DATA I/O CORP
Form 10-Q
November 13, 2014

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, 2014**
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 _ NoX

Shares of Common Stock, no par value, outstanding as of November 1, 2014:

7,860,722

DATA I/O CORPORATION

FORM 10-Q
For the Quarter Ended September 30, 2014

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PART I - FINANCIAL INFORMATION

Item 1. **Financial Statements**

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

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$9,399	$10,426
Trade accounts receivable, net of allowance for doubtful accounts of $99 and $87, respectively	4,441	1,980
Inventories	4,323	3,770
Other current assets	314	395
TOTAL CURRENT ASSETS	18,477	16,571
Property, plant and equipment – net	653	843
Other assets	84	88
TOTAL ASSETS	$19,214	$17,502
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$1,282	$720
Accrued compensation	1,450	1,107
Deferred revenue	1,762	1,170
Other accrued liabilities	698	597
Accrued costs of business restructuring	164	723
Income taxes payable	18	10
TOTAL CURRENT LIABILITIES	5,374	4,327
Long-term other payables	219	313
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, 7,847,391 shares as of September 30, 2014 and 7,786,053 shares as of December 31, 2013	18,625	18,343
Accumulated earnings (deficit)	(6,292)	(7,042)
Accumulated other comprehensive income	1,288	1,561
TOTAL STOCKHOLDERS’ EQUITY	13,621	12,862
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$19,214	$17,502

See notes to consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Sales	$6,213	$5,357	$16,631	$15,387
Cost of goods sold	2,822	2,801	7,723	7,351
Gross margin	3,391	2,556	8,908	8,036
Operating expenses:				
Research and development	1,217	1,109	3,539	3,430
Selling, general and administrative	1,444	1,367	4,588	4,959
Provision for business restructuring	-	1	13	642
Total operating expenses	2,661	2,477	8,140	9,031
Operating income (loss)	730	79	768	(995)
Non-operating income (expense):				
Interest income	50	19	122	93
Foreign currency transaction gain (loss)	(139)	17	(113)	(42)
Total non-operating income (expense)	(89)	36	9	51
Income (loss) before income taxes	641	115	777	(944)
Income tax (expense) benefit	5	31	(27)	6
Net income (loss)	$646	$146	$750	($938)
Basic earnings (loss) per share	$0.08	$0.02	$0.10	($0.12)
Diluted earnings (loss) per share	$0.08	$0.02	$0.09	($0.12)
Weighted-average basic shares	7,846	7,773	7,816	7,761
Weighted-average diluted shares	7,980	7,819	7,922	7,761

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,	
	2014	**2013**	**2014**	**2013**
Net Income (loss)	$646	$146	$750	($938)
Other comprehensive income:				
Foreign currency translation gain (loss)	(77)	183	(273)	175
Comprehensive income (loss)	$569	$329	$477	($763)

See notes to consolidated financial statements

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

	For the Nine Months Ended September 30,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$750	($938)
Adjustments to reconcile net income (loss)		
to net cash provided by (used in) operating activities:		
Depreciation and amortization	456	482
Equipment transferred to cost of goods sold	688	107
Share-based compensation	301	308
Net change in:		
Trade accounts receivable	(2,621)	(1,358)
Inventories	(601)	503
Other current assets	80	207
Accrued cost of business restructuring	(619)	418
Accounts payable and accrued liabilities	1,045	299
Deferred revenue	682	73
Other long-term liabilities	(35)	(41)
Deposits and other long-term assets	-	2
Net cash provided by (used in) operating activities	126	62
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(954)	(463)
Cash provided by (used in) investing activities	(954)	(463)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of tax withholding	(18)	15
Repurchase of common stock	-	(5)
Cash provided by (used in) financing activities	(18)	10
Increase/(decrease) in cash and cash equivalents	(846)	(391)
Effects of exchange rate changes on cash	(181)	157
Cash and cash equivalents at beginning of period	10,426	10,528
Cash and cash equivalents at end of period	$9,399	$10,294
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Income Taxes	$15	($86)

See notes to consolidated financial statements

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 September 30, 2014 and September 30, 2013 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, 2013 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 and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

Revenue Recognition

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

The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment. Installation that is considered perfunctory includes any installation that can be performed by other parties, such as distributors, other vendors, or in most cases the customers themselves. This takes into account the complexity, skill and training needed as well as customer expectations regarding installation.

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

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

We recognize revenue when persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, the buyer has paid or is obligated to pay, collectability is reasonably assured, substantive acceptance conditions, if any, have been met, the obligation is not contingent on resale of the product, the buyer’s obligation would not be changed in the event of theft, physical destruction or damage to the product, the buyer acquiring the product for resale has economic substance apart from us and we do not have significant obligations for future performance to directly bring about the resale of the product by the buyer. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items.

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

Stock-Based Compensation Expense

We measure and recognize compensation expense as required for all share-based payment awards, including employee stock options and restricted stock unit awards, based on estimated fair values on the grant dates.

Income Tax

Historically, when accounting for uncertainty in income taxes, we have not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during the three months and nine months ended September 30, 2014. However, we have adopted a policy whereby amounts related to penalties associated with tax matters are classified as general and administrative expense when incurred and amounts related to interest associated with tax matters are classified as interest income or interest expense.

We have incurred net operating losses in 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 $198,000 and $155,000 of unrecognized tax benefits related to uncertain tax positions and related valuation allowance as of September 30, 2014 and 2013, respectively.

Tax years that remain open for examination include 2011, 2012 and 2013 in the United States of America. In addition, tax years from 2000 to 2010 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 May 2014, the FASB issued ASU 2014-09, *"Revenue from Contracts with Customers,"* (ASU 2014-09). The standard 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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *"Presentation of Financial Statements and Property, Plant, and Equipment,"* (ASU 2014-08). This ASU changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and "represents a strategic shift that has (or will have) a major effect on our operations and financial results." For disposals of individually significant components that do not qualify as discontinued operations, we must disclose pre-tax earnings of the disposed component. This guidance is effective for us prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

NOTE 2 – INVENTORIES

Inventories consisted of the following components:

(in thousands)	Sep. 30, 2014	Dec. 31, 2013
Raw material	$2,473	$1,988
Work-in-process	1,140	1,309
Finished goods	710	473
Inventories	$4,323	$3,770

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, NET

Property and equipment consisted of the following components:

(in thousands)	Sep. 30, 2014	Dec. 31, 2013
Leasehold improvements	$483	$484
Equipment	6,806	7,015
	7,289	7,499
Less accumulated depreciation	6,636	6,656
Property and equipment, net	$653	$843

NOTE 4 – BUSINESS RESTRUCTURING

As a result of the business downturn we experienced in late 2011, 2012, and continuing in 2013, as well as the uncertain business outlook at those times, we took additional restructuring actions in the second quarter of 2013 and fourth quarter of 2013 to reduce quarterly operating expenses and production costs.

During the second and fourth quarters of 2013, we took restructuring actions to reduce our excess office space and eliminate certain job positions. These actions resulted in restructuring costs of $642,000 for the second quarter and $541,000 in the fourth quarter of 2013. A true up of estimates resulted in a $13,000 charge during the first quarter of 2014. The positions eliminated allow us to have the flexibility to add other critical positions or change fixed to variable costs through outsourcing. These actions have been fully implemented. At September 30, 2014, the remaining portion of the reserve expected to be paid over the next twelve months is $164,000, and the long term portion is $90,000 and relates to the lease abandonment payments that are expected to be completely paid by August 2016.

An analysis of the business restructuring is as follows:

(in thousands)	Reserve Balance Dec. 31, 2012	2013 Expense	2013 Payments/ Write-Offs	Reserve Balance Dec. 31, 2013	2014 Expense	2014 Payments/ Write-Offs	Reserve Balance Sep. 30, 2014
Downsizing US operations:							
Employee severance	$0	$457	$227	$230	($16)	$214	$0
Other costs	-	273	33	240	25	70	195
Downsizing foreign operations:							
Employee severance	25	405	58	372	16	329	59
Other costs	-	48	17	31	(12)	19	-
Total	$25	$1,183	$335	$873	$13	$632	$254

NOTE 5 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components:

(in thousands)	Sep. 30, 2014	Dec. 31, 2013
Product warranty	$324	$281
Sales return reserve	55	50
Other taxes	141	112
Other	178	154
Other accrued liabilities	$698	$597

The changes in Data I/O's product warranty liability for the nine months ending September 30, 2014 are as follows:

(in thousands)	Sep. 30, 2014
Liability, beginning balance	$281
Net expenses	685
Warranty claims	(685)

Accrual revisions	43
Liability, ending balance	$324

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NOTE 6 – OPERATING LEASE COMMITMENTS

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

For the years ending December 31:

	Operating Leases
(in thousands)	
2014 (remaining)	$309
2015	1,033
2016	611
2017	38
2018	9
Thereafter	4
Total	$2,004

Of the $2,004,000, $186,000 has been accrued as restructure liability related to abandoned lease space.

During the first quarter of 2014, we renewed our lease agreement for our Munich, Germany facility effective February 1, 2015 and extending the term through January 2018 and lowering the square footage to approximately 4,306 square feet. Effective June 1, 2014, the landlord was able to lease the excess space abandoned as part of Q2 2013 restructure actions to another tenant and the lease was revised to end May 31, 2017.

NOTE 7 – 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 September 30, 2014, the purchase commitments and other obligations totaled $1,272,000 of which all but $21,000 are expected to be paid over the next twelve months.

NOTE 8 – CONTINGENCIES

As of September 30, 2014, 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 9 – EARNINGS (LOSS) 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	
	Sep. 30, 2014	Sep. 30, 2013	Sep. 30, 2014	Sep. 30, 2013
(in thousands except per share data)				
Numerator for basic and diluted earnings (loss) per share:				
Net income (loss)	$646	$146	$750	($938)
Denominator for basic earnings (loss) per share: weighted-average shares	7,846	7,773	7,816	7,761
Employee stock options and awards	134	46	106	-
Denominator for diluted earnings (loss) per share: adjusted weighted-average shares & assumed conversions of stock options	7,980	7,819	7,922	7,761
Basic and diluted earnings (loss) per share:				
Total basic earnings (loss) per share	$0.08	$0.02	$0.10	($0.12)
Total diluted earnings (loss) per share	$0.08	$0.02	$0.09	($0.12)

Options to purchase 417,362 and 968,862 shares were outstanding as of September 30, 2014 and 2013, respectively, but were excluded from the computation of diluted earnings per share for the periods then ended because the options were anti-dilutive.

NOTE 10 – 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 reduced for estimated forfeitures.

The impact on our results of operations of recording share-based compensation, net of forfeitures, for the three and nine months ended September 30, 2014 and 2013, respectively, was as follows:

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2014	Sep. 30, 2013	Sep. 30, 2014	Sep. 30, 2013
(in thousands)				
Cost of goods sold	$2	$11	$4	$35
Research and development	20	15	60	63
Selling, general and administrative	68	76	237	210
Total share-based compensation	$90	$102	$301	$308
Impact on net earnings per share:				
Basic and diluted	($0.01)	($0.01)	($0.04)	($0.04)

Equity awards during the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2014	Sep. 30, 2013	Sep. 30, 2014	Sep. 30, 2013
Restricted Stock	-	-	188,900	180,400
Stock Options	-	100,000	3,000	133,000

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

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 and nine months ended September 30, 2014 and 2013:

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2014	Sep. 30, 2013	Sep. 30, 2014	Sep. 30, 2013
Risk-free interest rates	-	1.01%	1.31%	0.92%
Volatility factors	-	0.54	0.51	0.54
Expected life of the option in years	-	4.00	4.00	4.00
Expected dividend yield	-	None	None	None

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 September 30, 2014 are:

	Sep. 30, 2014
Unamortized future equity compensation expense	$994,487

Remaining weighted average amortization period in years	2.77

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; reversals of tax valuation allowances; 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; development, introduction and shipment of new products; sales channels 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 we 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, 2013 describe some, but not all, of the factors that could cause these differences.

OVERVIEW

We are focused on managing and growing the core programming business to increase profitability, while developing and enhancing products to drive future revenue and earnings growth. Part of the strategy is to gain market share and to expand addressable markets. Our challenge is growing and profitably operating in a cyclical and rapidly evolving industry environment. Starting in December 2013 and continuing through the third quarter of 2014, we saw strong orders of our new PSV7000 which led our sales growth. Looking forward, our backlog and deferred revenue should position us well for the start of the fourth quarter. We are balancing business geography shifts, increasing costs and strategic investments in our business with the level of demand and mix of business we expect.

We focus our research and development efforts in our strategic growth markets, namely new programming technology, automated programming systems for the manufacturing environment and software. We continue to focus on extending the capabilities and support for our product lines and supporting the latest semiconductor devices, including NAND Flash, e-MMC, and microcontrollers on our newer products. During 2014, we have added media and handling options and software features for our new PSV7000, Data I/O's most advanced programming system introduced in the fall of 2013, which can cut the cost of programming by up to 50% and represents new capabilities to handle and program small parts. We announced in July 2014 our new PSV3000 automated programming system with a cost-effective entry point which was developed for the Asian market and is now available and in evaluation at several customers.

We are focused on strategic high volume manufacturers in key market segments like automotive electronics, wireless and consumer electronics, industrial controls including "Internet of Things" electronics, and programming centers.

BUSINESS RESTRUCTURING PROGRESS

As a result of the business downturn we experienced in late 2011, 2012, and continuing in 2013, as well as the uncertain business outlook at those times, we took additional restructuring actions in the second quarter of 2013 and fourth quarter of 2013 to reduce quarterly operating expenses and production costs.

During the second and fourth quarters of 2013, we took restructuring actions to reduce our excess office space and eliminate certain job positions. These actions resulted in restructuring costs of $642,000 for the second quarter and $541,000 in the fourth quarter of 2013. A true up of estimates resulted in a $13,000 charge during the first quarter of 2014. The positions eliminated allow us to have the flexibility to add other critical positions or change fixed to variable costs through outsourcing. These actions have been fully implemented. At September 30, 2014, the remaining portion of the reserve expected to be paid over the next twelve months is $164,000 and the long term portion is $90,000 and relates to the lease abandonment payments that are expected to be completely paid by July 2016.

cRITICAL aCCOUNTING pOLICY jUDGMENTS AND eSTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires that we make estimates and judgments, which affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to 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.

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

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

The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment. Installation that is considered perfunctory includes any installation that can be performed by other parties, such as distributors, other vendors, or in most cases the customers themselves. This takes into account the complexity, skill and training needed as well as customer expectations regarding installation.

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

We recognize revenue when persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, the buyer has paid or is obligated to pay, collectability is reasonably assured, substantive acceptance conditions, if any, have been met, the obligation is not contingent on resale of the product, the buyer's obligation would not be changed in the event of theft, physical destruction or damage to the product, the buyer acquiring the product for resale has economic substance apart from us and we do not have significant obligations for future performance to directly bring about the resale of the product by the buyer. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items.

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

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

Inventory: Inventories are stated at the lower of cost or market. Adjustments are made to standard cost, which approximates actual cost on a first-in, first-out basis. We estimate reductions to inventory for obsolete, slow-moving, excess and non-salable inventory by reviewing current transactions and forecasted product demand. We evaluate our inventories on an item by item basis and record inventory adjustments accordingly. If there is a significant decrease in demand for our products, 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 current uncertain economic outlook for our industry and capital spending, we expect to continue to limit the recognition of net deferred tax assets and accounting for uncertain tax positions and maintain the tax valuation allowances. At the current time, we expect, therefore, that reversals of the tax valuation allowance will take place only as we are able to take advantage of the underlying tax loss or other attributes in carry forward. The transfer pricing and expense or cost sharing arrangements are complex areas where judgments, such as the determination of arms-length arrangements, can be subject to challenges by different tax jurisdictions.

Share-based Compensation: We account for share-based awards made to our employees and directors, including employee stock option awards and restricted stock 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, 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.

Results of Operations

Net Sales

Net sales by product line (in thousands)	Three Months Ended Sep. 30, 2014	Change	Sep. 30, 2013	Nine Months Ended Sep. 30, 2014	Change	Sep. 30, 2013
Automated programming systems	$4,580	22.1%	$3,750	$11,608	13.4%	$10,235
Non-automated programming systems	1,633	1.6%	1,607	5,023	(2.5%)	5,152
Total programming systems	$6,213	16.0%	$5,357	$16,631	8.1%	$15,387

Net sales by location (in thousands)	Three Months Ended Sep. 30, 2014	Change	Sep. 30, 2013	Nine Months Ended Sep. 30, 2014	Change	Sep. 30, 2013
United States	$419	(49.4%)	$828	$1,583	(6.3%)	$1,690
% of total	6.7%		15.5%	9.5%		11.0%
International	$5,794	27.9%	$4,529	$15,048	9.9%	$13,697
% of total	93.3%		84.5%	90.5%		89.0%

Net sales in the third quarter of 2014 were $6.2 million, up 16% compared with $5.4 million in the third quarter of 2013, and sequentially up 11% compared with $5.6 million in the second quarter of 2014 with the increase primarily due to the sale of our new PSV7000. Net sales for the third quarter of 2014 compared to the third quarter of 2013 were unfavorably impacted by approximately $130,000 due to the change in the foreign currency translation rates related to the strengthening of the Dollar compared to the Euro. On a regional basis, net sales increased 84% in the Americas and 19% in Europe, while declining 30% in Asia compared to the third quarter of 2013. The higher level of sales in Asia in the third quarter of 2013 was primarily due to a multiple systems order shipped to a large consumer product manufacturer in Asia, which did not repeat in the third quarter of 2014. A sales breakdown by type for the third quarter of 2014 was 68% equipment, 22% adapters, and 10% software and maintenance. Adapters are a consumable item and software and maintenance are typically recurring under annual subscription contracts.

Orders for the third quarter of 2014 were $5.4 million, up 25%, compared with $4.3 million in the third quarter of 2013, primarily driven by PSV7000 automated programming system and RoadRunner systems orders during the quarter. Backlog was $2.0 million at September 30, 2014, compared to $1.3 million at September 30, 2013 and $2.7 million at June 30, 2014. Deferred revenue was $1.8 million at September 30, 2014 compared to $1.3 million at September 30, 2013 and $2.1 million at June 30, 2014.

For the nine months ending September 30, 2014, compared to the same period in 2013, the net sales increase was primarily due to incremental sales of our new PSV7000 automated programming system, as well as increased sales of adapters. On a regional basis, net sales increased 63% in Europe and 2% in the Americas, while declining 24% in Asia compared to the same period in 2013.

Gross Margin

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2014	Change	Sep. 30, 2013	Sep. 30, 2014	Change	Sep. 30, 2013
(in thousands)						
Gross margin	$3,391	32.7%	$2,556	$8,908	10.9%	$8,036
Percentage of net sales	54.6%		47.7%	53.6%		52.2%

Gross margin as a percentage of sales in the third quarter of 2014 was 54.6%, compared with 47.7% in the third quarter of 2013. The gross margin increase as a percentage of sales for the third quarter was primarily due to a more favorable product and channel mix as well as less unfavorable labor and overhead variances.

For the first nine months of 2014 compared to the same period in 2013, the increase in gross margin was generally due to the same factors discussed above for the third quarter.

Research and Development

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2014	Change	Sep. 30, 2013	Sep. 30, 2014	Change	Sep. 30, 2013
(in thousands)						
Research and development	$1,217	9.7%	$1,109	$3,539	3.2%	$3,430
Percentage of net sales	19.6%		20.7%	21.3%		22.3%

Research and development (“R&D”) increased $108,000 in the third quarter of 2014 compared to the same period in 2013, primarily due to higher R&D materials and higher incentive compensation.

For the first nine months of 2014 compared to the same period in 2013, the increase in R&D expense was primarily related to higher incentive compensation, recruiting costs and professional services, offset in part by savings from 2013 restructuring actions, cost controls and lower R&D materials.

Selling, General and Administrative

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2014	Change	Sep. 30, 2013	Sep. 30, 2014	Change	Sep. 30, 2013
(in thousands)						
Selling, general & administrative	$1,444	5.6%	$1,367	$4,588	(7.5%)	$4,959
Percentage of net sales	23.2%		25.5%	27.6%		32.2%

Selling, General and Administrative ("SG&A") expenses increased $77,000 in the third quarter of 2014 compared to the same period in 2013, primarily related to higher commissions, incentive compensation and travel, offset in part by savings from personnel reductions due to restructuring actions and cost controls.

For the first nine months of 2014, SG&A expense decreased $371,000 compared to the same period in 2013, primarily related to savings from personnel reductions due to restructuring actions and cost controls, offset in part by higher commissions and incentive compensation.

Interest

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2014	Change	Sep. 30, 2013	Sep. 30, 2014	Change	Sep. 30, 2013
(in thousands)						
Interest income	$50	163.2%	$19	$122	31.2%	$93

Interest income increased in the third quarter of 2014 compared to the same period in 2013, primarily due to higher earnings on invested cash balances.

For the first nine months of 2014 compared to the same period in 2013, the increase in interest income was generally due to the same factors discussed above for the third quarter.

Income Taxes

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2014	Change	Sep. 30, 2013	Sep. 30, 2014	Change	Sep. 30, 2013
(in thousands)						
Income tax (expense) benefit	$5	(83.9%)	$31	($27)	*	$6

* not meaningful

Income tax benefit for the third quarter of 2014 decreased $26,000 compared to the same period in 2013, primarily resulting from foreign income tax and 2013 refunds on foreign subsidiary income.

For the first nine months of 2014 compared to the same period in 2013, the increase in income tax expense was generally due to the same factors discussed above for the third quarter.

The effective tax rate differed from the statutory tax rate primarily due to the effect of valuation allowances, as well as foreign taxes. We have a valuation allowance of $12.0 million as of September 30, 2014. Our deferred tax assets and valuation allowance have been reduced by approximately $198,000 and $155,000 associated with the requirements of accounting for uncertain tax positions as of September 30, 2014 and 2013, respectively. 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

(in thousands)	Sep. 30, 2014	Change	Dec. 31, 2013
Working capital	$13,103	$859	$12,244

During the third quarter of 2014, our working capital increased $1.1 million, primarily due to the earnings for the quarter. During the third quarter of 2014, the composition shifted with a cash increase of $1.2 million, and an account receivable decrease of $0.7 million. The current quarter working capital increase reversed the reduction of $0.2 million that occurred during the first half of 2014.

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 internal capital expenditures for sales demonstration and R&D test equipment as we develop and release new products. Capital expenditures are expected to be funded by existing and internally generated funds or lease financing.

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

We believe that we have sufficient working capital available under our operating plan to fund our operations and capital requirements through at least the next one-year period. Approximately $6.5 million of our cash is located in foreign subsidiary accounts at September 30, 2014. Although we have no 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 acquisitions, 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.

OFF-Balance sheet arrangements

Except as noted in the accompanying consolidated financial statements in Note 6, “Operating Lease Commitments” and Note 7, “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 $728,000 in the third quarter of 2014 compared to $228,000 in the third quarter of 2013. Equity compensation expense (a non-cash item) in the third quarter of 2014 and 2013 was $90,000 and $102,000, respectively. Adjusted EBITDA excluding equity compensation was $818,000 in the third quarter of 2014, compared to $330,000 in the third quarter of 2013.

Non-GAAP financial measures, such as EBITDA and adjusted EBITDA excluding equity compensation, 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 (loss) to EBITDA and adjusted EBITDA excluding equity compensation follows:

Non-Generally accepted accounting principles (GAAP) FINANCIAL Measure RECONCILIATION

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2014	Sep. 30, 2013	Sep. 30, 2014	Sep. 30, 2013
(in thousands)				
Net Income (loss)	$646	$146	$750	($938)
Interest (income) expense	(50)	(19)	(122)	(93)
Taxes	(5)	(31)	27	(6)
Depreciation and amortization	137	132	457	474
EBITDA earnings (loss)	$728	$228	$1,112	($563)
Equity Compensation	90	102	301	308
Adjusted EBITDA earnings (loss) excluding equity compensation	$818	$330	$1,413	($255)

RECENT ACCOUNTING ANNOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, *"Revenue from Contracts with Customers,"* (ASU 2014-09). The standard 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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *"Presentation of Financial Statements and Property, Plant, and Equipment,"* (ASU 2014-08). This ASU changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal of a component or group of components that is disposed of or is classified as held for sale and "represents a strategic shift that has (or will have) a major effect on our operations and financial results.” For disposals of individually significant components that do not qualify as discontinued operations, we must disclose pre-tax earnings of the disposed component. This guidance is effective for us prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We do not expect the adoption of this guidance to have a material impact on our consolidated 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, 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 still under the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (1992).

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, 2014, 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, 2013, 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:**

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: November 13 , 2014

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)

Exhibit 31.1

CERTIFICATION

I, Anthony Ambrose, 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, 2014

/s/ Anthony Ambrose

Anthony Ambrose

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, 2014

/s/ Joel S. Hatlen

Joel S. Hatlen

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

Certification by Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350

As Adopted Pursuant to

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, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony Ambrose, 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/ Anthony Ambrose

Anthony Ambrose

Chief Executive Officer

(Principal Executive Officer)

November 13, 2014

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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, 2014 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, 2014