AT&T INC.
Form 424B3
October 31, 2018

Table of Contents

**Filed Pursuant to Rule 424(b)(3)**
**Registration No. 333-227809**

**PROSPECTUS**

**AT&T Inc.**

**Offers to Exchange**

**Up to $250,418,000 aggregate principal amount of new Floating Rate Global Notes due 2023 registered under the Securities Act of 1933, for any and all outstanding unregistered Floating Rate Global Notes due 2023,**

**Up to $1,278,679,000 aggregate principal amount of new 4.900% Global Notes due 2037 registered under the Securities Act of 1933, for any and all outstanding unregistered 4.900% Global Notes due 2037,**

**Up to $1,694,666,000 aggregate principal amount of new 5.150% Global Notes due 2050 registered under the Securities Act of 1933, for any and all outstanding unregistered 5.150% Global Notes due 2050, and**

**Up to $643,744,000 aggregate principal amount of new 5.300% Global Notes due 2058 registered under the Securities Act of 1933, for any and all outstanding unregistered 5.300% Global Notes due 2058.**

AT&T Inc. ( AT&T ) is offering to exchange (i) new registered Floating Rate Global Notes due 2023 (the Floating Rate Exchange Notes ) for its outstanding unregistered Floating Rate Global Notes due 2023 (the Floating Rate Original Notes ), (ii) new registered 4.900% Global Notes due 2037 (the 2037 Exchange Notes ) for its outstanding unregistered 4.900% Global Notes due 2037 (the 2037 Original Notes ), (iii) new registered 5.150% Global Notes due 2050 (the 2050 Exchange Notes ) for its outstanding unregistered 5.150% Global Notes due 2050 (the 2050 Original Notes ) and (iv) new registered 5.300% Global Notes due 2058 (the 2058 Exchange Notes and, together with the 2037 Exchange Notes and the 2050 Exchange Notes, the Fixed Rate Exchange Notes and, together with the Floating Rate Exchange Notes, the Exchange Notes ) for its outstanding unregistered 5.300% Global Notes due 2058 (the 2058 Original Notes and, together with the Floating Rate Original Notes, the 2037 Original Notes and the 2050 Original Notes, the Original Notes ). The Original Notes and the Exchange Notes are sometimes referred to in this prospectus together as the Notes . The terms of each series of the Exchange Notes are substantially identical to the terms of the applicable series of Original Notes, except that the Exchange Notes are registered under the Securities Act of 1933, as amended (the Securities Act ), and the transfer restrictions and registration rights and related special interest provisions applicable to the Original Notes do not apply to the Exchange Notes. The Original Notes may only be tendered in an amount equal to $2,000 in principal amount and in integral multiples of $1,000 thereafter. Interest on the Fixed Rate Exchange Notes will accrue from the most recent date on which interest on the Original Notes has been paid, which, for the avoidance of doubt, is August 14, 2018, and will be payable semiannually in arrears on February 14 and August 14, commencing on February 14, 2019. Interest on the Floating Rate Exchange Notes will accrue from the most recent date on which interest on the Original Notes has been paid, and will be payable on February 14, May 14, August 14 and November 14 of each year, commencing on February 14, 2019. We will deem the right to receive any interest accrued but unpaid on the Original Notes waived by you if we accept your Original Notes for exchange. Accordingly, holders whose tenders are accepted for exchange will not receive any payment in respect of accrued interest on such Original Notes, unless the record date for any such interest payment occurs before the completion of the Exchange Offers. We refer to these offers as the Exchange Offers . For a more detailed description of the Exchange Notes, see Description of Exchange Notes .

We are not asking you for a proxy and you are requested not to send us a proxy. You do not have dissenters rights of appraisal in connection with the Exchange Offers. See The Exchange Offers Absence of Dissenters Rights of Appraisal .

**No public market currently exists for the Original Notes and we cannot assure you that any public market for the Exchange Notes will develop. The Exchange Notes will not be listed on any national securities exchange.**

Each broker-dealer that receives Exchange Notes for its own account pursuant to the Exchange Offers must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Notes received in exchange for Original Notes where such Original Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 90 days after the Expiration Date (as defined herein), we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution below.

Holders may withdraw their tendered Original Notes at any time at or prior to the Expiration Date (as defined below) of the Exchange Offers. The Exchange Offers will expire at 5:00 p.m., New York City time, on November 30, 2018, unless extended or earlier terminated by us (such date, as the same may be extended or earlier terminated with respect to any or all series of Exchange Notes, the Expiration Date ). The Exchange Offers are subject to customary conditions discussed under The Exchange Offers Conditions to the Exchange Offers . No Exchange Offer is conditioned upon any other Exchange Offer, and we may terminate or extend any Exchange Offer without terminating or extending the other Exchange Offers.

**Investing in the Exchange Notes involves risks. See Risk Factors beginning on page 37 of our 2017 Annual Report to Stockholders, portions of which are filed as Exhibit 13 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and Risk Factors beginning on page 69 of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, which are incorporated by reference herein, and on page 9 of this prospectus, to read about factors you should consider before investing in the Exchange Notes.**

**Neither the Securities and Exchange Commission (the SEC ) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

**Prospectus dated October 31, 2018.**

Table of Contents

## TABLE OF CONTENTS



## ABOUT THIS PROSPECTUS

No person has been authorized to give any information or any representation concerning us or the Exchange Offers (other than as contained in this prospectus or the related letter of transmittal) and we take no responsibility for, nor can we provide any assurance as to the reliability of, any other information that others may give you. You should not assume that the information contained or incorporated by reference in this prospectus is accurate as of any date other than the date on the front cover of this prospectus or the date of the incorporated document, as applicable.

In making an investment decision, prospective investors must rely on their own examination of us, and the terms of the Exchange Offers, including the merits and risks involved. Prospective investors should not construe anything in this prospectus as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to participate in the Exchange Offers and to invest in the Exchange Notes under applicable legal investment or similar laws or regulations.

There are no guaranteed delivery provisions provided for in conjunction with the Exchange Offers under the terms of this prospectus and the accompanying letter of transmittal. Tendering holders must tender their Original Notes in accordance with the procedures set forth under The Exchange Offers Procedures for Tendering Original Notes .

This prospectus contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference.

See Where You Can Find More Information .

Table of Contents

When we refer to we , our or us in this prospectus, we mean AT&T Inc. and its consolidated subsidiaries unless the context explicitly otherwise requires.

## FORWARD-LOOKING STATEMENTS

We have included or incorporated by reference in this prospectus statements that may constitute forward-looking statements . These estimates and statements are subject to risks and uncertainties, and actual results might differ materially. Such estimates and statements include, but are not limited to, statements about AT&T s plans, objectives, expectations and intentions, and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of AT&T and are subject to significant risks and uncertainties outside of our control.

Statements included in or incorporated by reference into this prospectus or any prospectus supplement, that are not historical facts, including statements about the beliefs and expectations of the management of AT&T, are forward-looking statements. Words such as believes , anticipates , estimates , expects , intends , aims , potential would , could , considered , likely , estimate and variations of these words and similar future or conditional express are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. While AT&T believes these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond the control of AT&T. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur. Actual results may differ materially from the current expectations of AT&T depending upon a number of factors affecting its businesses and risks associated with the successful completion of the Exchange Offers. These factors include, but are not limited to, risks and uncertainties detailed in AT&T s periodic public filings with the SEC, including those discussed under the sections entitled Risk Factors in AT&T s 2017 Annual Report to Stockholders, portions of which are filed as Exhibit 13 to AT&T s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and in AT&T s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, and the factors contained or incorporated by reference into such documents and in subsequent filings by AT&T with the SEC, and in this prospectus, including in the section captioned Risk Factors .

Except as otherwise required by law, AT&T is not under any obligation, and expressly disclaims any obligation, to update, alter, or otherwise revise any forward-looking statements, that may be made from time to time, whether as a result of new information, future events, or otherwise. Persons reading this prospectus are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof.

## WHERE YOU CAN FIND MORE INFORMATION

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any documents filed by us at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our filings with the SEC are also available to the public through the SEC s Internet site at http://www.sec.gov.

We have filed with the SEC a registration statement on Form S-4 relating to the securities covered by this prospectus. This prospectus is a part of the registration statement and does not contain all of the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document of ours, please be aware that the reference is only a summary and that you should refer to the exhibits that are a part of the registration statement for a copy of the contract or other document. You may review a copy of the

Table of Contents

registration statement at the SEC s Public Reference Room in Washington, D.C., as well as through the SEC s Internet site.

This prospectus incorporates by reference business and financial information about us that is not included in or delivered with this prospectus. This information is available without charge upon written or oral request directed to: AT&T, Attention: Stockholder Services, One AT&T Plaza, 208 South Akard Street, Dallas, Texas 75202, Telephone (210) 821-4105.

## INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC and incorporate herein will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), after the filing of the registration statement to which this prospectus relates and prior to the effectiveness of such registration statement and all such future filings that we make with the SEC until the Expiration Date (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with the SEC rules):

1. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 20, 2018 (the Annual Report );

2. Our quarterly reports on Form 10-Q for the quarter ended March 31, 2018 filed with the SEC on May 3, 2018; and for the quarter ended June 30, 2018 filed on August 2, 2018;

3. The portions of our Proxy Statement on Schedule 14A for our 2018 annual meeting of stockholders filed with the SEC on March 12, 2018 that are incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended December 31, 2017; and

4. Our current reports on Form 8-K filed on January 31, 2018, February 2, 2018, February 5, 2018, February 15, 2018, February 23, 2018, February 27, 2018, March 12, 2018, March 22, 2018, March 29, 2018, April 6, 2018, April 10, 2018, April 23, 2018, April 25, 2018, May 1, 2018, May 22, 2018, June 15, 2018, June 25, 2018, July 3, 2018, July 24, 2018, August 1, 2018, August 3, 2018, August 17, 2018, August 22, 2018, August 27, 2018, September 11, 2018, September 18, 2018, September 20, 2018, September 21, 2018, October 10, 2018, October 12, 2018 and October 24, 2018, and our current report on Form 8-K/A filed on August 27, 2018.

Documents incorporated by reference are available from the SEC as described above or from us without charge, excluding exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this document. You may request a copy of this prospectus and any of the documents incorporated by reference into this prospectus or other information concerning AT&T, without charge, by written or telephonic request directed to AT&T, Attention: Stockholder Services, One AT&T Plaza, 208 South Akard Street, Dallas, Texas 75202, Telephone (210) 821-4105; or from the SEC through the SEC website at the address provided above.

**To receive timely delivery of the documents prior to the Expiration Date, you should make your request no later than five business days before the date you must make your investment decision, or November 23, 2018.**

Table of Contents

## SUMMARY

*This summary provides an overview of selected information. Because this is only a summary, it may not contain all of the information that may be important to you in understanding the Exchange Offers. You should carefully read this entire prospectus, including the section entitled Risk Factors , as well as the information incorporated by reference in this prospectus. See the sections of this prospectus entitled Where You Can Find More Information and Incorporation of Certain Information by Reference .*

### AT&T Inc.

AT&T is a holding company whose subsidiaries and affiliates operate worldwide in the telecommunications, media and technology industries. Our principal executive offices are located at One AT&T Plaza, 208 S. Akard St., Dallas, Texas 75202. Our telephone number is (210) 821-4105. We maintain an internet site at the following location: http://www.att.com (this website address is for information only and is not intended to be an active link or to incorporate any website information into this document).

We are a diversified, global leader in telecommunications, media and entertainment, and technology. We execute in the market under four operating segments. The Communications segment provides wireless and wireline telecom, video and broadband services to customers located in the U.S. or in U.S. territories and businesses globally. This segment contains the following reporting units: (1) Mobility provides nationwide wireless service and equipment, (2) Entertainment Group provides video, including over-the-top (OTT) services, broadband and voice communications services primarily to residential customers, and advertising on DIRECTV and U-verse distribution platforms, and (3) Business Wireline provides advanced IP-based services, as well as traditional voice and data services to business customers. The WarnerMedia segment develops, produces and distributes feature films, television, gaming and other content in various physical and digital formats globally. This segment contains the following reporting units: (1) Turner is comprised of the WarnerMedia businesses managed by Turner as well as our Regional Sports Networks. This reporting unit creates and programs branded news, entertainment, sports and kids multi-platform content that is sold to various distribution affiliates. Turner also sells advertising on its networks and digital properties. (2) Warner Bros. consists of the production, distribution and licensing of television programming and feature films, the distribution of the home entertainment products and the production and distribution of games. (3) Home Box Office consists of premium pay television and OTT services domestically and premium pay, basic tier television and OTT services internationally, as well as content licensing and home entertainment. The Latin America segment provides entertainment and wireless services outside of the U.S. This segment contains the following reporting units: (1) Vrio provides video service to customers using satellite technology in Latin America and the Caribbean, and (2) Mexico provides wireless service and equipment to customers in Mexico. The Advertising and Analytics segment provides advertising services that utilize data insights to develop higher value targeted advertising.

**Table of Contents**

## The Exchange Offers

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| Offeror | AT&T Inc. |
| The Exchange Offers | We are offering to exchange (i) our Floating Rate Exchange Notes which have been registered under the Securities Act for a like principal amount of our outstanding unregistered Floating Rate Original Notes, (ii) our 2037 Exchange Notes which have been registered under the Securities Act for a like principal amount of our outstanding unregistered 2037 Original Notes, (iii) our 2050 Exchange Notes which have been registered under the Securities Act for a like principal amount of our outstanding unregistered 2050 Original Notes and (iv) our 2058 Exchange Notes which have been registered under the Securities Act for a like principal amount of our outstanding unregistered 2058 Original Notes. Original Notes may only be tendered in an amount equal to $2,000 in principal amount and in integral multiples of $1,000 thereafter. See The Exchange Offers for more information on the terms of the Exchange Offers. |
| Resale of Exchange Notes | Based upon the position of the staff of the SEC as described in previous no-action letters and subject to the immediately following sentence, we believe that Exchange Notes issued pursuant to the Exchange Offers in exchange for Original Notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that you will acknowledge in writing at the time of the consummation of the Exchange Offers that: |

- you are not a broker-dealer tendering Original Notes that you acquired directly from us for your own account;
- you are acquiring the Exchange Notes in the ordinary course of your business;
- you have not participated in, do not intend to participate in, and have no arrangement or understanding with any person to participate in, a distribution of the Exchange Notes; and
- you are not our affiliate as defined under Rule 405 of the Securities Act.

However, any purchaser of Exchange Notes who is an affiliate of ours or who intends to participate in the Exchange Offers for the purpose of distributing the Exchange Notes (i) will not be able to rely on the interpretations of the SEC staff set forth in the above-mentioned no-action letters, (ii) will not be entitled to tender its Original Notes in the Exchange Offers and (iii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the Exchange Notes unless such sale or transfer is made pursuant to an exemption from such requirements.

In addition, we have not entered into any arrangement or understanding with any person who will receive Exchange Notes in

Table of Contents

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| | the Exchange Offers to distribute those securities following completion of the Exchange Offers. In addition, we are not aware of any person that will participate in the Exchange Offers with a view to distribute the Exchange Notes. |
| | Any broker-dealer who holds Original Notes acquired for its own account as a result of market-making activities or other trading activities and who receives Exchange Notes in exchange for such Original Notes pursuant to the Exchange Offers may be a statutory underwriter and must deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such Exchange Notes. See Plan of Distribution . |
| Purpose of the Exchange Offers | The purpose of the Exchange Offers is to satisfy our obligations under the registration rights agreement, dated as of April 10, 2018 (the Registration Rights Agreement ). |
| Consequences If You Do Not Exchange Your Original Notes | Original Notes that are not tendered in the Exchange Offers or are not accepted for exchange will continue to bear legends restricting their transfer. You will not be able to offer or sell such Original Notes unless: |
| | you are able to rely on an exemption from the requirements of the Securities Act; or |
| | the Original Notes are registered under the Securities Act. |
| | To the extent that Original Notes are tendered and accepted in the Exchange Offers, the trading market for any remaining Original Notes may (and likely will) be adversely affected. See Risk Factors Risks Relating to Participation in the Exchange Offers If you fail to exchange your Original Notes, they will continue to be restricted securities and may become less liquid . |
| | After the Exchange Offers are complete, you will not have any further rights under the Registration Rights Agreement, including any right to require us to register any outstanding Original Notes that you do not exchange (except under limited circumstances) or to pay you the additional interest we agreed to pay to holders of Original Notes if we failed to timely commence and complete the Exchange Offers. |

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| Accrued and Unpaid Interest | The Exchange Notes will bear interest from the most recent date on which interest on the Original Notes has been paid, which, for the avoidance of doubt, is August 14, 2018 with respect to the Fixed Rate Exchange Notes and November 14, 2018 with respect to the Floating Rate Exchange Notes. If your Original Notes are accepted for exchange, you will receive interest on the corresponding Exchange Notes and not on the Original Notes. Any Original Notes not tendered will remain outstanding and continue to accrue interest according to their terms. |
| Expiration Date | The Expiration Date of the Exchange Offers will be 5:00 p.m., New York City time, on November 30, 2018, unless extended or earlier terminated by us. The term Expiration Date means such date and |

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| | time or, if we extend any Exchange Offer, the latest date and time to which we extend such Exchange Offer. |
| Settlement Date | The settlement of the Exchange Offers will occur promptly after the Expiration Date. |
| Conditions to the Exchange Offers | Each of the Exchange Offers is subject to customary conditions described in The Exchange Offers Conditions to the Exchange Offers , including, among other things, the condition that no stop order has been issued for the registration statement of which this prospectus forms a part, or any proceedings for that purpose, and that there shall not have occurred or be reasonably likely to occur any material adverse change to our business, operations, properties, condition, assets, liabilities, prospects or financial affairs. No Exchange Offer is conditioned upon any other Exchange Offer, and we may terminate any Exchange Offer without terminating the other Exchange Offers. |
| Extension; Waivers and Amendments | Subject to applicable law, we reserve the right to (1) extend any Exchange Offer; (2) waive any and all conditions to or amend any Exchange Offer in any respect (except as to the condition that the registration statement of which this prospectus forms a part not being subject to a stop order or any proceedings for that purpose, which condition we cannot waive); or (3) terminate any Exchange Offer. Any extension, waiver, amendment or termination will be followed as promptly as practicable by a public announcement thereof, such announcement, in the case of an extension, to be issued no later than 9:00 a.m., New York City time, on the next business day after the last previously scheduled Expiration Date. See The Exchange Offers Expiration Date; Extension; Termination; Amendment . |
| Terms of Exchange Notes | The terms of the Exchange Notes are described in this prospectus under Description of Exchange Notes . |
| Procedures for Tendering the Original Notes | You may tender your Original Notes by transferring them through The Depository Trust Company s (the DTC ) Automated Tender Offer Program ( ATOP ) or following the other procedures described under The Exchange Offers Procedures for Tendering Original Notes . |
| | For further information, call the Exchange Agent at the telephone number set forth under The Exchange Agent or consult your broker, dealer, commercial bank, trust company or other nominee for assistance. |

If you are a beneficial owner of Original Notes that are held by or registered in the name of a broker, dealer, commercial bank, trust company or other nominee or custodian and you wish to tender your Original Notes in order to participate in the Exchange Offers, you should contact your intermediary entity promptly and instruct it to

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| | tender the Original Notes on your behalf. You should keep in mind that your intermediary may require you to take action with respect to the Exchange Offers a number of days before the Expiration Date in order for such entity to tender Original Notes on your behalf at or prior to the Expiration Date in accordance with the terms of the Exchange Offers. See The Exchange Offers Procedures for Tendering Original Notes . |
| | If you are a beneficial owner of Original Notes through Euroclear or Clearstream Luxembourg (each as defined herein) and wish to tender your Original Notes, you must instruct Euroclear or Clearstream Luxembourg, as the case may be, to block the account in respect of the tendered Original Notes in accordance with the procedures established by Euroclear or Clearstream Luxembourg. You are encouraged to contact Euroclear or Clearstream Luxembourg directly to ascertain their procedures for tendering Original Notes. |
| Withdrawal Rights; Non-Acceptance | You may withdraw your tender of Original Notes at any time prior to the Expiration Date, but tenders will thereafter be irrevocable, except in limited circumstances where additional withdrawal rights are required by law. In the event that tendered Original Notes are not withdrawn and not accepted by us for exchange, such Original Notes will be promptly returned to such holders or credited to such holders DTC account in the same manner as tendered to us, unless a holder has indicated other delivery instructions in the related letter of transmittal or computer-generated message. See The Exchange Offers Withdrawal of Tenders and The Exchange Offers Terms of the Exchange Offers . |
| Absence of Dissenters Rights of Appraisal | You do not have dissenters rights of appraisal with respect to the Exchange Offers. See The Exchange Offers Absence of Dissenters Rights of Appraisal . |
| Certain U.S. Federal Income Tax Considerations | The exchange of notes pursuant to the Exchange Offers generally should not be a taxable event for U.S. federal income tax purposes. See Certain U.S. Federal Income Tax Considerations . |
| Accounting Treatment | The Exchange Notes will be recorded at the same carrying value as the Original Notes as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes upon the completion of the Exchange Offers. Payments made to other third parties will be expensed as incurred in accordance with generally accepted accounting principles. See The Exchange Offers Accounting Treatment . |

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| Exchange Agent | The Bank of New York Mellon Trust Company, N.A. is the Exchange Agent for the Exchange Offers. See The Exchange Agent herein. |
| Further Information | See The Exchange Offers for more information concerning the Exchange Offers. |

**Table of Contents**

## The Exchange Notes

*The following summary contains basic information about the Exchange Notes. It does not contain all of the information that may be important to you. For a more complete description of the terms of the Exchange Notes, see Description of Exchange Notes .*

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| Issuer | AT&T Inc. |
| Exchange Notes | The terms of each series of the Original Notes and the applicable series of Exchange Notes are identical, except the Exchange Notes offered in the Exchange Offers:<br>will have been registered under the Securities Act;<br>will not have transfer restrictions and registration rights that relate to the Original Notes; and<br>will not have rights relating to the payment of additional interest to holders of Original Notes if we fail to timely commence and complete the Exchange Offers. |
| Notes Offered | Floating Rate Global Notes due 2023 (the Floating Rate Exchange Notes ), 4.900% Global Notes due 2037 (the 2037 Exchange Notes ), 5.150% Global Notes due 2050 (the 2050 Exchange Notes ) and 5.300% Global Notes due 2058 (the 2058 Exchange Notes ). |

Interest Rates; Interest Payment Dates; Maturity Dates

| Title of Series | Interest Rates | Maturity Date | Interest Accrues From | Interest Payment Dates (2) |
|---|---|---|---|---|
| Floating Rate Global Notes due 2023 | Applicable LIBOR Rate plus 89 bps | February 15, 2023 | November 14, 2018 | February 14, May 14, August 14 and November 14 |
| 4.900% Global Notes due 2037 | 4.900%(1) | August 15, 2037 | August 14, 2018 | February 14 and August 14 |
| 5.150% Global Notes due 2050 | 5.150%(1) | February 15, 2050 | August 14, 2018 | February 14 and August 14 |
| 5.300% Global Notes due 2058 | 5.300%(1) | August 15, 2058 | August 14, 2018 | February 14 and August 14 |

(1) Per annum, payable semiannually in arrears.
(2) The last interest payment date will align with the maturity date of the respective series of the Exchange Notes.

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| Optional Redemption | Each series of Fixed Rate Exchange Notes may be redeemed at any time prior to the applicable Par Call Date (as set forth in the table below), as a whole or in part, at our option, at any time and from time to time on at least 30 days , but not more than 60 days , prior notice mailed (or otherwise transmitted in accordance with DTC procedures) to the registered address of each holder of the Fixed Rate Exchange Notes of such series to be redeemed. The redemption price will be calculated by us and will be equal to the greater of (1) 100% of the principal amount of the Fixed Rate Exchange Notes of such series to |

Table of Contents

be redeemed or (2) the sum of the present values of the Remaining Scheduled Payments (as defined below) discounted to the redemption date, on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the sum of the Treasury Rate (as defined below) plus a number of basis points equal to the applicable Make-Whole Spread (as set forth in the table below). In the case of each of clauses (1) and (2), accrued interest will be payable to the redemption date. Each series of Fixed Rate Exchange Notes may be redeemed at any time on or after the applicable Par Call Date, as a whole or in part, at our option, at any time and from time to time on at least 30 days , but not more than 60 days , prior notice mailed (or otherwise transmitted in accordance with DTC procedures) to the registered address of each holder of the Fixed Rate Exchange Notes of such series, at a redemption price equal to 100% of the principal amount of such series of Fixed Rate Exchange Notes to be redeemed. Accrued interest will be payable to the redemption date.

| Title of Series | Par Call Date | Make-Whole Spread |
|---|---|---|
| 4.900% Global Notes due 2037 | February 14, 2037 | 30 bps |
| 5.150% Global Notes due 2050 | August 14, 2049 | 35 bps |
| 5.300% Global Notes due 2058 | February 14, 2058 | 37.5 bps |

See Description of Exchange Notes The Fixed Rate Exchange Notes Optional Redemption of the Fixed Rate Exchange Notes .

The Floating Rate Exchange Notes do not contain optional redemption provisions.

The Exchange Notes of each series are also redeemable at our option in connection with certain tax events. See Description of Exchange Notes Redemption Upon a Tax Event .

Form and Settlement

The Exchange Notes will be issued in the form of one or more fully registered global notes which will be deposited with, or on behalf of DTC as the depositary, and registered in the name of Cede & Co., DTC s nominee. Beneficial interests in the global notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the global notes through either DTC (in the United States), Clearstream Banking S.A. ( Clearstream Luxembourg ), or

Euroclear Bank S.A./N.V., as operator of the Euroclear System ( Euroclear ) (outside of the United States), if they are participants in these systems, or indirectly through organizations which are participants in these systems. Cross-market transfers between persons holding directly or indirectly through DTC participants, on the one hand, and directly or indirectly through Clearstream Luxembourg or Euroclear participants, on the other hand,

Table of Contents

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| | will be effected in accordance with DTC rules on behalf of the relevant international clearing system by its U.S. depositary. |
| | The Exchange Notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 thereafter. |
| Listing | The Exchange Notes will not be listed for trading on any national securities exchange. |
| Governing Law | The Exchange Notes will be governed by the laws of the State of New York. |

Table of Contents

# RISK FACTORS

*Any investment in the Exchange Notes involves a high degree of risk, including but not limited to the risks described below. In addition, you should carefully consider, among other things, the matters discussed under Risk Factors in our 2017 Annual Report to Stockholders, portions of which are filed as Exhibit 13 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, as well as the other information incorporated by reference in this prospectus. The risks and uncertainties described below and in our Annual Report and Quarterly Report are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition and results of operations could suffer. As a result, the trading price of the Exchange Notes could decline, perhaps significantly, and you could lose all or part of your investment. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See Forward-Looking Statements .*

## Risks Relating to the Exchange Notes

***The Exchange Notes are unsecured and will be effectively junior to our secured indebtedness to the extent of the collateral therefor*.**

The Exchange Notes are senior unsecured general obligations of AT&T. Holders of our secured indebtedness, if any, will have claims that are prior to your claims as holders of the Exchange Notes, to the extent of the assets securing such indebtedness. Thus, in the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding, our pledged assets would be available to satisfy obligations of our secured indebtedness before any payment could be made on the Exchange Notes. To the extent that such assets cannot satisfy in full our secured indebtedness, the holders of such indebtedness would have a claim for any shortfall that would rank equally in right of payment with the Exchange Notes. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the Exchange Notes. As a result, holders of the Exchange Notes may receive less, ratably, than holders of our secured indebtedness, or may not receive anything at all in any of the foregoing events.

***We are a holding company that conducts all of our business through our subsidiaries. Holders of the Exchange Notes will be structurally subordinated to our subsidiaries third-party indebtedness and obligations.***

We conduct all of our business through our subsidiaries. Our cash flow and, consequently, our ability to pay interest and to service our debt, including the Exchange Notes, are dependent upon the cash flow of our subsidiaries and the payment of funds to us by those subsidiaries in the form of loans, dividends or otherwise. Our subsidiaries are separate and distinct legal entities and will have no obligation, contingent or otherwise, to pay any amounts due on the Exchange Notes or to make cash available to us for that purpose. In addition, many of our operating subsidiaries are highly regulated and may be subject to restrictions on their ability to pay dividends to us. These subsidiaries may use the earnings they generate, as well as their existing assets, to fulfill any existing or future direct debt service requirements of such subsidiaries.

The Exchange Notes are obligations of AT&T Inc. exclusively and not of any of our subsidiaries. A significant portion of our operations is conducted through our subsidiaries. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of third-party creditors (including trade creditors) and holders of preferred stock, if any, of our subsidiaries will have priority with respect to the assets of such subsidiaries over the claims of our creditors, including holders of the Exchange Notes. Consequently, the Exchange Notes will be structurally subordinated to all existing and future liabilities of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish.

Table of Contents

***Certain risks related to the interest rate on the Floating Rate Exchange Notes being based on the London Interbank Offered Rate.***

LIBOR is the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective, while others are still to be implemented. The Benchmark Regulation was published in the Official Journal of the European Union on June 29, 2016 and has applied from January 1, 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that have applied since June 30, 2016). The Benchmark Regulation could have a material impact on the Floating Rate Exchange Notes, in particular, if the methodology or other terms of LIBOR are changed in order to comply with the terms of the Benchmark Regulation, and such changes could (among other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of LIBOR. In addition, on July 27, 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. In the event that LIBOR becomes unavailable prior to the maturity date of the Floating Rate Exchange Notes, this may result in the effective application of a fixed rate for the Floating Rate Exchange Notes. Even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates may adversely affect LIBOR during the term of the Floating Rate Exchange Notes, the return on the Floating Rate Exchange Notes and the trading market for the Floating Rate Exchange Notes. Investors should consider these matters when making their investment decision with respect to the Floating Rate Exchange Notes.

**Risks Relating to Participation in the Exchange Offers**

***Our board of directors has not made a recommendation as to whether you should tender your Original Notes in exchange for Exchange Notes in the Exchange Offers, and we have not obtained a third-party determination that the Exchange Offers are fair to holders of our Original Notes.***

Our board of directors has not made, and will not make, any recommendation as to whether holders of Original Notes should tender their Original Notes in exchange for Exchange Notes pursuant to the Exchange Offers. We have not retained, and do not intend to retain, any unaffiliated representative to act solely on behalf of the holders of the Original Notes for purposes of negotiating the terms of these Exchange Offers, or preparing a report or making any recommendation concerning the fairness of these Exchange Offers. Therefore, if you tender your Original Notes, you may not receive more than or as much value as if you chose to keep them. Holders of Original Notes must make their own independent decisions regarding their participation in the Exchange Offers.

***The Exchange Offers may be cancelled or delayed.***

The consummation of each Exchange Offer is subject to, and conditioned upon, the satisfaction or waiver of the conditions discussed under The Exchange Offers Conditions to the Exchange Offers . We may, at our option and in our sole discretion, waive any such conditions. Even if the Exchange Offers are completed, the Exchange Offers may not be completed on the schedule described in this prospectus. Accordingly, holders participating in the Exchange Offers may have to wait longer than expected to receive their Exchange Notes during which time those holders of the Original Notes will not be able to effect transfers of their Original Notes tendered for exchange.

***If you fail to exchange your Original Notes, they will continue to be restricted securities and may become less liquid.***

Original Notes that you do not tender or that we do not accept will, following the Exchange Offers, continue to be restricted securities, and you may not offer to sell them except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities law. We will issue Exchange Notes in exchange for the

Original Notes pursuant to the Exchange Offers only following the satisfaction of the procedures and conditions set forth in The Exchange Offers Conditions to the Exchange Offers and The Exchange Offers Procedures for Tendering Original Notes . These procedures and conditions include timely receipt by the Exchange Agent of such Original Notes (or a confirmation of book-entry transfer) and of a properly completed and duly executed letter of transmittal (or an agent s message from DTC).

Because we anticipate that most holders of Original Notes will elect to exchange their Original Notes, we expect that the liquidity of the market for any Original Notes remaining after the completion of the Exchange Offers will be substantially limited. Any Original Notes tendered and exchanged in the Exchange Offers will reduce the aggregate principal amount of the applicable series of Original Notes outstanding. Following the Exchange Offers, if you do not tender your Original Notes, you generally will not have any further registration rights, and your Original Notes will continue to be subject to certain transfer restrictions. Accordingly, the liquidity of the market for the Original Notes could be adversely affected.

***If an active trading market does not develop for the Exchange Notes, you may be unable to sell the Exchange Notes or to sell them at a price you deem sufficient.***

The Exchange Notes are a new issue of securities for which there is currently no public trading market. We do not intend to list the Exchange Notes on any national securities exchange. Accordingly, there can be no assurances that an active trading market will develop upon completion of the Exchange Offers or, if it develops, that such market will be sustained, or as to the liquidity of any market. If an active trading market does not develop or is not sustained, the market price and the liquidity of the Exchange Notes may be adversely affected. In addition, the liquidity of the trading market for the Exchange Notes, if it develops, and the market price quoted for the Exchange Notes, may be adversely affected by changes in the overall market for those securities and by changes in our financial performance or prospects or in the prospects for companies in our industry generally.

Table of Contents

## USE OF PROCEEDS

These Exchange Offers are intended to satisfy our obligations under the Registration Rights Agreement entered into in connection with the issuance of the Original Notes. We will not receive any cash proceeds from the issuance of the Exchange Notes in the Exchange Offers. The Original Notes surrendered and exchanged for the Exchange Notes will be retired and canceled.

Table of Contents

## RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our historical ratio of earnings to fixed charges for the periods indicated. This information should be read in conjunction with the consolidated financial statements and the accompanying notes incorporated by reference in this prospectus.

For purposes of computing these ratios, Earnings consists of income from continuing operations before provisions for taxes on income, noncontrolling interests and cumulative effect of a change in accounting principles less noncontrolling interest plus fixed charges, distributed income of equity-method investments, amortizations of capitalized interest, excluding capitalized interest and equity income from equity-method investments. Fixed Charges consists of interest expense (which includes amortization of debt premium, discount and other debt costs), one-third of rental expense, which we believe to be a conservative estimate of an interest factor in our leases, which are not material, and capitalized interest. The ratio was calculated by dividing the sum of the earnings (as defined above) by the sum of the fixed charges (as defined above).

| | Six Months Ended June 30, (Unaudited) | | Year Ended December 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Earnings: | | | | | | | |
| Income from continuing operations before income taxes | $ 12,921 | $ 11,448 | $ 15,139 | $ 19,812 | $ 20,692 | $ 10,355 | $ 28,050 |
| Equity in net loss (income) of affiliates included above | 7 | 159 | 128 | (98) | (79) | (175) | (642) |
| Fixed charges | 4,880 | 3,925 | 8,854 | 7,296 | 6,592 | 5,295 | 5,452 |
| Distributed income of equity affiliates | 229 | 8 | 46 | 61 | 30 | 148 | 318 |
| Interest capitalized | (267) | (473) | (903) | (892) | (797) | (234) | (284) |
| **Earnings, as adjusted** | $ 17,770 | $ 15,067 | $ 23,264 | $ 26,179 | $ 26,438 | $ 15,389 | $ 32,894 |
| Fixed Charges: | | | | | | | |
| Interest expense | $ 3,794 | $ 2,688 | $ 6,300 | $ 4,910 | $ 4,120 | $ 3,613 | $ 3,940 |
| Interest capitalized | 267 | 473 | 903 | 892 | 797 | 234 | 284 |
| Portion of rental expense representative of interest factor | 819 | 764 | 1,651 | 1,494 | 1,675 | 1,448 | 1,228 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fixed Charges** | $ &nbsDDING-RIGHT: 5.4pt" vAlign=top width="16%"> | 4,880 | $ | 3,925 | $ | 8,854 | $ | 7,296 | $ | 6,592 | $ | 5,295 | $ | 5,452 |

4

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

| | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Net income | $130 | $979 |
| Other comprehensive income: | | |
| Foreign currency translation gain | 301 | 82 |
| Comprehensive income | $431 | $1,061 |

*See notes to consolidated financial statements*

**DATA I/O CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**
**(UNAUDITED)**

| | For the Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $130 | $979 |
| Adjustments to reconcile net income | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 230 | 164 |
| Gain on sale of assets | - | (211) |
| Equipment transferred to cost of goods sold | 146 | 116 |
| Share-based compensation | 177 | 97 |
| Net change in: | | |
| Trade accounts receivable | (620) | (547) |
| Inventories | 272 | (331) |
| Other current assets | 110 | (55) |
| Accounts payable and accrued liabilities | (1,925) | (503) |
| Deferred revenue | (139) | (522) |
| Other long-term liabilities | (12) | (17) |
| Deposits and other long-term assets | - | - |
| Net cash provided by (used in) operating activities | (1,631) | (830) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of property, plant and equipment | (338) | (403) |
| Net proceeds from sale of assets | - | 211 |
| Cash provided by (used in) investing activities | (338) | (192) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Net Proceeds from issuance of common stock, less payments for shares withheld to cover tax | (5) | (95) |
| Repurchase of common stock | - | - |
| Cash provided by (used in) financing activities | (5) | (95) |
| Increase (decrease) in cash and cash equivalents | (1,974) | (1,117) |
| Effects of exchange rate changes on cash | 249 | 59 |
| Cash and cash equivalents at beginning of period | 18,541 | 11,571 |
| Cash and cash equivalents at end of period | $16,816 | $10,513 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid during the period for: | | |
| Income Taxes | $90 | $30 |

*See notes to consolidated financial statements*

6

**DATA I/O CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

## NOTE 1 - FINANCIAL STATEMENT PREPARATION

Data I/O Corporation (“Data I/O”, “We”, “Our”, “Us”) prepared the financial statements as of March 3 2018 and December 31, 2017 and for each of the three month periods ended March 31, 2018 and March 31, 2017 according to the rules and regulations of the Securities and Exchange Commission ("SEC"). These statements are unaudited but, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the results for the periods presented. The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America according to such SEC rules and regulations. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These financial statements should be read in conjunction with the annual audited financial statements and the accompanying notes included in our Form 10-K for the year ended December 31, 2017.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue (“Topic 606”): Revenue from Contracts with Customers, using the using the modified retrospective method. Topic 606 provides a single, principles-based five-step model to be applied to all contracts with customers. It generally provides for the recognition of revenue in an amount that reflects the consideration to which the Company expects to be entitled, net of allowances for estimated returns, discounts or sales incentives, as well as taxes collected from customers when control over the promised goods or services are transferred to the customer. For incremental contract acquisition costs, the Company has elected the practical expedient to capitalize and amortize incremental costs for obtaining contracts, primarily sales commissions, with terms that exceed one year.

Our basic revenue recognition remains essentially the same as it was in 2017, but we have modified our policies and processes to be able to identify and properly defer contract acquisition costs. The adoption of Topic 606 did not have a material impact on our financial results for the three month period ending March 31, 2018.

We generally recognize revenue at the time the product is shipped or when the service is delivered. The revenue related to products requiring installation that is perfunctory is generally recognized at the time of shipment. Installation that is considered perfunctory includes any installation that can be performed by other parties, such as distributors, other vendors, or the customers themselves. This takes into account the complexity, skill and training needed as well as customer expectations regarding installation. Contracts requiring acceptance are recognized when acceptance is received.

We have determined that our programming equipment has reached a point of maturity and stability such that product acceptance can be assured by testing at the factory prior to shipment and that the installation meets the criteria to be considered a separate element. These systems are standard products with published product specifications and are configurable with standard options. The evidence that these systems could be deemed as accepted was based upon having standardized factory production of the units, results from batteries of tests of product performance to our published specifications, quality inspections and installation standardization, as well as past product operation validation with the customer and the history provided by our installed base of products upon which the current versions were based.

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

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

We establish a reserve for sales returns based on historical trends in product returns and estimates for new items.

We transfer certain products out of service from their internal use and make them available for sale.  The products transferred are our standard products and typically are: service loaners, rental or test systems; engineering test systems; or sales demonstration systems. Once transferred, the systems get sold by our regular sales channels as used inventory. These systems often involve refurbishing and an equipment warranty, and are conducted as sales in our normal and ordinary course of business.  The transfer amount is the system's net book value and the sale transaction is accounted for as revenue and cost of goods sold.

Stock-Based Compensation Expense

All stock-based compensation awards are measured based on estimated fair values on the date of grant and recognized as compensation expense on the straight-line single-option method.  Our share-based compensation is reduced for estimated forfeitures at the time of grant and revised as necessary in subsequent periods if actual forfeitures differ from those estimates.

Income Tax

Penalties associated with tax matters are classified as general and administrative expense when incurred and amounts related to interest associated with tax matters are classified as interest income or interest expense.  We did not incur any interest or penalties associated with tax matters during the three months ended March 31, 2018.

We have incurred net operating losses in certain past years.  Given the uncertainty created by our loss history, as well as the volatile and uncertain economic outlook for our industry and cyclical capital spending, we have limited the recognition of net deferred tax assets associated with our net operating losses and credit carryforwards and continue to maintain a valuation allowance for the full amount of the net deferred tax asset balance. We will continue to analyze the level of valuation allowance in future periods. There were $278,000 and $272,000 of unrecognized tax benefits related to uncertain tax positions and a corresponding valuation allowance as of March 31, 2018 and December 31, 2017, respectively.

Tax years that remain open for examination include 2014 through 2018 in the United States of America. In addition, tax years from 2000 to 2013 may be subject to examination in the event that we utilize the net operating losses and credit carryforwards from those years in our current or future year tax returns.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "*Leases*" (ASU 2016-02). ASU 2016-02 requires lessees to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability and requires leases to be classified as either an operating or a finance type lease. The standard excludes leases of intangible assets or inventory. Early adoption of the standard is allowed. The standard becomes effective beginning January 1, 2019. We are in the process of evaluating the impact of adoption on our consolidated financial statements. Our leases include facilities in Redmond, Washington, Shanghai and Munich areas as well as a small amount of office equipment and automobiles.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09). ASU 2014-09 provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes previous revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers” (ASU 2015-14), deferring the effective date of the new revenue recognition standard by one year and now takes effect for public entities in fiscal years beginning after December 15, 2017. We have adopted the revenue standard as of January 1, 2018, which did not have a material impact on our consolidated financial statements. We have implemented changes to our accounting policies, internal controls, and disclosures to support the new standard, however, these changes were not material.

## NOTE 2 – INVENTORIES

Inventories consisted of the following components:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| (in thousands) | | |
| Raw material | $2,356 | $2,392 |
| Work-in-process | 1,159 | 1,091 |
| Finished goods | 444 | 685 |
| Inventories | $3,959 | $4,168 |

## NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, NET

Property and equipment consisted of the following components:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| (in thousands) | | |
| Leasehold improvements | $427 | $416 |
| Equipment | 5,354 | 5,279 |
| Sales demonstration equipment | 1,434 | 1,315 |
| | 7,215 | 7,010 |
| Less accumulated depreciation | 4,796 | 4,552 |
| Property and equipment, net | $2,419 | $2,458 |

## NOTE 4 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components:

| (in thousands) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Product warranty | $535 | $530 |
| Sales return reserve | 99 | 80 |
| Other taxes | 130 | 109 |
| Other | 170 | 139 |
| Other accrued liabilities | $934 | $858 |

The changes in our product warranty liability for the three months ending March 31, 2018 were as follows:

| (in thousands) | March 31, 2018 |
|---|---|
| Liability, beginning balance | $530 |
| Net expenses | 252 |
| Warranty claims | (252) |
| Accrual revisions | 5 |
| Liability, ending balance | $535 |

## NOTE 5 – OPERATING LEASE COMMITMENTS

We have commitments under non-cancelable operating leases and other agreements, primarily for factory and office space, with initial or remaining terms of one year or more as follows:

| (in thousands) | Operating Leases |
|---|---|
| 2018 (remaining) | $701 |
| 2019 | 959 |
| 2020 | 946 |
| 2021 | 770 |
| 2022 | 233 |
| Thereafter | - |
| Total | $3,609 |

During the third quarter of 2017, we amended our lease agreement for the Redmond, Washington headquarters facility effective September 12, 2017, which extended the lease to July 31, 2022, waived a potential space give back provision and provided for lease inducement incentives. Previously on June 8, 2015 the lease was amended to relocate our headquarters to a nearby building and lower the square footage to approximately 20,460.

We signed a lease agreement effective November 1, 2015 that extends through October 31, 2021 for a new facility located in Shanghai, China which we moved into during the first quarter of 2016. The new lease approximately doubled our space to 19,400 square feet at approximately 54% of the prior lease rental rate.

During the fourth quarter of 2016, we signed a lease agreement for a new facility located near Munich, Germany which was effective March 1, 2017 and extends through February 28, 2022. The new lease slightly increased our space to 4,895 square feet at approximately the same cost per square foot as the prior lease.

## NOTE 6 – OTHER COMMITMENTS

We have purchase obligations for inventory and production costs as well as other obligations such as capital expenditures, service contracts, marketing, and development agreements. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice, typically less than 90 days. At March 31, 2018, the purchase commitments and other obligations totaled $984,000 of which all but $29,000 are expected to be paid over the next twelve months.

## NOTE 7 – CONTINGENCIES

As of March 31, 2018, we were not a party to any legal proceedings or aware of any indemnification agreement claims, the adverse outcome of which in management’s opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

## NOTE 8 – EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during each period and is used for all loss per share amounts. Diluted earnings (loss) per share is calculated based on these same weighted average shares outstanding plus the effect of potential shares issuable upon assumed exercise of stock options based on the treasury stock method. Potential shares issuable upon the exercise of stock options are excluded from the calculation of diluted earnings (loss) per share to the extent their effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

| | Three Months Ended |
|---|---|

| (in thousands except per share data) | Mar. 31, 2018 | Mar. 31, 2017 |
|---|---|---|
| Numerator for basic and diluted earnings per share: | | |
| Net income | $130 | $979 |
| Denominator for basic earnings per share: | | |
| Weighted-average shares | 8,287 | 8,031 |
| Employee stock options and awards | 255 | 296 |
| Denominator for diluted earnings per share: | | |
| Adjusted weighted-average shares & assumed conversions of stock options | 8,542 | 8,327 |
| Basic and diluted earnings per share: | | |
| Total basic earnings per share | $0.02 | $0.12 |
| Total diluted earnings per share | $0.02 | $0.12 |

Options to purchase 25,000 and 90,000 shares were outstanding as of March 31, 2018 and 2017, respectively, but were excluded from the computation of diluted earnings (loss) per share for the periods then ended because the options were anti-dilutive.

## NOTE 9 – SHARE-BASED COMPENSATION

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

The impact on our results of operations of recording share-based compensation for the three months ended March 31, 2018 and 2017, respectively, was as follows:

| | Three Months Ended | |
|---|---|---|
| | Mar. 31, 2018 | Mar. 31, 2017 |
| (in thousands) | | |
| Cost of goods sold | $4 | $2 |
| Research and development | 42 | 25 |
| Selling, general and administrative | 131 | 70 |
| Total share-based compensation | $177 | $97 |

Equity awards granted during the three months ended March 31, 2018 and 2017 respectively were as follows:

| | Three Months Ended | |
|---|---|---|
| | Mar. 31, 2018 | Mar. 31, 2017 |
| Restricted Stock | 1,000 | 12,000 |
| Stock Options | - | - |

There were no stock option awards granted during both the three months ended March 31, 2018 and 2017.

Non-employee directors Restricted Stock Units (“RSU’s”) vest over one year, employee RSU’s vest annually over four years with the expense being recognized over the vesting period.

The remaining unamortized expected future equity compensation expense and remaining amortization period associated with unvested option grants, restricted stock awards and restricted stock unit awards at March 31, 2018 are:

| | Mar. 31, 2018 |
|---|---|
| Unamortized future equity compensation expense (in thousands) | $2,395 |
| Remaining weighted average amortization period (in years) | 2.79 |

12

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

### Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q are forward-looking. In particular, statements herein regarding economic outlook, industry prospects and trends; industry partnerships; future results of operations or financial position; future spending; breakeven revenue point; expected market growth; market acceptance of our newly introduced or upgraded products or services; the sufficiency of our cash to fund future operations and capital requirements; development, introduction and shipment of new products or services; changing foreign operations; and any other guidance on future periods are forward-looking statements. Forward-looking statements reflect management’s current expectations and are inherently uncertain. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or other future events. Moreover, neither Data I/O nor anyone else assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this report. The reader should not place undue reliance on these forward-looking statements. The discussions above and in the section in Item 1A., Risk Factors “Cautionary Factors That May Affect Future Results” in our Annual report on Form 10-K for the year ended December 31, 2017, describe some, but not all, of the factors that could cause these differences.

### OVERVIEW

We continued our focus on managing the core programming business for growth and profitability, while developing and enhancing products to drive future revenue and earnings growth. Our challenge continues to be operating in a cyclical and rapidly evolving industry environment. We are continuing our efforts to balance industry changes, industry partnerships, business geography shifts, exchange rate volatility, increasing costs and strategic investments in our business with the level of demand and mix of business we expect. We continue to manage our costs carefully and execute strategies for cost reduction.

Our research and development efforts focus on strategic high growth markets, namely automotive electronics and Internet of Things ("IoT") related new programming technologies, secure provisioning solutions, automated programming systems and their enhancements for the manufacturing environment and software. We are developing technology to securely provision new categories of semiconductors, including Secure Elements, Authentication Chips, and Secure Microcontrollers. We continue to extend the capabilities and support for our product lines and add additional support for the latest semiconductor devices, including NAND Flash, e-MMC, UFS and microcontrollers on our newer products.

## cRITICAL aCCOUNTING pOLICY jUDGMENTS AND eSTIMATES

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

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

**Revenue Recognition:** Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue (“Topic 606”): Revenue from Contracts with Customers, using the using the modified retrospective method. Topic 606 provides a single, principles-based five-step model to be applied to all contracts with customers. It generally provides for the recognition of revenue in an amount that reflects the consideration to which the Company expects to be entitled, net of allowances for estimated returns, discounts or sales incentives, as well as taxes collected from customers when control over the promised goods or services are transferred to the customer. For incremental contract acquisition costs, the Company has elected the practical expedient to capitalize and amortize incremental costs for obtaining contracts, primarily sales commissions, with terms that exceed one year.

Our basic revenue recognition remains essentially the same as it was in 2017, but we have modified our policies and processes to be able to identify and properly defer contract acquisition costs. The adoption of Topic 606 did not have a material impact on our financial results for the three month period ending March 31, 2018.

We generally recognize revenue at the time the product is shipped or when the service is delivered. The revenue related to products requiring installation that is perfunctory is generally recognized at the time of shipment. Installation that is considered perfunctory includes any installation that can be performed by other parties, such as distributors, other vendors, or the customers themselves. This takes into account the complexity, skill and training needed as well as customer expectations regarding installation. Contracts requiring acceptance are recognized when acceptance is received.

We have determined that our programming equipment has reached a point of maturity and stability such that product acceptance can be assured by testing at the factory prior to shipment and that the installation meets the criteria to be considered a separate element. These systems are standard products with published product specifications and are configurable with standard options. The evidence that these systems could be deemed as accepted was based upon having standardized factory production of the units, results from batteries of tests of product performance to our published specifications, quality inspections and installation standardization, as well as past product operation validation with the customer and the history provided by our installed base of products upon which the current versions were based.

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

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

We establish a reserve for sales returns based on historical trends in product returns and estimates for new items.

We transfer certain products out of service from their internal use and make them available for sale. The products transferred are our standard products and typically are: service loaners, rental or test systems; engineering test systems; or sales demonstration systems. Once transferred, the systems get sold by our regular sales channels as used inventory. These systems often involve refurbishing and an equipment warranty, and are conducted as sales in our normal and ordinary course of business. The transfer amount is the system’s net book value and the sale transaction is accounted for as revenue and cost of goods sold.

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

**Inventory**: Inventories are stated at the lower of cost or net realizable value. Adjustments are made to standard cost, which approximates actual cost on a first-in, first-out basis. We estimate reductions to inventory for obsolete, slow-moving, excess and non-salable inventory by reviewing current transactions and forecasted product demand. We evaluate our inventories on an item by item basis and record inventory adjustments accordingly. If there is a significant decrease in demand for our products, uncertainty during product line transitions, or a higher risk of inventory obsolescence because of rapidly changing technology and customer requirements, we may be required to increase our inventory adjustments and our gross margin could be adversely affected.

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

**Tax Valuation Allowances:** Given the uncertainty created by our loss history, as well as the ongoing cyclical uncertain economic outlook for our industry and capital and geographic spending, we expect to continue to limit the recognition of net deferred tax assets and accounting for uncertain tax positions and maintain the tax valuation allowances. Tax reform related adjustments were recorded in 2017, which impacted the tax valuation allowance. At the current time, we expect, therefore, that reversals of the tax valuation allowance will take place only as we are able to take advantage of the underlying tax loss or other attributes in carry forward. The transfer pricing and expense or cost sharing arrangements are complex areas where judgments, such as the determination of arms-length arrangements, can be subject to challenges by different tax jurisdictions.

**Share-based Compensation:** We account for share-based awards made to our employees and directors, including employee stock option awards and restricted stock unit awards, using the estimated grant date fair value method of accounting. For options, we estimate the fair value using the Black-Scholes valuation model and an estimated forfeiture rate, which requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using the historical volatility of our common stock. Changes in the subjective assumptions required in the valuation model may significantly affect the estimated value of the awards, the related stock-based compensation expense and, consequently, our results of operations. Restricted stock unit awards are valued based on the average of the high and low price on the date of the grant. For both options and restricted awards, expense is recognized as compensation expense on the straight-line basis. Employee Stock Purchase Plan ("ESPP") shares were issued under provisions that do not require us to record any equity compensation expense.

Results of Operations

**Net Sales**

| | Three Months Ended | | |
|---|---|---|---|
| Net sales by product line (in thousands) | Mar. 31, 2018 | Change | Mar. 31, 2017 |
| Automated programming systems | $5,973 | 0.8% | $5,925 |
| Non-automated programming systems | 1,656 | 27.5% | 1,299 |
| Total programming systems | $7,629 | 5.6% | $7,224 |

| | Three Months Ended | | |
|---|---|---|---|
| Net sales by location (in thousands) | Mar. 31, 2018 | Change | Mar. 31, 2017 |
| United States | $385 | (48.5%) | $748 |
| % of total | 5.0% | | 10.4% |
| International | $7,244 | 11.9% | $6,476 |
| % of total | 95.0% | | 89.6% |

Net sales in the first quarter of 2018 were $7.6 million, compared with $7.2 million in the first quarter of 2017, primarily resulting from sales to automotive electronics OEM's, which made up 59% of new orders during the quarter, compared to 40% in the first quarter of 2017. Our programming center business at 13% of new orders was weaker than the 30% in the first quarter of 2017, as we believe those customers were absorbing the large purchases made last year. International sales represented 95% of total sales for the first quarter of 2018 compared to 90% in the first quarter of 2017 and regionally, had the strongest growth in Asia.

On a product basis, we saw revenue growth in our PSV and RoadRunner product lines, as well as in consumables. Our revenue composition for the quarter was approximately 67% equipment, 22% consumables, and 10% software and services, compared to the first quarter of 2017, which was approximately 70% equipment, 22% consumables, and 8% software and services.

Order bookings were $6.2 million in the first quarter of 2018, compared to $8.4 million in the first quarter of last year.  The variation in revenue versus order amounts relate to the changes in backlog, deferred revenues and currency translation.  Backlog at March 31, 2018 was $2.7 million compared to $4.0 million at December 31, 2017 and $4.9 million at March 31, 2017.  Deferred revenue at the March 31, 2018 was $1.7 million, compared to $1.8 million at December 31, 2017 and $1.4 million at March 31, 2017.

**Gross Margin**

| | Three Months Ended | | |
|---|---|---|---|
| (in thousands) | Mar. 31, 2018 | Change | Mar. 31, 2017 |
| Gross margin | $4,416 | 6.0% | $4,167 |
| Percentage of net sales | 57.9% | | 57.7% |

Gross margin as a percentage of sales in the first quarter of 2018 was 57.9%, compared to 57.7% in the first quarter of 2017. The increase was primarily due to favorable product mix as well as higher order volume and improved factory utilization.

**Research and Development**

| | Three Months Ended | | |
|---|---|---|---|
| (in thousands) | Mar. 31, 2018 | Change | Mar. 31, 2017 |
| Research and development | $1,879 | 21.6% | $1,545 |
| Percentage of net sales | 24.6% | | 21.4% |

Research and development (“R&D”) increased $334,000 in the first quarter of 2018 compared to the same period in 2017, primarily due to spending on our new Security Provisioning or SentriX platform and other automotive focused technology innovations.

**Selling, General and Administrative**

| | Three Months Ended | | |
|---|---|---|---|
| (in thousands) | Mar. 31, 2018 | Change | Mar. 31, 2017 |
| Selling, general & administrative | $2,193 | 20.6% | $1,818 |
| Percentage of net sales | 28.7% | | 25.2% |

Selling, General and Administrative ("SG&A") expenses increased $375,000 in the first quarter of 2018 compared to the same period in 2017, primarily reflecting the Company's increased business development efforts in promoting our new Security Provisioning solution and higher variable channel sales commissions, as well as participation in additional trade shows and other brand awareness spending.

**Interest**

| | Three Months Ended | | |
|---|---|---|---|
| | Mar. 31, 2018 | Change | Mar. 31, 2017 |
| (in thousands) | | | |
| Interest income | $7 | (12.5%) | $8 |

17

Interest income decreased in the first quarter of 2018 compared to the same period in 2017, primarily due to lower invested cash balances.

**Income Taxes**

| | Three Months Ended | | |
|---|---|---|---|
| | Mar. 31, 2018 | Change | Mar. 31, 2017 |
| (in thousands) | | | |
| Income tax (expense) | ($45) | 275.0% | ($12) |

Income tax (expense) for the first quarter of 2018 was primarily due to international income taxes and for the same period in 2017 was primarily due to domestic income taxes.

The effective tax rate differed from the statutory tax rate primarily due to the effect of valuation allowances, as well as foreign taxes.  We have a valuation allowance of $6.8 million as of March 31, 2018.  Our deferred tax assets and valuation allowance have been reduced by approximately $278,000 and $234,000 associated with the requirements of accounting for uncertain tax positions as of March 31, 2018 and 2017, respectively.  Given the uncertainty created by our loss history, as well as the ongoing uncertain economic outlook for our industry as well as cyclical capital and geographic spending, we currently expect to continue to limit the recognition of net deferred tax assets and accounting for uncertain tax positions and maintain the tax valuation allowances.

**GAIN ON SALE OF ASSETS**

During the first quarter of 2017, we sold non-core and excess internet domain addresses, resulting in a non-operating gain of $211,000 net of commissions and no such sales were made in the first quarter of 2018.

Financial Condition

**Liquidity and Capital Resources**

| (in thousands) | Mar. 31, 2018 | Change | Dec. 31, 2017 |
|---|---|---|---|
| Working capital | $19,898 | $412 | $19,486 |

At March 31, 2018 our cash position was $16.8 million, with $10.2 million in the USA and the balance in foreign subsidiaries. The change in cash during the quarter resulted primarily from annual payments for previously accrued annual incentive compensation and pension payments relating to 2017 and by net income for the quarter.

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

As a result of our significant product development, customer support, selling and marketing efforts, we have required substantial working capital to fund our operations. In 2018 and recent years, we have managed balancing profitable operations, while addressing rising costs and foreign exchange rate challenges. This included geographic shifts in our operations, optimized real estate usage strategies and differentiated product development and cost strategies.

We believe that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through at least the next one year period. Our working capital may be used to fund possible losses, business growth, project initiatives, share repurchases and business development initiatives including acquisitions, which could reduce our liquidity and result in a requirement for additional cash before that time. Any substantial inability to achieve our current business plan could have a material adverse impact on our financial position, liquidity, or results of operations and may require us to reduce expenditures and/or seek additional financing.

**OFF-Balance sheet arrangements**

Except as noted in the accompanying consolidated financial statements in Note 5, “Operating Lease Commitments” and Note 6, “Other Commitments”, we have no off-balance sheet arrangements.

**Non-Generally accepted accounting principles (GAAP) FINANCIAL MeasureS**

Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) was $397,000 in the first quarter of 2018 compared to $1.1 million in the first quarter of 2017. Adjusted EBITDA, excluding equity compensation (a non-cash item) was $574,000 in the first quarter of 2018, compared to $1.2 million in the first quarter of 2017.

Non-GAAP financial measures, such as EBITDA and adjusted EBITDA, should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding the Company’s results and facilitate the comparison of results. A reconciliation of net income to EBITDA and adjusted EBITDA follows:

| | Three Months Ended | |
|---|---|---|
| | Mar. 31, 2018 | Mar. 31, 2017 |
| (in thousands) | | |
| Net Income | $130 | $979 |
| Interest (income) expense | (7) | (8) |
| Taxes | 45 | 12 |
| Depreciation & amortization | 229 | 165 |

| | | |
|---|---|---|
| EBITDA earnings | $397 | $1,148 |
| Equity compensation | 177 | 97 |
| Adjusted EBITDA earnings, excluding equity compensation | $574 | $1,245 |

## RECENT ACCOUNTING ANNOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, "*Leases*" (ASU 2016-02). ASU 2016-02 requires lessees to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability and requires leases to be classified as either an operating or a finance type lease. The standard excludes leases of intangible assets or inventory. Early adoption of the standard is allowed. The standard becomes effective beginning January 1, 2019. We are in the process of evaluating the impact of adoption on our consolidated financial statements. Our leases include facilities in Redmond, Washington, Shanghai and Munich areas as well as a small amount of office equipment and automobiles.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09). ASU 2014-09 provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers” (ASU 2015-14), deferring the effective date of the new revenue recognition standard by one year and now takes effect for public entities in fiscal years beginning after December 15, 2017. We have adopted the revenue standard as of January 1, 2018 and did not have a material impact on our consolidated financial statements. We have implemented changes to our accounting policies, internal controls, and disclosures to support the new standard, however, these changes were not material.

## **Item 3.** **Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

## **Item 4.** **Controls and Procedures**

### **Evaluation of disclosure controls and procedures**

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

### **Changes in internal controls**

There were no changes made in our internal controls during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting which is under the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013).

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.  As of March 31, 2018, we were not a party to any material pending legal proceedings.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.  There are no material changes to the Risk Factors described in our Annual Report.

| | |
|---|---|
| **Item 2.** | **Unregistered Sales of Equity Securities and Use of Proceeds** |
| **Item 3.** | **Defaults Upon Senior Securities** |
| | None |
| **Item 4.** | **Mine Safety Disclosures** |
| | Not Applicable |
| **Item 5.** | **Other Information** |
| | None |
| **Item 6.** | **Exhibits** |
| | (a)**Exhibits** |

| | | |
|---|---|---|
| 10 | **Material Contracts:** | |
| | None | |
| 31 | **Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002:** | |
| | 31.1 | Chief Executive Officer Certification |
| | 31.2 | Chief Financial Officer Certification |
| 32 | **Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002:** | |
| | 32.1 | Chief Executive Officer Certification |
| | 32.2 | Chief Financial Officer Certification |
| 101 | **Interactive Data Files Pursuant to Rule 405 of Regulation S-T** | |

**SIGNATURES**

Pursuant to the requirements 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.

DATED: May 11, 2018

**DATA I/O CORPORATION**

(REGISTRANT)

By: //S//Anthony Ambrose

Anthony Ambrose

President and Chief Executive Officer

(Principal Executive Officer and Duly Authorized Officer)

By: //S//Joel S. Hatlen

Joel S. Hatlen

Vice President and Chief Financial Officer

Secretary and Treasurer

(Principal Financial Officer and Duly Authorized Officer)