DATA I/O CORP
Form 10-Q
August 10, 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 **June 30, 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	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 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 X

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

8,611,731 shares of no par value of the Registrant's Common Stock were issued and outstanding as of August 7, 2007.

DATA I/O CORPORATION

FORM 10-Q

For the Quarter Ended June 30, 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)	June 30, 2007 (unaudited)	Dec. 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2,904	$2,478
Trade accounts receivable, less allowance for doubtful accounts of $145 and $199	6,284	8,496
Inventories	5,601	5,052
Other current assets	318	491
TOTAL CURRENT ASSETS	15,107	16,517
Property and equipment - net	2,542	2,852
Other assets	114	122
TOTAL ASSETS	$17,763	$19,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$1,132	$1,673
Accrued compensation	980	1,210
Deferred revenue	1,699	1,564
Other accrued liabilities	1,135	1,194
Accrued costs of business restructuring	409	2
Income taxes payable	3	7
Notes payable	115	112
TOTAL CURRENT LIABILITIES	5,473	5,762
Long-term debt	393	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, 8,606,849		
and 8,481,563 shares	20,431	20,053
Accumulated deficit	(9,125)	(7,261)
Accumulated other comprehensive income	591	491
TOTAL STOCKHOLDERS' EQUITY	11,897	13,283
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$17,763	$19,491

See accompanying notes to consolidated financial statements.

DATA I/O CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share data)	**Three Months Ended** June 30, 2007	June 30, 2006	**Six Months Ended** June 30, 2007	June 30, 2006
Net sales	$5,778	$7,163	$11,806	$13,575
Cost of goods sold	2,940	3,420	5,648	6,421
Gross margin	2,838	3,743	6,158	7,154
Operating expenses:				
Research and development	1,286	1,513	2,657	2,819
Selling, general and administrative	2,027	2,626	4,565	5,266
Net provision for business restructure	632	-	832	-
Total operating expenses	3,945	4,139	8,054	8,085
Operating income (loss)	(1,107)	(396)	(1,896)	(931)
Non-operating income (expense):				
Interest income	30	37	52	80
Interest expense	(10)	-	(20)	-
Gain on sale	-	-	-	6
Foreign currency exchange	11	(13)	9	(9)
Total non-operating income (expense)	31	24	41	77
Income (loss) before income taxes	(1,076)	(372)	(1,855)	(854)
Income tax expense	3	26	9	55
Net income (loss)	($1,079)	($398)	($1,864)	($909)
Basic and diluted earnings (loss) per share	($0.13)	($0.05)	($0.22)	($0.11)
Weighted average shares outstanding - basic	8,562	8,415	8,527	8,401
Weighted average and potential shares outstanding - diluted	8,562	8,415	8,527	8,401

See accompanying notes to consolidated financial statements.

DATA I/O CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

For the six months ended (in thousands)	June 30, 2007	June 30, 2006
OPERATING ACTIVITIES:		
Net income (loss)	($1,864)	($909)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	513	549
Write-off of assets	7	14
Gain on sale of fixed asset	-	(6)
Equipment transferred to cost of goods sold	234	155
Amortization of deferred gain on sale	-	(194)
Share-based compensation	153	195
Net change in:		
Deferred revenue	154	(36)
Trade accounts receivable	2,280	668
Inventories	(519)	(1,240)
Other current assets	178	(219)
Accrued costs of business restructuring	407	(20)
Accounts payable and accrued liabilities	(812)	350
Security deposits	1	(45)
Net cash provided by (used in) operating activities	732	(738)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(311)	(640)
Acquisition of intangibles	-	(25)
Proceeds from sales of marketable securities	-	804
Net cash provided by (used in) investing activities	(311)	139
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	225	120
Payment of capital lease obligation	(50)	-
Net cash provided by (used in) financing activities	175	120
Increase/(decrease) in cash and cash equivalents	596	(479)
Effects of exchange rate changes on cash	(170)	(223)
Cash and cash equivalents at beginning of year	2,478	4,362
Cash and cash equivalents at end of quarter	$2,904	$3,660

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 June 30, 2007 and 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, 2005 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 six months ended June 30, 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.

Stock-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 Bulleting 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.

Income Tax

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 it 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.

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):

	June 30, 2007	December 31, 2006
Raw material	$3,158	$2,990
Work-in-process	1,425	1,048
Finished goods	1,018	1,014
Inventories	$5,601	$5,052

NOTE 4 PROPERTY AND EQUIPMENT, NET

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

	June 30, 2007	December 31, 2006
Leasehold improvements	$421	$431
Equipment	9,143	8,941
	9,564	9,372
Less accumulated depreciation	7,022	6,520
Property and equipment - net	$2,542	$2,852

NOTE 5 BUSINESS RESTRUCTURING

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 in view of the declining revenues and gross margins during the first and second quarters of 2007, to further improve our operating results and to improve the effectiveness of our sales and marketing organization and sales channels. During the first quarter of 2007, we recorded restructuring charges of approximately $200,000 primarily related to severance charges. During the second quarter of 2007, we recorded an additional $632,000 of restructuring charges. These actions included reengineering some internal processes, integration of some activities, transferring some activities to our lower cost base of operations in China, reducing resources applied to declining legacy products, moving some engineering positions to production, reducing the number of taxable entities, outsourcing some functions such as payroll, combining some positions, eliminating some functions, and shifting some responsibilities and resources to our channels. These actions took place during the middle of the quarter and we expect the third and fourth quarter to further reflect these actions, reducing our operating expenses to approximately the $3 million level, subject to certain variable and seasonal expenses. At June 30, 2007, $409,000 is accrued and is expected to be paid out during the second half of 2007.

NOTE 6 OTHER ACCRUED LIABILITIES

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

	June 30, 2007	December 31, 2006
Product warranty liability	$449	$467
Sales return reserve	135	135
Accrued rent	197	202
Other taxes	39	158
Other	315	232
Other accrued liabilities	$1,135	$1,194

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

	June 30, 2007
Liability, beginning balance	$467
Net expenses	417
Warranty claims	(417)
Accrual revisions	(18)
Liability, ending balance	$449

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	$70
2008	140
2009	140
2010	140
2011	106
Thereafter	-

Total minimum lease payments	596
Less: Amount representing interest	(88)
Present value of capital lease obligation	508
Current portion long-term debt	(115)
Non-current portion long-term debt	$393

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 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 antidilutive.

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

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Numerator for basic and diluted earnings per share:				
Net income (loss)	($1,079)	($398)	($1,864)	($909)
Denominator:				
Denominator for basic earnings per share - weighted-average shares	8,562	8,415	8,527	8,401
Employee stock options	-	-	-	-
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions of stock options	8,562	8,415	8,527	8,401
Basic and diluted earnings (loss) per share				
Total basic and diluted earnings (loss) per share	($0.13)	($0.05)	($0.22)	($0.11)

The computation for the three months ended June 30, 2007 and June 30, 2006 excludes 1,056,855 and 1,171,824 options, respectively, to purchase common stock as the effect of their inclusion was anitdilutive.

NOTE 9 SHARE-BASED COMPENSATION

The impact on our results of operations of recording share-based compensation for the three and six month period ended June 30, 2007 and June 30, 2006 are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Cost of goods sold	$3	$6	$8	$13
Research and development	8	21	20	44
Selling, general and administrative	59	66	125	138
Total share-based compensation	$70	$93	$153	$195
Impact on net income (loss) per share: Basic and diluted	($0.01)	($0.01)	($0.02)	($0.02)

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 six months ended June 30, 2007 and 2006:

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
Risk-free interest rates	4.97%	4.92%	4.96%	4.92%
Volatility factors	.59	.65	.59	.65
Expected life of the option in years	4.66	4.77	4.66	4.77
Expected dividend yield	None	None	None	None

NOTE 10 COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Net income (loss)	($1,079)	($398)	($1,864)	($909)
Foreign currency translation loss	76	80	100	211
Total comprehensive income (loss)	($1,003)	($318)	($1,764)	($698)

NOTE 11 FOREIGN CURRENCY TRANSLATION AND DERIVATIVES

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 our 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 June 30, 2007, we had a notional value of approximately $712,327 in three foreign exchange contracts outstanding. We recorded the estimated loss in fair value as a non-operating expense and a liability of approximately $3,000. The rates range from 1.3471 to 1.3478, all scheduled to be due within the next quarter and the value at that date of $713,053.

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 revenues; expected level of expense; future results of operations, restructuring implications; breakeven point, 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 seasonal, 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 six months of 2007, but expect to see a recovery in capital spending during the second half of 2007. We anticipate that demand for programming capacity may improve in 2007, in part based on third party forecasts of 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 during the third quarter of 2006 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. During the first six months of 2007, as we experienced declining revenues and gross margins, we decided to take additional expense reductions to lower our expected quarterly revenue breakeven point to below $5.3 million when fully implemented this year.

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 expand beyond 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 continue to address the effectiveness of our sales and marketing organization and sales channels. With the sales decline we experienced in the first half of 2007 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 the first quarter, includes the elimination of some direct selling expenses and the use of agents that have established relationships with the desired customers. We believe this decision should help us more rapidly grow our business in China and convert some of our fixed selling expenses to variable in the second half of 2007. 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 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

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 in view of the declining revenues and gross margins during the first and second quarters of 2007, to further improve our operating results and our effectiveness of the sales and marketing organization and sales channels. During the first quarter of 2007, we recorded restructuring charges of approximately $200,000 primarily related to severance charges. During the second quarter of 2007, we recorded an additional $632,000 of restructuring charges. These actions included reengineering some internal processes, integration of some activities, transferring some activities to our lower cost base of operations in China, reducing resources applied to declining legacy products, moving some engineering positions to production, reducing the number of taxable entities, outsourcing some functions such as payroll, combining some p ositions, eliminating some functions, and shifting some responsibilities and resources to our channels. These actions took place during the middle of the quarter and we expect the third and fourth quarter to further reflect these actions reducing our operating expenses to approximately the $3 million level, subject to certain variable and seasonal expenses. At June 30, 2007, $409,000 is accrued and is expected to be paid out during the second half of 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 June 30, 2007.

Results of Operations

NET SALES

Net sales by product line	Three Months Ended June 30, 2007	% Change	June 30, 2006	Six Months Ended June 30, 2007	% Change	June 30, 2006
Automated programming systems	$3,408	(17.1%)	$4,111	$6,863	(11.3%)	$7,737
Non-automated programming systems	2,370	(22.3%)	3,052	4,943	(15.3%)	5,838
Total programming systems	$5,778	(19.3%)	$7,163	$11,806	(13.0%)	$13,575

Net sales by location	Three Months Ended June 30, 2007	% Change	June 30, 2006	Six Months Ended June 30, 2007	% Change	June 30, 2006
United States	$1,242	(23.8%)	$1,629	$2,582	(25.0%)	$3,443
% of total	21.5%		22.7%	21.9%		25.4%
International	$4,536	(18.0%)	$5,534	$9,224	(9.0%)	$10,132
% of total	78.5%		77.3%	78.1%		74.6%

The revenue decrease for the second quarter of 2007 compared to the second quarter of 2006 relates primarily to lower sales in substantially all areas including PS Series, ProLINE-RoadRunner, and FlashPAK products, offset by new sales of the FLX500. Our programming services in Brazil were responsible for part of the revenue decline, as we have ceased providing services for BenQ and our other customer there. Orders booked during the second quarter of 2007 were $6.2 million, a 15% decrease over the $7.3 million booked during the second quarter of 2006. The decrease in orders booked results from a decline in Asia including China and Americas orders reflecting both seasonal factors, as well as a weakness in capital equipment spending as also reported by other electronic companies. We increased our backlog of orders during the second quarter of 2007 to $2.4 million.

Sales in the United States decreased approximately 24%, reflecting what we believe to be a general pattern of decreased capital spending. International sales decreased by 18% including a 52% decline in Asia, offset in part by a 20% increase in Europe. The continued Asia sales decline, especially in China, caused us to recognize 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 the first quarter, includes the elimination of some direct selling expenses and the use of agents that have established relationships with the desired customers. We believe this decision should help us more rapidly grow our business in China. These actions will also convert some of our formerly fixed selling expenses to variable expenses in the second half of 2007.

During the first half of 2007, our development team delivered many additional FLX500 features and enhancements, as well as sales tools to help our sales force grow our 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.

For the first six months of 2007 compared to the same period of 2006, sales decreased by 13% in all areas except for an increase in FLX500 sales. Sales in Asia and the Americas decreased by 39% and 13%, respectively, while sales in Europe increased 21%. We experienced a significant decline in China sales for the first half of 2007 which was especially related to the wireless industry.

GROSS MARGIN

(in thousands)	Three Months Ended June 30, 2007	June 30, 2006	Six Months Ended June 30, 2007	June 30, 2006
Gross Margin	$2,838	$3,743	$6,158	$7,154
Percentage of net sales	49.1%	52.3%	52.2%	52.7%

Gross margins during the second quarter of 2007 decreased in both dollars and as a percentage of sales compared to the second quarter of 2006. The overall gross margin decrease in dollars and as a percentage of sales was due to the lower sales volume of approximately $1.2 million especially related to the PS system sales, offset by an increase in average selling price and channel mix of approximately $420,000. In addition, the second quarter of 2007 had $167,000 of other less favorable or negative operations variances compared to the second quarter of 2006, offset by restructure related savings.

For the first six months of 2007 compared to the same period of 2006, the lower gross margin dollars and gross margin as a percentage of sales are due to the same factors as those described for the second quarter of 2007. For the first six months of 2007 there were $330,000 of less favorable or negative operations variances and $413,000 of favorable labor and overhead spending.

RESEARCH AND DEVELOPMENT

(in thousands)	Three Months Ended June 30, 2007	June 30, 2006	Six Months Ended June 30, 2007	June 30, 2006
Research and development	$1,286	$1,513	$2,657	$2,819
Percentage of net sales	22.3%	21.1%	22.5%	20.8%

Research and development (R&D) spending for the second quarter of 2007 compared to the second quarter of 2006 decreased by approximately $227,000 due to the decreased spending associated with the development of the FLX500 which launched in 2006. R&D also decreased due to the restructure and the reengineering of internal processes. R&D as a percentage of net sales remained relatively consistent despite the decrease in spending due to the decrease in sales. 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 as part of our application innovation focus.

R&D spending for the first six months of 2007 compared to the first six months of 2006 also decreased by approximately $162,000 due primarily to the decrease in FLX500 development costs.

Selling, General and Administrative

(in thousands)	Three Months Ended June 30, 2007	June 30, 2006	Six Months Ended June 30, 2007	June 30, 2006
Selling, general & administrative	$2,027	$2,626	$4,565	$5,266
Percentage of net sales	35.1%	36.7%	38.7%	38.8%

Selling, general and administrative (SG&A) expenses decreased approximately $600,000 for the second quarter of 2007 compared to the second quarter of 2006 due primarily to a decrease in net personnel of approximately $382,000 related to the 2006 and 2007 restructures. We also experienced decreased other costs in our China operations of approximately $73,000, decreased marketing costs approximately $35,000 primarily associated with the 2006 FLX500 launch, as well as decreased facility costs of approximately $61,000 in connection with the Redmond move to a smaller facility in July 2006 and a decrease of approximately $59,000 related to the audit fee expensing change from accruing ratably over the year to expensing in the period the audit work is performed.

During the first six months of 2007 compared with the same period in 2006, SG&A expense decreased approximately $700,000 due to the same factors as those described for the second quarter of 2007 except for the audit fee expensing change which for the six month period increased approximately $80,000.

INTEREST

(in thousands)	Three Months Ended June 30, 2007	June 30, 2006	Six Months Ended June 30, 2007	June 30, 2006
Interest income	$30	$37	$52	$80
Interest expense	($10)	$ -	($20)	$ -

Interest income decreased during both the second quarter of 2007 and for the first six months of 2007 compared to the same periods in 2006 due to the lower amounts invested. Interest expense increased in the second quarter and the first six months of 2007 compared to the same periods in 2006 due to the equipment capital lease associated with the move to a new facility during the third quarter of 2006.

INCOME TAXES

(in thousands)	Three Months Ended June 30, 2007	June 30, 2006	Six Months Ended June 30, 2007	June 30, 2006
Income tax expense (benefit)	$3	$26	$9	$55

Tax expense recorded for the second quarter and the first six months of 2007 results from foreign and state 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 $9,876,000 as of June 30, 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)	June 30, 2007	Change	March 31, 2007	Change	December 31, 2006
Working capital	$9,634	($443)	$10,077	($678)	$10,755

At June 30, 2007, Data I/O s principal sources of liquidity consisted of existing cash and cash equivalents. Our working capital decreased by $1.1 million from December 31, 2006 and our current ratio decreased from 2.9 at December 31, 2006 to 2.8 at June 30, 2007.

Our cash and cash equivalents increased by approximately $425,000 during the six months ended June 30, 2007 primarily due to the cash received in operating activities totaling approximately $735,000. Cash provided by operations primarily included a $2.3 million decrease in accounts receivable as we collected all the past due amounts from a China distributor. At quarter end, accounts receivable still had one international distributor with a significant past due balance. Cash provided by operations also included a decrease of approximately $800,000 in accounts payable and accrued liabilities, offset by a $520,000 increase in inventory.

We used approximately $450,000 of cash in investing activities during the six months ended June 30, 2006, representing purchases of property, plant and equipment which was offset by approximately $140,000 from the effect of foreign exchange differences. 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 twelve months. Capital expenditures are expected to be funded by existing and internally generated funds or lease financing.

As a result of our significant product development, customer support, international expansion and selling and marketing efforts, we have required substantial working capital to fund our operations. Over the last few years, we restructured our operations to lower our costs and operating expenditures in some geographic regions, while investing in other regions, and to lower the level of revenue required for our net income breakeven point, 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.

LONG-TERM DEBT

(in thousands)	June 30, 2007	Change	March 31, 2007	Change	December. 31, 2006
Long-term debt	$393	($27)	$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 six months ended June 30, 2007 (in thousands):

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Operating leases	$1,144	$1,952	$831	-	$3,927
Commitments to suppliers	833	-	-	-	833
Other purchase commitments	94	-	-	-	94
Total	$2,071	$1,952	$831	-	$4,854

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

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 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 June 30, 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 June 30, 2007, we had a notional value of approximately $712,327 in three foreign exchange contracts outstanding. We recorded the estimated loss in fair value as a non-operating expense and a liability of approximately $3,000. The rates range from 1.3471 to 1.3478, all scheduled to be due within the next quarter and the value at that date of $713,053.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

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

We have recently acquired and have implemented a new worldwide information system that has 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.

Our restructuring actions decreased the number of personnel and reallocated tasks. We did not change our internal controls, however, these restructure actions may have an impact on our internal controls operation which we will continue to monitor and evaluate.

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, 2006, 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

At our Annual Meeting of Shareholders held on May 17, 2007, there were present in person or by proxy the holders of 8,043,884 (94.58%) shares of Common Stock of Data I/O thereby constituting a quorum. The following are the matters approved and the voting results:

(a) Election of a Board of Directors consisting of the following six (6) directors:

Name	Votes For	Votes Withheld
Daniel A. DiLeo	7,684,053	359,831
Paul A. Gary	7,720,328	323,556
Frederick R. Hume	7,699,522	344,362
Edward D. Lazowska	7,696,211	347,673
Steven M. Quist	7,697,311	346,573
William R. Walker	7,694,827	349,057

(b) The proposal to ratify the selection of Grant Thornton LLP as Data I/O s independent auditors passed as follows: 7,981,613 for; 59,265 against; 3,005 abstain; and 0 broker non-votes.

Item 5. Other Information

None

Item 6. **Exhibits**

(a) **Exhibits**

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 10.17.

(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) Form of Change in Control Agreements. See Exhibit 10.21 and 10.22.

(7) 1996 Director Fee Plan. See Exhibit 10.14.

(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 and 10.24.

(12) Harald Weigelt Employment Agreement. See Exhibit 10.23.

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 2006October 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)).

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

10.3 First Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.21 of Data I/O s 1994 Annual Report on Form 10-K (File No. 0-10394)).

10.4 Second Amendment to the Data I/O Tax Deferred Retirement Plan (Incorporated by reference to Exhibit 10.26 of Data I/O s 1995 Annual Report on Form 10-K (File No. 0-10394)).

10.5 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)).

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 Amended and Restated 2000 Stock Compensation Incentive Plan dated May 24, 2006 (Incorporated by reference to Data I/O s 2006 Proxy Statement dated April 6, 2006).

10.28 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)).

10.29 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	23
31.2	Chief Financial Officer Certification	24
32	**Certification Section 906:**	
32.1	Chief Executive Officer Certification	25
32.2	Chief Financial Officer Certification	26

SIGNATURES

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

DATA I/O CORPORATION
(REGISTRANT)

DATED: August 8, 2007

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 August 8, 2007

/s/ FREDERICK R. HUME

Frederick R. Hume
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 August 8, 2007

/s/ JOEL S. HATLEN

Joel S. Hatlen
Vice President and Chief Financial Officer

<u>(Principal Financial Officer)</u>

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 June 30, 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)

August 8, 2007

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 June 30, 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)

August 8, 2007