

DATA I/O CORP
Form 10-Q
May 14, 2007

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 quarter ended **March 31, 2007**

OR

- () TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Or the transition period from _____ to _____

Commission File No. **0-10394**

DATA I/O CORPORATION

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-0864123
(I.R.S. Employer
Identification No.)

6464 185th Ave, N.E., Suite 101, Redmond, WA 98052

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(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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

8,522,928 shares of no par value of the Registrant's Common Stock were issued and outstanding as of May 7, 2007.

DATA I/O CORPORATION

FORM 10-Q

For the Quarter Ended March 31, 2007

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****DATA I/O CORPORATION****CONSOLIDATED BALANCE SHEETS**

| (in thousands, except share data) | Mar. 31, 2007 (unaudited) | Dec. 31, 2006 |
|---|---------------------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$3,391 | \$2,478 |
| Trade accounts receivable, less allowance for doubtful accounts of \$203 and \$199 | 6,950 | 8,496 |
| Inventories | 5,270 | 5,052 |
| Other current assets | 418 | 491 |
| | <hr/> | <hr/> |
| TOTAL CURRENT ASSETS | 16,029 | 16,517 |
| Property and equipment - net | 2,892 | 2,852 |
| Other assets | 118 | 122 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | <u>\$19,039</u> | <u>\$19,491</u> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$1,506 | \$1,673 |
| Accrued compensation | 1,002 | 1,210 |
| Deferred revenue | 1,824 | 1,564 |
| Other accrued liabilities | 1,300 | 1,194 |
| Accrued costs of business restructuring | 202 | 2 |
| Income taxes payable | 5 | 7 |
| Notes payable | 113 | 112 |
| | <hr/> | <hr/> |
| TOTAL CURRENT LIABILITIES | 5,952 | 5,762 |
| Long-term debt | 420 | 446 |
| 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, 8,510,273 | | |
| and 8,481,563 shares | 20,198 | 20,053 |
| Accumulated deficit | (8,046) | (7,261) |

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| | | |
|--|----------|----------|
| Accumulated other comprehensive income | 515 | 491 |
| | <hr/> | <hr/> |
| TOTAL STOCKHOLDERS' EQUITY | 12,667 | 13,283 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$19,039 | \$19,491 |
| | <hr/> | <hr/> |

See accompanying notes to consolidated financial statements.

DATA I/O CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| For the three months ended (in thousands, except per share data) | Mar. 31, 2007 | Mar. 31, 2006 |
|---|------------------|------------------|
| Net sales | \$6,028 | \$6,413 |
| Cost of goods sold | 2,708 | 3,003 |
| Gross margin | 3,320 | 3,410 |
| Operating expenses: | | |
| Research and development | 1,370 | 1,306 |
| Selling, general and administrative | 2,538 | 2,639 |
| Provision for business restructure | 201 | - |
| Total operating expenses | 4,109 | 3,945 |
| Operating income (loss) | (789) | (535) |
| Non-operating income (expense): | | |
| Interest income | 22 | 43 |
| Interest expense | (10) | - |
| Gain on sale | - | 6 |
| Foreign currency exchange | (2) | 3 |
| Total non-operating income (expense) | 10 | 52 |
| Income (loss) before income taxes | (779) | (483) |
| Income tax expense | 6 | 29 |
| Net income (loss) | (\$785) | (\$512) |
| Basic and diluted earnings per share | (\$0.09) | (\$0.06) |
| Weighted average shares outstanding - basic | 8,491 | 8,386 |
| Weighted average and potential shares outstanding - diluted | 8,491 | 8,386 |

See accompanying notes to consolidated financial statements.

DATA I/O CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| For the three months ended (in thousands) | Mar 31, 2007 | Mar 31, 2006 |
|--|-----------------|-----------------|
| OPERATING ACTIVITIES: | | |
| Net income (loss) | (\$785) | (\$512) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 288 | 264 |
| Write-off of assets | 1 | 1 |
| Gain on sale of fixed asset | - | (6) |
| Equipment transferred to cost of goods sold | 20 | 154 |
| Amortization of deferred gain on sale | - | (97) |
| Share-based compensation | 83 | 102 |
| Net change in: | | |
| Deferred revenue | 268 | 14 |
| Trade accounts receivable | 1,562 | 349 |
| Inventories | (201) | (455) |
| Other current assets | 75 | (46) |
| Accrued costs of business restructuring | 200 | (20) |
| Accounts payable and accrued liabilities | (262) | (481) |
| Security deposits | - | (45) |
| | <hr/> | <hr/> |
| Net cash provided by (used in) operating activities | 1,249 | (778) |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (303) | (318) |
| Net proceeds on sale of equipment | - | (6) |
| Acquisition of intangibles | - | (25) |
| | <hr/> | <hr/> |
| Net cash provided by (used in) investing activities | (303) | (349) |
| FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | 62 | 105 |
| Payment of capital lease obligation | (25) | - |
| | <hr/> | <hr/> |
| Net cash provided by (used in) financing activities | 37 | 105 |
| | <hr/> | <hr/> |
| Increase/(decrease) in cash and cash equivalents | 983 | (1,022) |
| Effects of exchange rate changes on cash | (70) | (58) |
| Cash and cash equivalents at beginning of year | 2,478 | 4,362 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of quarter | \$3,391 | \$3,282 |
| | <hr/> | <hr/> |

See accompanying 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 March 31, 2007 and March 31, 2006, 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, 2006 has been derived from the audited financial statements at that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America according to such SEC rules and regulations. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

Share-Based Compensation Expense

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (SFAS 123(R)) and the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) requiring the measurement and recognition of compensation expense for all share-based payment awards, including employee stock options, stock awards, and employee stock purchases, based on estimated fair values on the grant dates. The Company adopted SFAS 123(R) using the modified prospective method, which required the application of the accounting standard as of January 1, 2006.

Reported share-based compensation is classified, in the consolidated interim financial statements as follows:

| | Mar. 31, 2007 | Mar. 31, 2006 |
|-------------------------------------|------------------|------------------|
| | _____ | _____ |
| Cost of sales | \$5 | \$7 |
| Research and development | 12 | 23 |
| Selling, general and administrative | 66 | 72 |
| | _____ | _____ |
| Total share-based compensation | \$83 | \$102 |
| | _____ | _____ |

Income Tax

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In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting and disclosure for uncertainty in income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting for interim periods, disclosure and transition, and clearly scopes income taxes out of Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*. The Company adopted FIN 48 on January 1, 2007. The adoption of FIN 48 had no impact on the Company's financial statements.

Historically, the Company has not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during the three months ended March 31, 2007. However, the Company has adopted a policy whereby amounts related to interest and penalties associated with tax matters are classified as general and administrative expense when incurred.

The Company has incurred net operating losses. The Company continues to maintain a valuation allowance for the full amount of the net deferred tax asset balance associated with its net operating losses as sufficient uncertainty exists regarding its ability to realize such tax assets in the future. There was \$58,000 of unrecognized tax benefits as of January 1, or March 31, 2007. The Company expects the amount of the net deferred tax asset balance and full valuation allowance to increase in future periods as if incurs future net operating losses.

Tax years that remain open for examination include 2003, 2004, 2005, and 2006 in the United States of America. In addition, tax years from 1999 to 2002 may be subject to examination in the event that the Company utilizes the NOL's from those years in its current or future year tax return.

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Recent Accounting Pronouncements

In February 2007, the FASB issued Statement 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to elect to measure certain financial instruments and other items at fair value through earnings. The fair value option may be applied on an instrument by instrument basis, is irrevocable and is applied only to entire instruments. SFAS 159 requires additional financial statement presentation and disclosure requirements for those entities that elect to adopt the standard and is effective for fiscal years beginning after November 15, 2007. We have not yet evaluated the impact of the adoption of SFAS 159.

NOTE 2 - RECLASSIFICATIONS

Certain prior period balances may have been reclassified to conform to the presentation used in the current period.

NOTE 3 - INVENTORIES

Inventories consisted of the following components (in thousands):

| | Mar. 31, 2007 | Dec. 31, 2006 |
|-----------------|------------------|------------------|
| | | |
| Raw material | \$2,857 | \$2,990 |
| Work-in-process | 1,266 | 1,048 |
| Finished goods | 1,147 | 1,014 |
| | | |
| Inventories | \$5,270 | \$5,052 |

NOTE 4 PROPERTY AND EQUIPMENT, NET

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

| | Mar. 31, 2007 | Dec. 31, 2006 |
|------------------------|------------------|------------------|
| | | |
| Leasehold improvements | \$431 | \$431 |
| Equipment | 9,246 | 8,941 |
| | | |

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| | | |
|-------------------------------|----------------|----------------|
| Less accumulated depreciation | 9,677 6,785 | 9,372 6,520 |
| Property and equipment - net | <u>\$2,892</u> | <u>\$2,852</u> |

NOTE 5 BUSINESS RESTRUCTURING PROGRESS

During the second half of 2006, as part of our additional effort to reduce expenses, we incurred restructuring charges of approximately \$152,000 in the third quarter of 2006 and \$39,000 in the fourth quarter of 2006. The restructuring charges are primarily related to severance charges incurred at our Redmond, Germany, and China offices. In view of our declining margins and operating results during the first and second quarters of 2006, actions were taken to reduce expenses and improve margins.

We continued our restructuring activities during the first quarter of 2007 to further improve our operating results and to improve the effectiveness of our sales and marketing organization and sales channels. We recorded restructuring charges of approximately \$201,000 primarily related to severance charges incurred at our Redmond, China, and Germany offices. The full amount was accrued at March 31, 2007 and is expected to be paid out in 2007.

NOTE 6 OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components (in thousands):

| | Mar. 31, 2007 | Dec. 31, 2006 |
|----------------------------|------------------|------------------|
| Product warranty liability | \$468 | \$467 |
| Sales return reserve | 135 | 135 |
| Accrued rent | 199 | 202 |
| Other taxes | 168 | 158 |
| Other | 330 | 232 |
| Other accrued liabilities | <u>\$1,300</u> | <u>\$1,194</u> |

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

| | Mar. 31, 2007 |
|------------------------------|------------------|
| Liability, beginning balance | \$467 |
| Net expenses | 193 |
| Warranty claims | (193) |
| Accrual revisions | 1 |
| Liability, ending balance | <u>\$468</u> |

NOTE 7 LONG-TERM DEBT

In 2006, the Company entered into a five year capital lease agreement in the amount of \$591,145. The lease was used to fund new equipment and installation associated with our move to the new facility in 2006. The interest rate is 7.69%.

Scheduled maturities of the capital lease obligation for the years ending December 31 are as follows (in thousands):

| | |
|------|-------|
| 2007 | \$106 |
| 2008 | 140 |

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| | |
|---|-------|
| 2009 | 140 |
| 2010 | 140 |
| 2011 | 106 |
| Thereafter | - |
| | <hr/> |
| Total minimum lease payments | 632 |
| Less: Amount representing interest | (99) |
| | <hr/> |
| Present value of capital lease obligation | 533 |
| Current portion long-term debt | (113) |
| | <hr/> |
| Non-current portion long-term debt | \$420 |
| | <hr/> |

NOTE 8 EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during each period. Diluted earnings per shares 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 antidilutive.

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The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

| | For the first quarter | |
|--|-----------------------|----------|
| | 2007 | 2006 |
| Numerator for basic and diluted earnings per share: | | |
| Net income (loss) | (\$785) | (\$512) |
| Denominator: | | |
| Denominator for basic earnings per share - weighted-average shares | 8,491 | 8,386 |
| Employee stock options | - | - |
| Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions of stock options | 8,491 | 8,386 |
| Basic and diluted earnings (loss) per share | (\$0.09) | (\$0.06) |
| Total basic and diluted earnings (loss) per share | (\$0.09) | (\$0.06) |

The computation for the three months ended March 31, 2007 and March 31, 2006 excludes 1,025,960 and 1,111,738 options, respectively, to purchase common stock as the effect of their inclusion was antidilutive.

NOTE 9 COMPREHENSIVE INCOME (LOSS)

During the first quarter of 2007 and 2006 total comprehensive income (loss) was comprised of the following (in thousands):

| | For the first quarter | |
|--|-----------------------|---------|
| | 2007 | 2006 |
| Net income (loss) | (\$785) | (\$512) |
| Foreign currency translation loss | 24 | 131 |
| Unrealized gain on marketable securities | - | - |
| Total comprehensive income (loss) | (\$761) | (\$381) |

NOTE 10 FOREIGN CURRENCY TRANSLATION AND DERIVATIVES

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Data I/O translates assets and liabilities of foreign subsidiaries at the exchange rate on the balance sheet date. We translate revenues, costs and expenses of foreign subsidiaries at average rates of exchange prevailing during the year. We charge or credit translation adjustments resulting from this process to other comprehensive income (a component of stockholders' equity), net of taxes. Realized and unrealized gains and losses resulting from the effects of changes in exchange rates on assets and liabilities denominated in foreign currencies are included in non-operating expense as foreign currency transaction gains and losses.

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

Data I/O utilizes forward foreign exchange contracts to reduce the impact of foreign currency exchange rate risks where natural hedging strategies cannot be effectively employed. All hedging instruments held by us are fair value hedges. Generally, these contracts have maturities less than one year and require us to exchange foreign currencies for U.S. dollars at maturity. At March 31, 2007, we had a notional value of approximately \$1,254,000 in six foreign exchange contracts outstanding. We recorded the estimated loss in fair value as a non-operating expense and a liability of approximately \$10,000. The rates range from 1.3198 to 1.3347, all scheduled to be due within the next quarter and the value at that date of \$1,255,000.

Data I/O does not hold or issue derivative financial instruments for trading purposes. The purpose of our hedging activities is to reduce the risk that the valuation of the underlying assets, liabilities and firm commitments will be adversely affected by changes in exchange rates. Our derivative activities do not create foreign currency exchange rate risk because fluctuations in the value of the instruments used for hedging purposes are offset by fluctuations in the value of the underlying exposures being hedged.

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 level of expense; future results of operations or financial position; changes in gross margin; integration of acquired products and operations; market acceptance of our newly introduced or upgraded products; 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, 2006 describe some, but not all, of the factors that could cause these differences.

OVERVIEW

Our primary goal is to manage the business to achieve profitable operations, while developing and enhancing products to drive revenue and earnings growth. Our challenge continues to be operating in a cyclical and challenging industry environment, while positioning Data I/O to take advantage of any growth in capital spending. We saw a downturn in capital spending during the first quarter of 2007, but expect to see a recovery in capital spending during the remaining quarters of 2007. We anticipate that demand for programming capacity may improve in 2007, in part based on third party forecasted increased 2007 unit sales for the semiconductor industry, and the business outlook for target customer segments, which should provide improved business opportunities for Data I/O.

Following our losses during the first two quarters of 2006, we launched an initiative to lower the quarterly revenue breakeven point to below \$7 million, as it had increased to a calculated \$7.6 million during the second quarter of 2006. This higher breakeven point was due especially to the lower gross margins, as well as the higher development and other operating expenses we experienced during the first half of 2006. During the third quarter of 2006, we successfully reduced the breakeven point to below our goal of \$7 million through a combination of margin improvements and expense reductions. During the first quarter of 2007, we have taken additional expense reduction actions that we expect to lower our quarterly revenue breakeven point to below \$6.2 million for the second quarter of 2007.

We are continuing our efforts to balance increasing costs and strategic investments in our business with the level of demand and mix of business we expect. We are focusing our research and development efforts in our strategic growth markets, namely new programming technology, and automated programming systems for the manufacturing environment, particularly the new FLX500 desktop automated programming system, and extending the capabilities and support for our FlashCORE architecture and the ProLINE-RoadRunner and PS families. We have also introduced our new applications innovation strategy. This strategy provides complete solutions to target customer's business problems. These solutions will require more than what we have considered as products in the past. These solutions will have a larger software element, may involve third-party components, and in many cases, will be developed to address a specific customer's requirements. We believe by adding these features to our strategic product platforms, we will be able to set ourselves apart from other product suppliers and elevate our relationships with our customers to a partner level.

Our customer focus has been on strategic high volume manufacturers in key market segments like wireless, automotive, industrial controls and programming centers and supporting NAND Flash and microcontrollers on our newer products to gain new accounts and to break into new markets, such as microcontrollers for the automotive market. We expanded our China operations during 2006 to take advantage of the growth of manufacturing in China. We continue to address the effectiveness of our sales and marketing organization and sales channels. With the sales decline we experienced in China, we recognized the need to diversify our customer base there and are taking steps to broaden our channels of distribution in China to reach a greater number of customers. This decision, made at the end of last quarter, includes the elimination of some direct selling expenses and the use of agents that have established relationships with the desired customers. We believe these actions will help us more rapidly grow our business in China and convert some of our

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fixed selling expenses to variable expenses in the second quarter and beyond. During the first quarter of 2007, we repositioned and made changes that are expected to result in more effectively supporting our customer centric application strategy for targeted segments. We continue our efforts to partner with the semiconductor manufacturers to better serve our mutual customers and members of the Preferred Partnership Program. The Preferred Partnership Program formalizes our mutual support relationship and is designed to increase collaboration between the semi conductor vendor and Data I/O to better serve customers.

BUSINESS RESTRUCTURING PROGRESS

During the second half of 2006, as part of our additional effort to reduce expenses, we incurred restructuring charges of approximately \$152,000 in the third quarter of 2006 and \$39,000 in the fourth quarter of 2006. The restructuring charges are primarily related to severance charges incurred at our Redmond, Germany and China offices. In view of our declining margins and operating results during the first and second quarters of 2006, actions were taken to reduce expenses and improve margins.

We continued our restructuring activities during the first quarter of 2007 to further improve our operating results and to improve the effectiveness of our sales and marketing organization and sales channels. We recorded restructuring charges of approximately \$201,000 primarily related to severance charges incurred at our Redmond, China, and Germany offices. The full amount was accrued at March 31, 2007 and is expected to be paid out in 2007.

CRITICAL ACCOUNTING POLICY JUDGMENTS AND ESTIMATES

The Company's critical accounting policies are disclosed in the Company's Form 10-K for the year ended December 31, 2006 and have not materially changed as of March 31, 2007.

Results of Operations

NET SALES

(in thousands)

| | First Quarter | | |
|-----------------------------------|---------------|----------|---------|
| | 2007 | % Change | 2006 |
| Net sales by product line | | | |
| Automated programming systems | \$3,455 | (4.7%) | \$3,626 |
| Non-automated programming systems | 2,573 | (7.7%) | 2,787 |
| | <hr/> | | |
| Total programming systems | \$6,028 | (6.0%) | \$6,413 |
| | <hr/> | | |
| | First Quarter | | |
| | 2007 | % Change | 2006 |
| Net sales by location | | | |
| United States | \$1,340 | (26.1%) | \$1,814 |

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| | | | |
|---------------|---------|------|---------|
| % of total | 22.2% | | 28.3% |
| International | \$4,688 | 1.9% | \$4,599 |
| % of total | 77.8% | | 71.7% |

The revenue decrease for the first quarter of 2007 compared to the first quarter of 2006 relates primarily to lower sales of our PS automated programming systems and to our non-automated programmer products, particularly in our FlashPAK programmers in Asia and especially in China. We also experienced a further decrease in our programming services in Brazil and during the quarter we ceased providing services for BenQ and our other customer there. Orders booked during the first quarter of 2007 were \$5.8 million, an 18% decrease over the \$7.1 million for the first quarter of 2006. The decrease in orders booked results from a decline in Asian orders reflecting both seasonal factors, as well as a weakness in capital equipment spending as also reported by other electronic companies. We believe, however, that the order trend for the second quarter of 2007 is expected to improve. We believe that many of the potential orders that had been expected in the first quarter were delayed and not lost. The backlog of orders during the first quarter of 2007 decreased from \$2.2 million at December 31, 2006 to \$1.7 million at March 31, 2007. This ending backlog, however, excludes a

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\$260,000 increase in deferred revenue resulting from increased sales of service and support contracts which will be recognized ratably over future periods.

Sales in the United States decreased by approximately 26% due primarily to lower sales of our PS automated programming systems. International sales increased approximately 1.9%, with European sales increasing 21% and strong sales in Mexico, offset by a 23% decrease in Asia. With the sales decline we experienced in China, we recognized the need to diversify our customer base there and are taking steps to broaden our channels of distribution in China to reach a greater number of customers. This decision, made at the end of last quarter, includes the elimination of some direct selling expenses and the use of agents that have established relationships with the desired customers and we believe will help us more rapidly grow our business in China. These actions will also convert some of our fixed selling expenses to variable expenses in the second quarter and beyond.

During the first quarter our development team delivered many additional FLX500 features and enhancements, as well as sales tools to help our sales force grow their business. We expect our new products to increase our revenues; however, partially offsetting this expected increase is the continued trend of declining sales of our older non-automated product lines.

GROSS MARGIN

| (in thousands) | First Quarter | |
|-------------------------|---------------|---------|
| | 2007 | 2006 |
| Gross Margin | \$3,320 | \$3,410 |
| Percentage of net sales | 55.1% | 53.2% |

Gross margins decreased in dollars, but increased as a percentage of sales compared to the first quarter of 2006. The overall gross margin decrease in dollars was due to the lower sales volume of approximately \$340,000 especially related to PS System sales, while the overall gross margin percentage increase relates to the increases in average selling price as well as channel mix of approximately \$209,000. In addition, the first quarter of 2007 had more favorable manufacturing labor and overhead variances of \$182,000 compared to the first quarter of 2006, offset by \$164,000 of other less favorable or negative operations variances.

RESEARCH AND DEVELOPMENT

| (in thousands) | First Quarter | |
|--------------------------|---------------|---------|
| | 2007 | 2006 |
| Research and development | \$1,370 | \$1,306 |
| Percentage of net sales | 22.7% | 20.4% |

Research and development (R&D) spending for the first quarter 2007 compared to the first quarter 2006 increased in both dollars and as a percentage of sales due to higher R&D material costs and on a percentage basis due to the reduced sales level. We expect that the spending in R&D should moderate as a percentage of sales with expected increases in revenues as the development of new platforms, such as the FLX500, are completed and the engineering focus moves from significant platform development to product and application enhancements and extensions.

SELLING, GENERAL AND ADMINISTRATIVE

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| (in thousands) | First Quarter | |
|-----------------------------------|---------------|---------|
| | 2007 | 2006 |
| Selling, general & administrative | \$2,538 | \$2,639 |
| Percentage of net sales | 42.1% | 41.2% |

Selling, general and administrative (SG&A) expenses decreased \$101,000 for the first quarter of 2007 due primarily to a decrease in net personnel costs of approximately \$130,000 related to the 2006 restructure, lower overall costs in China of \$83,000, and lower facility costs of approximately \$63,000 in connection with the move to a smaller facility in July 2006. These decreases were offset by

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an increase of approximately \$138,000 during the first quarter of 2007 related to the audit fee expensing change from accruing ratably over the year to expensing in the quarter of audit work occurrence.

INTEREST

| (in thousands) | First Quarter 2007 | 2006 |
|------------------|-----------------------|------|
| Interest income | \$22 | \$43 |
| Interest expense | (\$10) | \$ - |

Interest income decreased in the first quarter of 2007 compared to the same period in 2006 due the lower marketable security balance during the first two months of the quarter. Interest expense relates to the equipment capital lease associated with our facility move in the third quarter of 2006.

INCOME TAXES

| (in thousands) | First Quarter 2007 | 2006 |
|------------------------------|-----------------------|------|
| Income tax expense (benefit) | \$6 | \$29 |

The tax expense for the first quarter of 2007 was due to state and foreign taxes. The tax effective rate differed from the statutory tax rate primarily due to the effect of valuation allowances and state taxes. Data I/O has a valuation allowance of \$9,513,253 as of March 31, 2007. The beginning balances of our deferred tax assets and valuation allowance were reduced by \$58,000 associated with the adoption of FIN 48 accounting for uncertain tax positions.

Financial Condition

LIQUIDITY AND CAPITAL RESOURCES

| (in thousands) | Mar. 31, 2007 | Change | Dec. 31, 2006 |
|-----------------|------------------|---------|------------------|
| Working capital | \$10,077 | (\$678) | \$10,755 |

At March 31, 2007, Data I/O's principal sources of liquidity consisted of existing cash and cash equivalents. Our working capital decreased by \$678,000 and our current ratio decreased from 2.9 at December 31, 2006 to 2.7 at March 31, 2007.

Our cash and cash equivalents increased by approximately \$913,000 during the first quarter of 2007 primarily due to the cash received in operating activities totaling approximately \$1.2 million. Cash provided by for operations primarily included a \$1.6 million decrease in accounts

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receivable. At quarter end, accounts receivable had two international distributors with significant past due balances. One has paid subsequent to quarter end and the second we continue to address issues related to the balance due.

We used approximately \$303,000 of cash in investing activities during the first quarter of 2007, representing purchases of property, plant and equipment and, in particular, demonstration equipment. We expect that we will continue to make capital expenditures to support our business and we anticipate that present working capital will be sufficient to meet our operating requirements throughout at least the next one year period. 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 geographic regions, while investing in other regions, and to lower the level of revenue required for our net income breakeven point, 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. 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.

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LONG-TERM DEBT

| (in thousands) | Mar. 31, 2007 | Change | Dec. 31, 2006 |
|----------------|------------------|--------|------------------|
| Long-term debt | \$420 | (\$26) | \$446 |

During the third quarter of 2006, the Company entered into a five year capital lease agreement in the amount of \$591,145. The lease was used to fund new equipment and installation associated with our move to the new facility in July of 2006. See Note 7, Long-Term Debt.

Aggregate Contractual Obligations and 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. Any amounts reflected on the balance sheet as accounts payable and accrued liabilities are excluded from the below table. 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 quarter ending March 31, 2007 (in thousands):

| | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | Total |
|----------------------------|---------------------|----------------|--------------|----------------------|----------------|
| Operating leases | \$1,129 | \$1,932 | \$979 | - | \$4,040 |
| Commitments to suppliers | 1,415 | - | - | - | 1,415 |
| Other purchase commitments | 90 | - | - | - | 90 |
| Total | \$2,634 | \$1,932 | \$979 | \$ - | \$5,545 |

OFF-BALANCE SHEET ARRANGEMENTS

Except as noted above in aggregate contractual obligations and commitments, Data I/O had no off-balance sheet arrangements.

RECENT ACCOUNTING PRONOUNCEMENTS

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In February 2007, the FASB issued Statement 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to elect to measure certain financial instruments and other items at fair value through earnings. The fair value option may be applied on an instrument by instrument basis, is irrevocable and is applied only to entire instruments. SFAS 159 requires additional financial statement presentation and disclosure requirements for those entities that elect to adopt the standard and is effective for fiscal years beginning after November 15, 2007. We have not yet evaluated the impact of the adoption of SFAS 159.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks, including fluctuations in foreign exchange rates and interest rates.

INTEREST RATE RISK

We invest our cash in a variety of short-term financial instruments, including government bonds, commercial paper and money market instruments, which are classified as available-for-sale. Our investments are made in accordance with an investment policy approved by our board of directors. Our portfolio is diversified and consists primarily of investment grade securities to minimize credit risk. Cash balances in foreign currencies are operating balances and are invested in demand or short-term deposits of the local operating bank.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted because of a rise in interest rates, while floating rate securities may produce less

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income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations because of changes in interest rates or we may suffer losses in principal if forced to sell securities that have seen a decline in market value because of changes in interest rates. We do not attempt to reduce or eliminate our exposure to interest rate risk through the use of derivative financial instruments due to the short-term nature of the investments.

At March 31, 2007, we have no marketable securities.

FOREIGN CURRENCY RISK

We have operations in Germany, Canada, China, and Brazil. Therefore, we are subject to risks typical of an international business including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility. Accordingly, our future results could be materially adversely affected by changes in these or other factors.

Our sales and corresponding receivables are substantially in U.S. dollars other than sales made in our subsidiaries in Germany, Canada, and China. Through our operations in Germany, Canada, China, and Brazil, we incur certain product costs; research and development; customer service and support costs; selling, general and administrative expenses in local currencies. We are exposed, in the normal course of business, to foreign currency risks on these expenditures and on related foreign currency denominated monetary assets and liabilities. We have evaluated our exposure to these risks and believe that our only significant exposure to foreign currencies at the present time is primarily related to Euro-based receivables. We use forward contracts to hedge and thereby minimize the currency risks associated with certain transactions denominated in Euros.

If our actual currency requirement or timing in the period forecasted differs materially from the notional amount of our forward contracts and/or the natural balancing of receivables and payables in foreign currencies during a period of currency volatility or if we do not continue to manage our exposure to foreign currency through forward contracts or other means, we could experience unanticipated foreign currency gains or losses. In addition, our foreign currency risk management policy subjects us to risks relating to the creditworthiness of the commercial banks with which we enter into forward contracts. If one of these banks cannot honor its obligations, we may suffer a loss. We also invest in our international operations, which will likely result in increased future operating expenses denominated in those local currencies. In the future, our exposure to foreign currency risks from these other foreign currencies may increase and if not managed appropriately, we could experience unanticipated foreign currency gains and losses.

The purpose of our foreign currency risk management policy is to reduce the effect of exchange rate fluctuation on our results of operations. Therefore, while our foreign currency risk management policy may reduce our exposure to losses resulting from unfavorable changes in currency exchange rates, it also reduces or eliminates our ability to profit from favorable changes in currency exchange rates.

At March 31, 2007, we had a notional value of approximately \$1,254,000 in six foreign exchange contracts outstanding. We recorded the estimated loss in fair value as a non-operating expense and a liability of approximately \$10,000. The rates range from 1.3198 to 1.3347, all scheduled to be due within the next quarter and the value at that date of \$1,255,000.

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

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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. 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 disclosure.

(b) 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.

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We have recently acquired and have implemented a new worldwide information system that have and will result in changes to our internal controls. Our corporate office began use of the new system in February 2006 and foreign subsidiaries began use in the third and fourth quarters of 2006. We have included process and internal control improvements as part of the implementation process and continue this as we implement additional system features.

PART II - OTHER INFORMATION

Item 1. **Legal Proceedings**

None

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, 2005, 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. **Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

None

Item 3. **Defaults Upon Senior Securities**

None

Item 4. **Submission of Matters to a Vote of Security Holders**

None

Item 5. **Other Information**

None

Item 6. **Exhibits**

(a) Exhibits

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

- (1) Amended and Restated 1982 Employee Stock Purchase Plan. See Exhibit 10.18.
 - (2) Amended and Restated Retirement Plan and Trust Agreement. See Exhibit 10.2, 10.3, 10.4, 10.8, 10.11, 10.12, and 10.13.
 - (3) Summary of Amended and Restated Management Incentive Compensation Plan. See Exhibit 10.9.
 - (4) Amended and Restated 1983 Stock Appreciation Rights Plan. See Exhibit 10.1.
 - (5) Amended and Restated 1986 Stock Option Plan. See Exhibit 10.15.
 - (6) Change in Control Agreements. See Exhibit 10.21 and 10.22.
 - (7) 1996 Director Fee Plan. See Exhibit 10.14.
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- (8) Letter Agreement with Frederick R. Hume. See Exhibit 10.16.
- (9) Amended and Restated 2000 Stock Compensation Incentive Plan. See Exhibit 10.18.
- (10) Form of Option Agreement. See Exhibit 10.20.
- (11) Data I/O Corporation Tax Deferral Retirement Plan. See Exhibit 10.19.
- (12) Form of Performance Award Agreement. See Exhibit 10.27.
- (13) Form of Restricted Stock Award Agreement. See Exhibit 10.28.

3 **Articles of Incorporation:**

- 3.1 Data I/O s restated Articles of Incorporation filed November 2, 1987 (Incorporated by reference to Exhibit 3.1 of Data I/O s 1987 Annual Report on Form 10-K (File No. 0-10394)).
- 3.2 Data I/O s Bylaws as amended and restated as of February 2006/October 2003 (Incorporated by reference to Data I/O s 2005 Annual Report on Form 10-K (File No. 0-10394)).
- 3.3 Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock (Incorporated by reference to Exhibit 1 of Data I/O s Registration Statement on Form 8-A filed March 13, 1998 (File No. 0-10394)).

4 **Instruments Defining the Rights of Security Holders, Including Indentures:**

- 4.1 Rights Agreement, dated as of April 4, 1998, between Data I/O Corporation and ChaseMellon Shareholder Services, L.L.C. as Rights Agent, which includes: as Exhibit A thereto, the Form of Right Certificate; and, as Exhibit B thereto, the Summary of Rights to Purchase Series A Junior Participating Preferred Stock (Incorporated by reference to Data I/O s Current Report on Form 8-K filed on March 13, 1998).
- 4.2 Rights Agreement, dated as of March 31, 1988, between Data I/O Corporation and First Jersey National Bank, as Rights Agent, as amended by Amendment No. 1 thereto, dated as of May 28, 1992 and Amendment No. 2 thereto, dated as of July 16, 1997 (Incorporated by reference to Data I/O s Report on Form 8-K filed on March 13, 1998).
- 4.3 Amendment No. 1, dated as of February 10, 1999, to Rights Agreement, dated as of April 4, 1998, between Data I/O Corporation and ChaseMellon Shareholder Services, L.L.C. as Rights Agent (Incorporated by reference to Exhibit 4.1 of Data I/O s Form 8-A/A dated February 10, 1999).

10 **Material Contracts:**

- 10.1 Amended and Restated 1983 Stock Appreciation Rights Plan dated February 3, 1993 (Incorporated by reference to Exhibit 10.23 of Data I/O s 1992 Annual Report on Form 10-K (File No. 0-10394)).

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- 10.2 Amended and Restated Retirement Plan and Trust Agreement (Incorporated by reference to Exhibit 10.26 of Data I/O s 1993 Annual Report on Form 10-K (File No. 0-10394)).

 - 10.3 First Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.21 of Data I/O s 1994 Annual Report on Form 10-K (File No. 0-10394)).
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- 10.4 Second Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.26 of Data I/O s 1995 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.5 Purchase and Sale Agreement dated as of July 9, 1996 (Relating to the sale of Data I/O Corporation s headquarters property in Redmond, Washington consisting of approximately 79 acres of land and an approximately 96,000 square foot building. (Portions of this exhibit have been omitted pursuant to an application for an order granting confidential treatment. The omitted portions have been separately filed with the Commission) (Incorporated by reference to Exhibit 10.32 of Data I/O s 1996 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.6 Letter dated as of December 20, 1996, First Amendment and extension of the Closing Date under that certain Purchase and Sale Agreement dated as of July 9, 1996 (Portions of this exhibit have been omitted pursuant to an application for an order granting confidential treatment. The omitted portions have been separately filed with the Commission) (Incorporated by reference to Exhibit 10.33 of Data I/O s 1996 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.7 Letter dated as of February 17, 1997, Second Amendment and extension of the Closing Date under that certain Purchase and Sale Agreement dated as of July 9, 1996 (Portions of this exhibit have been omitted pursuant to an application for an order granting confidential treatment. The omitted portions have been separately filed with the Commission) (Incorporated by reference to Exhibit 10.34 of Data I/O s 1996 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.8 Third Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.35 of Data I/O s 1996 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.9 Amended and Restated Management Incentive Compensation Plan dated January 1, 1997 (Incorporated by reference to Exhibit 10.25 of Data I/O s 1997 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.10 Amended and Restated Performance Bonus Plan dated January 1, 1997 (Incorporated by reference to Exhibit 10.26 of Data I/O s 1997 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.11 Fourth Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.27 of Data I/O s 1997 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.12 Fifth Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.28 of Data I/O s 1997 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.13 Sixth Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.29 of Data I/O s 1997 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.14 Amended and Restated Data I/O Corporation 1996 Director Fee Plan (Incorporated by reference to Exhibit 10.32 of Data I/O s 1997 Annual Report on Form 10-K (File No. 0-10394)).
 - 10.15 Amended and Restated 1986 Stock Option Plan dated May 12, 1998 (Incorporated by reference to Exhibit 10.37 of Data I/O s 1998 Annual Report on Form 10-K (File No. 0-10394)).
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- 10.16 Letter Agreement with Fred R. Hume dated January 29, 1999 (Incorporated by reference to Exhibit 10.35 of Data I/O s 1999 Annual Report on Form 10-K (File No. 0-10394)).
- 10.17 Amended and Restated 1982 Employee Stock Purchase Plan dated May 16, 2003 (Incorporated by reference to Data I/O s 2003 Proxy Statement dated March 31, 2003).
- 10.18 Amended and Restated 2000 Stock Compensation Incentive Plan dated May 20, 2004 (Incorporated by reference to Data I/O s 2004 Proxy Statement dated April 12, 2004).
- 10.19 Data I/O Corporation Tax Deferred Retirement Plan, as amended (Incorporated by reference to Exhibit 10.20 of Data I/O s 2004 Annual Report on Form 10-K (File No. 0-10394)).
- 10.20 Form of Option Agreement (Incorporated by reference to Exhibit 10.21 of Data I/O s 2004 Annual Report on Form 10-K (File No. 0-10394)).
- 10.21 Change in Control Agreement with Fred R. Hume dated March 22, 2007 (Incorporated by reference to Data I/O s Current Report on Form 8-K filed on March 28, 2007).
- 10.22 Change in Control Agreement with Joel S. Hatlen dated March 22, 2007 (Incorporated by reference to Data I/O s Current Report on Form 8-K filed on March 28, 2007).
- 10.23 Harald Weigelt Employment Agreement (Incorporated by reference to Exhibit 10.23 of Data I/O s 2005 Annual Report on Form 10K (File No. 0-10394)).
- 10.24 Data I/O Corporation Tax Deferral Retirement Plan, as amended (Incorporated by reference to Exhibit 10.24 of Data I/O s 2005 Annual Report on Form 10-K (File No. 0-10394)).
- 10.25 Lease Termination Agreement dated February 28, 2006 (Redmond Headquarters) (Incorporated by reference to Exhibit 10.25 of Data I/O s 2005 Annual Report on Form 10-K (File No. 0-10394)).
- 10.26 Lease, Redmond East Business Campus between Data I/O Corporation and Carr Redmond PLCC dated February 28, 2006 (Incorporated by reference to Exhibit 10.26 of Data I/O s 2005 Annual Report on Form 10-K (File No. 0-10394)).
- 10.27 Form of Performance Award Agreement (Incorporated by reference to Exhibit 10.28 of Data I/O s June 30, 2006 Quarterly Report on Form 10-Q (File No. 0-10394)).
- 10.28 Form of Restricted Stock Award Agreement (Incorporated by reference to Exhibit 10.29 of Data I/O s June 30, 2006 Quarterly Report on Form 10-Q (File No. 0-10394)).

31

Certification Section 302:

| | | |
|------|---------------------------------------|----|
| 31.1 | Chief Executive Officer Certification | 21 |
| 31.2 | Chief Financial Officer Certification | 22 |

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| | | |
|------|---------------------------------------|----|
| 32 | Certification Section 906: | |
| 32.1 | Chief Executive Officer Certification | 23 |
| 32.2 | Chief Financial Officer Certification | 24 |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: May 11, 2007

DATA I/O CORPORATION
(REGISTRANT)

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
President
Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)

Exhibit 31.1

Section 302 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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this 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.

Date May 11, 2007

/s/ FREDERICK R. HUME

Frederick R. Hume

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President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

Section 302 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this 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.

Date May 11, 2007

/s/ JOEL S. HATLEN

Joel S. Hatlen

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Vice President and Chief Financial Officer

(Principal Financial Officer)

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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 March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Frederick R. Hume, Chief Executive Officer of the Company, certify, that pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Frederick R. Hume

Frederick R. Hume

Chief Executive Officer

(Principal Executive Officer)

May 11, 2007

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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 March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Joel S. Hatlen, Chief Financial Officer of the Company, certify, that pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Joel S. Hatlen

Joel S. Hatlen

Chief Financial Officer

(Principal Financial Officer)

May 11, 2007