated Retirement Plan and Trust Agreement. See Exhibit 10.2, 10.3, 10.4, 10.11, 10.14, 10.15, and 10.16.
- (3) Summary of Amended and Restated Management Incentive Compensation Plan. See Exhibit 10.12.

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- (4) Amended and Restated 1983 Stock Appreciation Rights Plan. See Exhibit 10.1.
- (5) Amended and Restated 1986 Stock Option Plan. See Exhibit 10.18.
- (6) Form of Change in Control Agreements. See Exhibit 10.5.
- (7) 1996 Director Fee Plan. See Exhibit 10.6 and 10.17.
- (8) Letter Agreement with Frederick R. Hume. See Exhibit 10.20.
- (9) Amended and Restated 2000 Stock Compensation Incentive Plan. See Exhibit 10.21 and 10.23.

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

1) Index to Financial Statements:

|                                                                                                    |    |
|----------------------------------------------------------------------------------------------------|----|
| Report of Independent Registered Public Accounting Firm                                            | 23 |
| Report of Management                                                                               | 23 |
| Consolidated Balance Sheets as of December 31, 2003 and 2002                                       | 24 |
| Consolidated Statements of Operations for each of the three years ended December 31, 2003          | 25 |
| Consolidated Statements of Cash Flows for each of the three years ended December 31, 2003          | 26 |
| Consolidated Statement of Stockholders' Equity for each of the three years ended December 31, 2003 | 27 |
| Notes to Consolidated Financial Statements                                                         | 28 |

(2) Index to Financial Statement Schedules:

|                                                              |    |
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| Schedule II - Consolidated Valuation and Qualifying Accounts | 48 |
|--------------------------------------------------------------|----|

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 October 2003 (Incorporated by reference to Exhibit 3.2 of Data I/O's 2003 Annual Report on Form 10-K filed March 31, 2003 (File No. 0-10394)).
- 3.3 Certificate 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)).



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- 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).
- 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 Retirement Plan and Trust Agreement. (Incorporated by reference to Exhibit 10.26 of Data I/O's 1993 Annual Report on Form 10-K (File No. 0-10394)).
  - 10.3 First Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.21 of Data I/O's 1994 Annual Report on Form 10-K (File No. 0-10394)).
  - 10.4 Second Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.26 of Data I/O's 1995 Annual Report on Form 10-K (File No. 0-10394)).
  - 10.5 Form of Change in Control Agreements (Incorporated by reference to Exhibit 10.20 of Data I/O's 1994 Annual Report on Form 10-K (File No. 0-10394)).
  - 10.6 Data I/O Corporation 1996 Director Fee Plan (Incorporated by reference to Exhibit 10.27 of Data I/O's 1995 Annual Report on Form 10K (File No. 0-10394)).
  - 10.7 Data I/O Corporation 1982 Employee Stock Purchase Plan Amended and Restated December 11, 1996 (Incorporated by reference to Exhibit 10.1 to Data I/O's Registration Statement of Form S-8 (File No. 333-20657, filed January 29, 1997)).
  - 10.8 Purchase and Sale Agreement dated as of July 9, 1996 (Relating to the sale of Data I/O Corporation's headquarters property in Redmond, Washington consisting of approximately 79 acres of land and an approximately 96,000 square foot building. (Portions of this exhibit have been omitted pursuant to an application for an order granting confidential treatment. The omitted portions have

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been separately filed with the Commission) (Incorporated by reference to Exhibit 10.32 of Data I/O's 1996 Annual Report on Form 10-K (File No. 0-10394)).

- 10.9 Letter dated as of December 20, 1996, First Amendment and extension of the Closing Date under that certain Purchase and Sale Agreement dated as of July 9, 1996. (Portions of this exhibit have been omitted pursuant to an application for an order granting confidential treatment. The omitted portions have been separately filed with the Commission) (Incorporated by reference to Exhibit 10.33 of Data I/O's 1996 Annual Report on Form 10-K (File No. 0-10394)).
- 10.10 Letter dated as of February 17, 1997, Second Amendment and extension of the Closing Date under that certain Purchase and Sale Agreement dated as of July 9, 1996. (Portions of this exhibit have been omitted pursuant to an application for an order granting confidential treatment. The omitted portions have been separately filed with the Commission) (Incorporated by reference to Exhibit 10.34 of Data I/O's 1996 Annual Report on Form 10-K (File No. 0-10394)).
- 10.11 Third Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.35 of Data I/O's 1996 Annual Report on Form 10-K (File No. 0-10394)).
- 10.12 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)).
- 10.13 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)).
- 10.14 Fourth Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.27 of Data I/O's 1997 Annual Report on Form 10-K (File No. 0-10394)).
- 10.15 Fifth Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.28 of Data I/O's 1997 Annual Report on Form 10-K (File No. 0-10394)).
- 10.16 Sixth Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.29 of Data I/O's 1997 Annual Report on Form 10-K (File No. 0-10394)).
- 10.17 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)).
- 10.18 Amended and Restated 1986 Stock Option Plan dated May 12, 1998 (Incorporated by reference to Exhibit 10.37 of Data I/O's 1998 Annual Report on Form 10-K (File No. 0-10394)).
- 10.19 Sublease dated December 22, 1999 between Data I/O Corporation and Imandi.com, Inc.
- 10.20 Letter Agreement with Fred R. Hume dated January 29, 1999.
- 10.21 Amended and Restated 2000 Stock Compensation Incentive Plan dated May 19, 2000. (Incorporated by reference to Data I/O's 2000

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Proxy Statement dated March 27, 2000.)

|       |                                                                                                                                                                      |    |
|-------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| 10.22 | Amended and Restated 1982 Employee Stock Purchase Plan dated May 16, 2001 (Incorporated by reference to Data I/O's 2001 Proxy Statement dated March 28, 2001.)       |    |
| 10.23 | Amended and Restated 2000 Stock Compensation Incentive Plan dated May 19, 2000. (Incorporated by reference to Data I/O's 2002 Proxy Statement dated April 19, 2002.) |    |
| 10.24 | 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.)       |    |
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### (b) Form 8-K:

On November 4, 2003, Data I/O furnished a copy of a press release announcing Data I/O's third quarter results on a Form 8-K under Item 12. The information furnished in the Form 8-K pursuant to Item 12 shall not be deemed filed under the Securities Exchange Act of 1934, as amended.

On November 4, 2003, Data I/O furnished a copy of a press release announcing the appointment of William Walker to the Board of Directors on a Form 8-K under Item 5.

### 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 24, 2005

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report

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has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

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

### DATA I/O CORPORATION

#### SCHEDULE II - CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

|                                | Balance at<br>Beginning<br>of Period | Charged/<br>(Credited)<br>to Costs<br>and<br>Expenses | Deductions-<br>Describe |
|--------------------------------|--------------------------------------|-------------------------------------------------------|-------------------------|
|                                |                                      |                                                       |                         |
| (in thousands)                 |                                      |                                                       |                         |
| Year Ended December 31, 2001:  |                                      |                                                       |                         |
| Reserves and allowances        |                                      |                                                       |                         |
| deducted from asset accounts:  |                                      |                                                       |                         |
| Allowance for bad debts        | \$350                                | \$64                                                  | (\$42) (1)              |
| Inventory reserves             | \$2,587                              | \$1,122                                               | (\$1,240) (2)           |
| Year Ended December 31, 2002 : |                                      |                                                       |                         |
| Reserves and allowances        |                                      |                                                       |                         |
| deducted from asset accounts:  |                                      |                                                       |                         |
| Allowance for bad debts        | \$372                                | \$ (162)                                              | (\$23) (1)              |
| Inventory reserves             | \$2,469                              | \$ 871                                                | (\$73) (2)              |
| Year Ended December 31, 2003:  |                                      |                                                       |                         |
| Reserves and allowances        |                                      |                                                       |                         |

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deducted from asset accounts:

|                         |         |        |             |
|-------------------------|---------|--------|-------------|
| Allowance for bad debts | \$187   | \$71   | (\$56) (1)  |
| Inventory reserves      | \$3,267 | (\$96) | (\$875) (2) |

(1) Uncollectable accounts written off, net of recoveries. (2) Obsolete inventories disposed of.

### 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<br>Jurisdiction<br>of<br>Organization |
|--------------------------------------|------------------------------------------------|
| Data I/O International, Inc.         | Washington                                     |
| Data I/O FSC International, Inc.     | Territory of Guam                              |
| Data I/O Canada Corporation          | Canada                                         |
| Data I/O China, Ltd                  | China                                          |
| Data I/O GmbH                        | Germany                                        |
| RTD, Inc. (formerly Reel-Tech, Inc.) | Washington                                     |

#### CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 6, 2004 (March 5, 2005 as to the effects of the restatement described in Note 3), accompanying the consolidated financial statements and schedule included in the Annual Report of Data I/O Corporation on Form 10-K for the year ended December 31, 2003. 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. 33-95608, 33-54422, 333-55911, 33-02254, 33-03958, 333-48595 and 333-121861) and on Form S-3 (File No. 333-121566).

//s//GRANT THORNTON LLP

Seattle, Washington  
March 24, 2005

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Exhibit 31.1

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

I, Frederick R. Hume, certify that:

- 1) I have reviewed this annual report on Form 10-K/A 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)) for the registrant and 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) 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
  - c) 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 officers 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 24, 2005

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

Exhibit 31.2

Certification by Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350

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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/A 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)) for the registrant and 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) 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
  - c) 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 officers 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 24, 2005

/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

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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/A for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frederick R. Hume, Chief Executive Officer of the Company, certify, that pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frederick R. Hume  
Frederick R. Hume  
Chief Executive Officer  
(Principal Executive Officer)  
March 24, 2005

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/A for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel S. Hatlen, Chief Financial Officer of the Company, certify, that pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joel S. Hatlen  
Joel S. Hatlen  
Chief Financial Officer  
(Principal Financial Officer)  
March 24, 2005