DATA I/O CORP
Form 10-Q
November 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2012**

or

( ) **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission file number: **0-10394**

DATA I/O CORPORATION

(Exact name of registrant as specified in its charter)

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

6464 185th Ave NE, Suite 101, Redmond, Washington, 98052

(Address of principal executive offices, including zip code)

(425) 881-6444

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer __ Accelerated filer __ Non-accelerated filer __ Smaller reporting company X

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

Shares of Common Stock, no par value, outstanding as of November 1, 2012:

7,867,486

DATA I/O CORPORATION

FORM 10-Q
For the Quarter Ended September 30, 2012

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(unaudited) September 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$11,187	$18,120
Trade accounts receivable, net of allowance for doubtful accounts of $85 and $115	3,043	4,351
Inventories	4,068	3,964
Other current assets	354	543
TOTAL CURRENT ASSETS	18,652	26,978
Property, plant and equipment – net	1,152	1,489
Intangible software technology – net	2,463	2,793
Other assets	85	85
TOTAL ASSETS	$22,352	$31,345
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$649	$1,122
Accrued compensation	1,383	1,255
Deferred revenue	1,359	1,464
Other accrued liabilities	624	710
Accrued costs of business restructuring	214	-
Income taxes payable	25	72
TOTAL CURRENT LIABILITIES	4,254	4,623
Long-term other payables	229	253
COMMITMENTS	-	-
STOCKHOLDERS' EQUITY		
Preferred stock -		
Authorized, 5,000,000 shares, including		
200,000 shares of Series A Junior Participating		
Issued and outstanding, none	-	-

Common stock, at stated value - Authorized, 30,000,000 shares Issued and outstanding, 7,741,686 shares as of September 30, 2012 and 9,207,730 shares as of December 31, 2011	17,808	23,414
Accumulated earnings (deficit)	(1,100)	1,963
Accumulated other comprehensive income	1,161	1,092
TOTAL STOCKHOLDERS' EQUITY	17,869	26,469
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$22,352	$31,345

See notes to consolidated financial statements

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

	Three Months Ended Semptember 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net Sales	$4,311	$7,051	$13,350	$20,943
Cost of goods sold	2,384	3,108	6,541	8,827
Gross margin	1,927	3,943	6,809	12,116
Operating expenses:				
Research and development	1,429	1,482	4,248	4,109
Selling, general and administrative	1,656	2,101	5,901	6,490
Provision for business restructuring	214	-	214	-
Total operating expenses	3,299	3,583	10,363	10,599
Operating income (loss)	(1,372)	360	(3,554)	1,517
Non-operating income (expense):				
Interest income	31	13	238	45
Interest expense	-	-	-	(2)
Foreign currency transaction gain (loss)	(32)	(178)	(68)	(244)
Total non-operating income (expense)	(1)	(165)	170	(201)
Income (loss) before income taxes	(1,373)	195	(3,384)	1,316
Income tax (expense) benefit	44	(65)	321	(255)
Net income (loss)	($1,329)	$130	($3,063)	$1,061
Basic earnings (loss) per share	($0.17)	$0.01	($0.38)	$0.12
Diluted earnings (loss) per share	($0.17)	$0.01	($0.38)	$0.11
Weighted-average basic shares	7,740	9,270	8,080	9,159
Weighted-average diluted shares	7,740	9,391	8,080	9,323

See notes to consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net Income (loss)	($1,329)	$130	($3,063)	$1,061
Other comprehensive income:				
Foreign currency translation gain (loss)	131	(163)	70	164
Comprehensive income (loss)	($1,198)	($33)	($2,993)	$1,225

See notes to consolidated financial statements

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

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	($3,063)	$1,061
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	961	850
Equipment transferred to cost of goods sold	249	275
Share-based compensation	405	344
Net change in:		
Trade accounts receivable	1,292	230
Inventories	(104)	(212)
Other current assets	188	76
Accrued cost of business restructuring	214	-
Accounts payable and accrued liabilities	(479)	(394)
Deferred revenue	(93)	(135)
Other long-term liabilities	(31)	214
Deposits and other long-term assets	-	58
Net cash provided by (used in) operating activities	(461)	2,367
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(543)	(885)
Purchase of software technology	-	(2,089)
Cash provided by (used in) investing activities	(543)	(2,974)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	16	17
Repurchase of common stock	(6,026)	-
Payment of capital lease obligation	-	(92)
Cash provided by (used in) financing activities	(6,010)	(75)
Decrease in cash and cash equivalents	(7,014)	(682)
Effects of exchange rate changes on cash	81	120
Cash and cash equivalents at beginning of period	18,120	18,942
Cash and cash equivalents at end of period	$11,187	$18,380
Supplemental disclosure of non-cash financing activities:		
Issuance of common stock for consideration in asset purchase 163,934 shares	$ -	$ 1,000

See notes to consolidated financial statements

DATA I/O CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 - FINANCIAL STATEMENT PREPARATION

Data I/O prepared the financial statements as of September 30, 2012 and September 30, 2011 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, 2011 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 and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These financial statements should be read in conjunction with the annual audited financial statements and the accompanying notes included in the Company's Form 10-K for the year ended December 31, 2011.

Revenue Recognition

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

The amount of revenue recognized is affected by our judgments as to the collectability of the transaction, the existence of an acceptance clause or whether an arrangement includes multiple elements and if so, whether specific objective evidence of selling price exists for those elements. Allocation between multiple elements is done based on objective evidence of selling price based on a selling price hierarchy, including discounts.

Installation that is considered perfunctory includes any installation that can be performed by other parties, such as distributors, other vendors, or in most cases the customers themselves. This takes into account the complexity, skill and training needed as well as customer expectations regarding installation. The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment provided that persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, and collectability is reasonably assured. The measure of standalone fair value of the product versus the service installation value component is by the amount we pay to independent representative service groups or the amount of additional discount given to independent distributors to provide the service installation (published price).

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

When we sell software separately, we recognize software revenue upon shipment provided that no significant obligations remain on our part, substantive acceptance conditions, if any, have been met and when the fee is fixed and determinable and when collection is deemed probable.

Certain fixed-price engineering services contracts that require significant production, modification, or customization of software, are accounted for using the percentage-of-completion method. We use the percentage-of-completion method of accounting because it is the most accurate method to recognize revenue based on the nature and scope of certain of our fixed-price engineering services contracts. It is a better measure of periodic income results than other methods and it better matches revenue recognized with the cost incurred. Percentage-of-completion is measured based primarily on input measures such as hours incurred to date compared to estimated total hours at completion, with consideration given to output measures, such as contract milestones, when applicable. Significant judgment is required when estimating total hours and progress to completion on these arrangements which determines the amount of revenue we recognize as well as whether a loss is recognized if expected to be incurred upon project completion. Revisions to hour and cost estimates are incorporated in the period the amounts are recognized if the results of the period have not been reported; otherwise, the revision of estimates are recognized in the period in which the facts that give rise to the revision become known.

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

Stock-Based Compensation Expense

Data I/O measures and recognizes compensation expense as required for all share-based payment awards, including employee stock options and restricted stock awards, based on estimated fair values on the grant dates. Total share-based compensation is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
(in thousands)				
Total share-based compensation	$123	$135	$405	$344

Income Tax

Historically when accounting for uncertainty in income taxes, Data I/O has not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during the three and nine months ended September 30, 2012. However, the Company has adopted a policy whereby amounts related to penalties associated with tax matters are classified as general and administrative expense when incurred and amounts related to interest associated with tax matters are classified as interest income or interest expense.

Data I/O has incurred net operating losses in the current and certain past years. We continue to maintain a valuation allowance for the full amount of the net deferred tax asset balance associated with our net operating losses and credit carryforwards, as sufficient uncertainty exists regarding our ability to realize such tax assets in the future. There was $138,000 unrecognized tax benefits related to uncertain tax positions and related valuation allowance as of September 30, 2012.

Tax years that remain open for examination include 2009, 2010 and 2011 in the United States of America. In addition, tax years from 2000 to 2008 may be subject to examination in the event that the Company utilizes the net operating losses and credit carryforwards from those years in its current or future year tax returns.

Recent Accounting Pronouncements

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles-Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment*. The objective of this update is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. The amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, and early adoption is permitted. We believe the adoption of this update will not impact our financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Reporting Standards* ("ASU No. 2011-04") which amended the guidance regarding fair value measurement and disclosure. The amended guidance clarifies the application of existing fair value measurement and disclosure requirements. The amendment was effective for us at the beginning of January 2012. The adoption of this amendment did not materially affect our financial statements.

NOTE 2 – INVENTORIES

Inventories consisted of the following components:

	September 30, 2012	December 31, 2011
(in thousands)		
Raw material	$2,293	$2,498
Work-in-process	1,285	985
Finished goods	490	481
Inventories	$4,068	$3,964

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, NET

Property and equipment consisted of the following components:

	September 30, 2012	December 31, 2011
(in thousands)		
Leasehold improvements	$479	$479
Equipment	7,628	7,515
	8,107	7,994
Less accumulated depreciation	6,955	6,505
Property and equipment, net	$1,152	$1,489

NOTE 4 – INTANGIBLE SOFTWARE TECHNOLOGY, NET

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

For a period of five years, Data I/O will pay the seller royalties of 4% of directly associated revenues relating to this acquired software technology. We will expense the royalty payments when they are incurred as we could not reasonably estimate the future royalty payment amount at the time of acquisition. For the first three years, Data I/O will pay an additional royalty of 2.5% of directly associated revenues relating to this acquired software technology to the original developer of the technology. No royalty expense has been recognized since the acquisition date.

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

	September 30, 2012	December 31, 2011
(in thousands)		
Intangible software technology	$3,089	$3,089
Less accumulated amortization	626	296
Intangible software technology, net	$2,463	$2,793

Future amortization expense related to this intangible asset is as follows:

For the years ending December 31:

	Amortization
(in thousands)	
2012 (remaining)	$110
2013	438
2014	438
2015	438
2016	438
Thereafter	601
Total	$2,463

NOTE 5 – BUSINESS RESTRUCTURING

As a result of the business downturn we experienced this year and the uncertain business outlook, we took restructuring actions in September 2012 to reduce quarterly operating expenses and production costs, with these actions reducing costs in the third quarter results by $47,000. These actions included reductions in personnel and the use of contractors, professionals, and consultants, as well as focusing our development efforts on a smaller number of projects.

The restructuring charge associated with these actions was $214,000 and is primarily related to severance. The restructuring charge was incurred in the third quarter and will be paid out during the fourth quarter of 2012 and first quarter of 2013.

An analysis of the business restructuring is as follows:

Restructuring	Reserve Balance Dec. 31, 2011	2012 Expense	2012 Payments/ Write-Offs	Reserve Balance Sept. 30, 2012
(in thousands)				
Downsizing US operations:				
Employee severance	$0	$105	$0	$105
Other costs	-	6	-	6
Downsizing foreign operations:				
Employee severance	-	57	-	57
Other costs	-	46	-	46
Total	$0	$214	$0	$214

NOTE 6 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components:

	September 30, 2012	December 31, 2011
(in thousands)		
Product warranty	$293	$396
Sales return reserve	65	81
Other taxes	116	100
Other	150	133
Other accrued liabilities	$624	$710

The changes in Data I/O's product warranty liability for the nine months ending September 30, 2012 are as follows:

	September 30, 2012
(in thousands)	
Liability, beginning balance	$396
Net expenses	541
Warranty claims	(541)
Accrual revisions	(103)
Liability, ending balance	$293

NOTE 7 – OPERATING LEASE COMMITMENTS

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

For the years ending December 31:

	Operating Leases
(in thousands)	
2012 (remaining)	$285
2013	1,011
2014	850
2015	801
2016	505
Total	$3,452

NOTE 8 – OTHER COMMITMENTS

Data I/O has purchase obligations for inventory and production costs as well as other obligations such as capital expenditures, service contracts, marketing, and development agreements. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice, typically less than 90 days. At September 30, 2012, the purchase commitments and other obligations totaled $906,100 of which all but $140,700 are 2012 commitments.

NOTE 9 – CONTINGENCIES

As of September 30, 2012, Data I/O was not a party to any legal proceedings, the adverse outcome of which in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

Indemnification Arrangements: We may, from time to time in the ordinary course of our business enter into contractual arrangements with third parties that include indemnification obligations. Under these contractual arrangements, we have agreed to defend, indemnify and/or hold the third party harmless from and against certain liabilities. These arrangements include indemnities in favor of customers in the event that our programming system products infringe a third party's intellectual property and indemnities in favor of our lessors in connection with facility leasehold liabilities that we may cause. In addition, we have entered into indemnification agreements with our directors and certain of our officers, and our bylaws contain indemnification obligations in favor of our directors, officers and agents. These indemnity arrangements may limit the type of the claim, the total amount that we can be required to be paid in connection with the indemnification obligation and the time within which an indemnification claim can be made. The duration of the indemnification obligation may vary, and for most arrangements, survives the agreement term and is indefinite. We believe that substantially all of our indemnity arrangements provide either for limitations on the maximum potential future payments we could be obligated to make, or for limitations on the types of claims and damages we could be obligated to indemnify, or both. However, it is not possible to determine or reasonably estimate the maximum potential amount of future payments under these indemnification obligations due to the varying terms of such obligations, a lack of history of prior indemnification claims, the unique facts and circumstances involved in each particular contractual arrangement and in each potential future claim for indemnification, and the contingency of any potential liabilities upon the occurrence of events that are not reasonably determinable. We have not had any requests for indemnification under these arrangements. Our management believes that any liability for these indemnity arrangements would not be material to our accompanying consolidated financial statements. We have not recorded any liabilities for these indemnification arrangements on our consolidated balance sheet as of September 30, 2012.

NOTE 10 – EARNINGS PER SHARE

Basic earnings per share is calculated based on the weighted average number of common shares outstanding during each period. Diluted earnings 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 per share to the extent their effect would be anti-dilutive.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
(in thousands except per share data)				
Numerator for basic and diluted earnings (loss) per share:				
Net income (loss)	($1,329)	$130	($3,063)	$1,061
Denominator for basic earnings (loss) per share- weighted-average shares	7,740	9,270	8,080	9,159

Employee stock options and awards	-	121	-	164
Denominator for diluted earnings (loss) per share- adjusted weighted-average shares and assumed conversions of stock options	7,740	9,391	8,080	9,323
Basic and diluted earnings (loss) per share:				
Total basic earnings (loss) per share	($0.17)	$0.01	($0.38)	$0.12
Total diluted earnings (loss) per share	($0.17)	$0.01	($0.38)	$0.11

The earnings per share computation for the three and nine months ended September 30, 2012 and 2011 excludes the following options to purchase common stock, as their effect is anti-dilutive:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Anti-dilutive options to purchase shares	1,099,728	471,989	919,970	311,251

NOTE 11 – SHARE-BASED COMPENSATION

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

The impact on our results of operations of recording share-based compensation for the three and nine months ended September 30, 2012 and 2011, respectively, was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
(in thousands)				
Cost of goods sold	$11	$12	$38	$33
Research and development	28	26	88	58
Selling, general and administrative	84	97	279	253
Total share-based compensation	$123	$135	$405	$344
Impact on net earnings per share:				
Basic and diluted	($0.02)	($0.01)	($0.05)	($0.04)

The fair value of share-based awards for employee stock options was estimated using the Black-Scholes valuation model. The following weighted average assumptions were used to calculate the fair value of stock options granted during the three months and nine months ended September 30, 2012 and 2011:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Risk-free interest rates	N/A	1.39%	0.62%	0.66%
Volatility factors	N/A	0.55	0.53	0.54
Expected life of the option in years	N/A	4.00	4.00	4.00
Expected dividend yield	N/A	None	None	None

Stock option grants during the three and nine months ended September 30, 2012 and 2011 were as follows:

	Three Months Ended		Nine Months Ended	

	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Stock Options Granted	-	1,500	190,000	323,500

The remaining unamortized expected future compensation expense and remaining amortization period associated with unvested option grants and restricted stock awards at September 30, 2012 are:

	September 30, 2012
Unamortized future compensation expense	$993,630
Remaining weighted average amortization period in years	2.38

NOTE 12 – SHARE REPURCHASE PROGRAMS

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

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

There has been no further share repurchase program activity during the quarters ended June 30, 2012 and September 30, 2012.

The following is a summary of share repurchase activity under both plans through September 30, 2012:

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

(1) Program terminated January 13, 2012

(2) Program terminated March 26, 2012

NOTE 13 – SUBSEQUENT EVENTS

On October 25th, 2012, we announced the appointment of Anthony Ambrose as President and Director effective immediately and as Chief Executive Officer effective November 14, 2012. Prior to joining Data I/O, Mr. Ambrose, age 51, was Owner and Principal of Cedar Mill Partners, LLC a strategy consulting firm. Until 2011, he was Vice President and General Manager at RadiSys Corporation where he led three product divisions and worldwide engineering. Until 2007, Anthony was general manager and held several other progressively responsible positions at Intel Corporation.

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

Subsequent to the end of the quarter ended September 30, 2012, we repatriated $1 million of cash without foreign tax pursuant to a tax holiday incentive arrangement, representing full distribution of earnings under that arrangement.

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 industry prospects or trends; expected revenues; expected level of expense; future results of operations, restructuring implications; breakeven point, or financial position; changes in gross margin; economic conditions and capital spending outlook; market acceptance of our newly introduced or upgraded products; the impact and integration of acquisitions; development, introduction and shipment of new products; and any other guidance on future periods are forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Although Data I/O believes that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or other future events. Moreover, neither Data I/O nor anyone else assumes responsibility for the accuracy and completeness of these forward-looking statements. Data I/O is under no duty to update any of these forward-looking statements after the date of this 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 the Company's Annual report on Form 10-K for the year ended December 31, 2011 describe some, but not all, of the factors that could cause these differences.

OVERVIEW

Starting during the second half of 2011 and continuing during 2012, we experienced a decrease in customer demand. We believe the decline in orders and revenue is due primarily to overcapacity in the installed base of programming equipment causing reduced capital spending. We believe the underlying decrease in demand is due to a downturn in Asia-based electronics manufacturing caused in part by the economic uncertainty related to the European sovereign debt situation. We continued to focus on our primary goal of profitably managing the business, while developing, launching and enhancing products to drive revenue and return to profitability.

Our challenge continues to be operating in a cyclical and rapidly evolving industry environment. Although our solutions address the growing flash and microcontroller markets and the resulting need for programming, our opportunity to experience significant growth occurs when there is increased capacity needed to address the combination of growing file sizes and the growth in the flash and microcontroller markets. However, we compete for this capacity growth against alternative methods of loading data, such as programming after placement, or the increased efficiency of the installed base of equipment, which has and continues to constrain the programming equipment market. Additional factors impacting demand for our solutions other than capacity, include quality and yield requirements; process alternatives; new device and handling technologies and factory integration. We are continuing our efforts to balance market forces, business geography shifts, increasing costs and strategic investments in our business with the level of demand and mix of business we expect.

We continue to focus on extending the capabilities and support for our FlashCORE architecture, and the RoadRunner, FLX, PS and FlashPAK product lines as well as developing new product platforms. Our applications innovation strategy provides complete solutions to target customer’s business problems. These solutions generally have a larger software element, may involve third-party components, and in many cases will be developed or customized to address the specific requirements of individual customers. We believe by adding these features to our strategic product platforms, we will continue to set ourselves apart from other product suppliers and elevate our relationships with our customers to a partner level. We consider the Azido technology, which we acquired in April 2011, to be a strategic platform for programmer and product development.

Our customer focus has been on strategic high volume manufacturers in key market segments like wireless, automotive, industrial controls and programming centers and supporting e-MMC, NAND Flash and microcontrollers on our newer products to gain new accounts. We also provide product solutions used by electronics design engineers. We continued to leverage our China operations to take advantage of the growth of manufacturing in China and to operate close to our customers. We continued to address the effectiveness of our sales and marketing organization and sales channels, including evaluating alternative or supplemental channels, to reach a larger number of customers and providing our channel partners with extensive product, sales and service training.

As a result of the business downturn we experienced this year and the uncertain business outlook, we took restructuring actions in September 2012 expected to reduce quarterly operating expenses and production costs by approximately $300,000, with $47,000 of that amount already included in the third quarter results. These actions included reductions in personnel and the use of contractors, professionals, and consultants, as well as focusing our development efforts on a smaller number of projects.

On October 25th, 2012, we announced the appointment of Anthony Ambrose as President and Director effective immediately and as Chief Executive Officer effective November 14, 2012. Prior to joining Data I/O, Mr. Ambrose, age 51, was Owner and Principal of Cedar Mill Partners, LLC a strategy consulting firm. Until 2011, he was Vice President and General Manager at RadiSys Corporation where he led three product divisions and worldwide engineering. Until 2007, Anthony was general manager and held several other progressively responsible positions at Intel Corporation. Currently, he is familiarizing himself with our business and evaluating our strategies for profitability and growth.

cRITICAL aCCOUNTING pOLICY jUDGMENTS AND eSTIMATES

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

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

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

The amount of revenue recognized is affected by our judgments as to the collectability of the transaction, the existence of an acceptance clause or whether an arrangement includes multiple elements and if so, whether specific objective evidence of selling price exists for those elements. Allocation between multiple elements is done based on objective evidence of selling price based on a selling price hierarchy, including discounts.

Installation that is considered perfunctory includes any installation that can be performed by other parties, such as distributors, other vendors, or in most cases the customers themselves. This takes into account the complexity, skill and training needed as well as customer expectations regarding installation. The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment provided that persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, and collectability is reasonably assured. The measure of standalone fair value of the product versus the service installation value component is by the amount we pay to independent representative service groups or the amount of additional discount given to independent distributors to provide the service installation (published price).

We record revenue from the sale of service and update contracts as deferred revenue and we recognize it on a straight-line basis over the contractual period, which is typically one year. Service revenue from time and materials contracts and training services is recognized as services are performed. We recognize software revenue upon shipment provided that no significant obligations remain on our part, substantive acceptance conditions, if any, have been met and when the fee is fixed and determinable and when collection is deemed probable.

Certain fixed-price engineering service contracts that require significant production, modification, or customization of software, are accounted for using the percentage-of-completion method. We use the percentage-of-completion method of accounting because it is the most accurate method to recognize revenue based on the nature and scope of our fixed-price professional engineering service contracts; it is a better measure of periodic income results than other methods and it better matches revenue recognized with the costs incurred. Percentage of completion is measured based primarily on input measures such as hours incurred to date compared to total estimated hours to complete, with consideration given to output measures, such as contract milestones, when applicable. Significant judgment is required when estimating total hours and progress to completion on these arrangements, which determines the amount of revenue we recognize as well as whether a loss is recognized if one is expected to be incurred upon project completion. Revisions to hour and cost estimates are incorporated in the period the amounts are recognized if the results of the period have not been reported; otherwise, the revision of estimates are recognized in the period in which the facts that give rise to the revision become known.

We establish a reserve for sales returns based on historical trends in product returns and estimates for new items. Data I/O has a stated return policy that customers can return standard products for any reason within 30 days after delivery provided that the returned product is received in its original condition, including all packaging materials, for a refund of the price paid less a restocking charge of 30% of the total amount invoiced for the product returned, unless such restocking charge is waived in writing by Data I/O. For us to recognize revenue, the price is fixed or determinable at the date of the sale, the buyer has paid or is obligated to pay and the obligation is not contingent on resale of the product, the buyer's obligation would not be changed in the event of theft, physical destruction or damage to the product, the buyer acquiring the product for resale has economic substance apart from Data I/O and we have no contractual obligations for future performance to directly bring about the resale of the product by the buyer.

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

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

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

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

Share-based Compensation: We account for share-based awards made to our employees and directors, including employee stock option awards and restricted and performance share awards, using the estimated grant date fair value method of accounting. We estimate the fair value using the Black-Scholes valuation model, which requires the input of highly subjective assumptions, including the option’s expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using the historical volatility of the Company’s common stock. Changes in the subjective assumptions required in the valuation model may significantly affect the estimated value of the awards, the related stock-based compensation expense and, consequently, our results of operations. Beginning in the second quarter of 2006, restricted stock awards were granted. Employee Stock Purchase Plan (“ESPP) shares were issued under provisions that do not require us to record any equity compensation expense.

Results of Operations

Net Sales

Net sales by product line (in thousands)	Three Months Ended September 30, 2012	Change	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Change	Nine Months Ended September 30, 2011
Automated programming systems	$2,780	(43.4%)	$4,914	$8,399	(38.9%)	$13,746
Non-automated programming systems	1,531	(28.4%)	2,137	4,951	(31.2%)	7,197
Total programming systems	$4,311	(38.9%)	$7,051	$13,350	(36.3%)	$20,943

Net sales by location (in thousands)	Three Months Ended September 30, 2012	Change	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Change	Nine Months Ended September 30, 2011
United States	$831	(10.5%)	$928	$2,057	0.8%	$2,041
% of total	19.3%		13.2%	15.4%		9.7%
International	$3,480	(43.2%)	$6,123	$11,293	(40.3%)	$18,902
% of total	80.7%		86.8%	84.6%		90.3%

Revenues for the third quarter of 2012 were $4.3 million, down 39% compared with $7.1 million in the third quarter of 2011, and down 20% from $5.4 million in the second quarter of 2012. We believe the decline in revenue compared to last year relates primarily to reduced capital spending resulting from a downturn in Asia-based electronics manufacturing and economic uncertainty related to the European sovereign debt situation. Our revenues were impacted by the change in the Euro translation rate, compared to one year ago, with the Euro devaluation resulting in $151,000 less revenue in the third quarter of 2012. Backlog at September 30, 2012 was $1.0 million.

On a regional basis, revenue declined in Asia 57%, Europe 40% and the Americas 17% compared to the third quarter of 2011. On a product basis, the revenue decrease was primarily from our automated PS and FLX families as well as FlashPak, offset in part by higher revenues from our RoadRunner family, compared to the third quarter of 2011.

For the first nine months of 2012 compared to 2011, the decrease in revenues are primarily attributed to the same factors as the third quarter of 2012.

Gross Margin

	Three Months Ended			Nine Months Ended		
	September 30, 2012	Change	September 30, 2011	September 30, 2012	Change	September 30, 2011
(in thousands)						
Gross margin	$1,927	(51.1%)	$3,943	$6,809	(43.8%)	$12,116
Percentage of net sales	44.7%		55.9%	51.0%		57.9%

Gross margin as a percentage of sales in the third quarter of 2012 was 44.7%, compared with 55.9% in the third quarter of 2011. This decrease, both in dollars and as a percentage of gross margin, was primarily due to the decreased sales volume in relation to certain fixed manufacturing costs, as well as an excess and obsolete inventory charge of $164,000.

Gross margin as a percentage of sales for the nine months ending September 30, 2012 was 51.0%, compared to 57.9% during the same period in 2011 primarily due to same factors as in the third quarter of 2012.

Research and Development

	Three Months Ended			Nine Months Ended		
	September 30, 2012	Change	September 30, 2011	September 30, 2012	Change	September 30, 2011
(in thousands)						
Research and development	$1,429	(3.6%)	$1,482	$4,248	3.4%	$4,109
Percentage of net sales	33.1%		21.0%	31.8%		19.6%

Research and development ("R&D") spending in the third quarter of 2012 decreased by $53,000 compared to the same period in 2011 primarily due to $94,000 lower consultant and contractor expense and $29,000 less R&D materials, offset in part by higher depreciation and travel.

R&D expenses increased $139,000 for the first nine months of 2012 compared to the same period in 2011. The increase includes higher Azido related costs of $214,000, $47,000 higher patent related fees, $85,000 less engineering labor charged to cost of goods sold, and higher depreciation expense of $83,000, offset in part by $280,000 lower consultant and contractor expense.

Other than spending variations on R&D projects, we expect that our restructuring actions should result in reduced R&D expense going forward.

Selling, General and Administrative

	Three Months Ended			Nine Months Ended		
	September 30, 2012	Change	September 30, 2011	September 30, 2012	Change	September 30, 2011
(in thousands)						
Selling, general & administrative	$1,656	(21.2%)	$2,101	$5,901	(9.1%)	$6,490
Percentage of net sales	38.4%		29.8%	44.2%		31.0%

Selling, general and administrative ("SG&A") expenses in the third quarter of 2012 decreased by $445,000 compared to the same period in 2011 primarily due to $126,000 lower professional and contractor fees, $105,000 lower sales commissions resulting from lower sales volume, $85,000 lower incentive compensation, $62,000 lower Azido consulting expense, and $33,000 lower depreciation expense.

Excluding the CEO search firm and separation expense of $468,000 this year, SG&A expenses for the first nine months of 2012 decreased by $1,057,000 compared to the same period in 2011, primarily due to $280,000 lower incentive compensation, $223,000 lower professional and contractor fees, $169,000 lower commissions, $136,000 lower payroll related costs, and $71,000 lower Azido related costs.

Interest

	Three Months Ended			Nine Months Ended		
	September 30, 2012	Change	September 30, 2011	September 30, 2012	Change	September 30, 2011
(in thousands)						
Interest income	$31	138.5%	$13	$238	428.9%	$45

Interest income for the third quarter of 2012 increased by $18,000 compared to the same period in 2011 primarily related to interest received related to a German tax refund and higher invested balances in foreign accounts.

Interest income for the first nine months of 2012 increased by $193,000 compared to the same period in 2011, primarily due to the same factors as in the second quarter of 2012.

Income Taxes

	Three Months Ended			Nine Months Ended		
	September 30, 2012	Change	September 30, 2011	September 30, 2012	Change	September 30, 2011
(in thousands)						
Income tax (expense) benefit	$44	(167.7%)	($65)	$321	(225.9%)	($255)

Income tax (expense) benefit recorded for the third quarter and first nine months of 2012 and 2011 resulted primarily from foreign taxes on income and tax refunds in our foreign subsidiaries. During the second quarter of 2012, we prevailed in tax issues from the 1995-1998 years related to an acquisition and we received refunds from German tax authorities of approximately $318,000.

The effective tax rate differed from the statutory tax rate primarily due to the effect of valuation allowances, as well as foreign taxes and refunds. Data I/O has a valuation allowance of $10.2 million as of September 30, 2012. Our deferred tax assets and valuation allowance have been reduced by approximately $138,000 associated with the requirements of accounting for uncertain tax positions as of September 30, 2012. Given the uncertainty created by our past loss history and the cyclical nature of the industry in which we operate, we expect to continue to limit the recognition of net deferred tax assets and maintain the tax valuation allowances.

Financial Condition

Liquidity and Capital Resources

	September 30, 2012	Change	December 31, 2011
(in thousands)			
Working capital	$14,398	($7,957)	$22,355

The Company’s cash position at September 30, 2012 increased slightly during the third quarter to $11.2 million. The change in cash was primarily attributable to decreasing accounts receivable by $596,000 to $3 million and inventories by $567,000 to $4.1 million at September 30, 2012, offsetting the loss for the quarter. The Company remains debt free as of September 30, 2012.

For the nine months ending September 30, 2012, the decrease in working capital primarily relates to cash used in our share repurchase programs of $6.0 million completed in the first quarter of 2012 and due to our year to date net losses.

Although we have no significant capital expenditure plans currently, we expect that we will continue to make capital expenditures to support our business. Capital expenditures are expected to be funded by existing and internally generated funds or lease financing.

As a result of our significant product development, customer support, international expansion and selling and marketing efforts, we have required substantial working capital to fund our operations. Over the last few years, we restructured our operations to lower our costs and operating expenditures in some geographic regions, while investing in other regions, and to lower the level of revenue required for our net income breakeven point or offsetting in part costs rising over time, to preserve our cash position and to focus on profitable operations. We believe that we have sufficient working capital available under our operating plan to fund our operations and capital requirements through at least the next one-year period. Approximately $9.5 million of our cash is located in foreign subsidiary accounts at September 30, 2012. Subsequent to the end of the quarter ended September 30, 2012, we repatriated $1 million of cash without foreign tax pursuant to a tax holiday incentive arrangement, representing full distribution of earnings under that arrangement. Although we have no other current repatriation plans, there may be tax and other impediments to repatriating the cash to the United States. Our working capital may be used to fund share repurchases and growth initiatives including acquisition, which could reduce our liquidity. 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.

Share Repurchase Programs

The $1 million dollar share repurchase plan announced in October of 2011 resulted in $42,000 of stock buybacks during the first quarter of 2012. This program was cancelled in January 2012, after the new expanded $6 million dollar repurchase program announced in January 2012 went into effect. Share repurchases for $6 million were made during the first quarter of 2012, completing this program. These programs were made under 10b5-1 plans that allowed purchases to take place at any time. See accompanying consolidated financial statements Note 12, "Share Repurchase Programs".

OFF-Balance sheet arrangements

Except as noted in the accompanying consolidated financial statements in Note 7, "Operating Lease Commitments" and Note 8, "Other Commitments", Data I/O had no off-balance sheet arrangements.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles-Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment*. The objective of this update is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. The amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, and early adoption is permitted. We believe the adoption of this update will not impact our financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Reporting Standards* ("ASU No. 2011-04") which amended the guidance regarding fair value measurement and disclosure. The amended guidance clarifies the application of existing fair value measurement and disclosure requirements. The amendment was effective for us at the beginning of January 2012. The adoption of this amendment did not materially affect our financial statements.

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, Data I/O evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective at the reasonable level of assurance. 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.

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 September 30, 2012, Data I/O was 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, 2011, 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

None

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:**

10.23 Anthony Ambrose Offer Letter (Incorporated by reference to Data I/O's Current Report on Form 8-K filed on October 29, 2012).

10.24 Executive Agreement with Anthony Ambrose dated October 25, 2012.

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.

DATA I/O CORPORATION

(REGISTRANT)

DATED: November 13, 2012

By: //S//Joel S. Hatlen

Joel S. Hatlen

Vice President - Finance

Chief Financial Officer

Secretary and Treasurer

(Principal Financial Officer and Duly Authorized Officer)

By: //S//Frederick R. Hume

Frederick R. Hume

Chief Executive Officer

(Principal Executive Officer and Duly Authorized Officer)

Exhibit 31.1

CERTIFICATION

I, Frederick R. Hume, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Data I/O Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATED: November 13, 2012

/s/ Frederick R. Hume

Frederick R. Hume

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Joel S. Hatlen, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Data I/O Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) Disclosed in this quarterly report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATED: November 13, 2012

/s/ Joel S. Hatlen

Joel S. Hatlen

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

Certification by Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350

As Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Data I/O Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Frederick R. Hume, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Frederick R. Hume

Frederick R. Hume

Chief Executive Officer

(Principal Executive Officer)

November 13, 2012

Exhibit 32.2

Certification by Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350

As Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Data I/O Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joel S. Hatlen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Joel S. Hatlen

Joel S. Hatlen

Chief Financial Officer

(Principal Financial Officer)

November 13, 2012