

DATA I/O CORP
Form 10-Q
November 14, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
(X)

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

For the quarterly period ended **September 30, 2016**
or

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

SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number:

0-10394

DATA I/O CORPORATION

(Exact name of registrant as specified in its charter)

Washington

91-0864123

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

6645 185th Ave NE, Suite 100, 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 No

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

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

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

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

Shares of Common Stock, no par value, outstanding as of October 26, 2016:

7,992,394

DATA I/O CORPORATION
FORM 10-Q
For the Quarter Ended September 30, 2016

INDEX

Part I.	Financial Information	<u>Page</u>
	Item 1. Financial Statements	3
	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
	Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
	Item 4. Controls and Procedures	23
Part II	Other Information	
	Item 1. Legal Proceedings	24
	Item 1A. Risk Factors	24
	Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
	Item 3. Defaults Upon Senior Securities	24
	Item 4. Mine Safety Disclosures	24
	Item 5. Other Information	24
	Item 6. Exhibits	24
Signatures		26

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$9,725	\$11,268
Trade accounts receivable, net of allowance for doubtful accounts of \$103 and \$43, respectively	5,198	2,790
Inventories	3,896	3,705
Other current assets	360	577
TOTAL CURRENT ASSETS	19,179	18,340
Property, plant and equipment – net	1,794	1,237
Other assets	63	63
TOTAL ASSETS	\$21,036	\$19,640
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$1,298	\$1,250
Accrued compensation	1,704	1,689
Deferred revenue	1,259	1,038
Other accrued liabilities	633	540
TOTAL CURRENT LIABILITIES	4,894	4,517
Long-term other payables	473	429
COMMITMENTS	-	-
STOCKHOLDERS' EQUITY		
Preferred stock -		
Authorized, 5,000,000 shares, including 200,000 shares of Series A Junior Participating Issued and outstanding, none	-	-
Common stock, at stated value - Authorized, 30,000,000 shares	-	-

Issued and outstanding, 7,979,541 shares as of September 30, 2016 and 7,943,720 shares as of December 31, 2015	19,202	19,051
Accumulated (deficit)	(4,115)	(5,016)
Accumulated other comprehensive income	582	659
TOTAL STOCKHOLDERS' EQUITY	15,669	14,694
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$21,036	\$19,640

See notes to consolidated financial statements

3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Sales	\$6,588	\$6,159	\$17,002	\$17,019
Cost of goods sold	2,945	2,990	7,743	8,270
Gross margin	3,643	3,169	9,259	8,749
Operating expenses:				
Research and development	1,358	1,188	3,655	3,530
Selling, general and administrative	1,664	1,505	4,766	4,457
Total operating expenses	3,022	2,693	8,421	7,987
Operating income	621	476	838	762
Non-operating income (expense):				
Interest income	11	30	34	88
Foreign currency transaction gain (loss)	(3)	(50)	41	(237)
Total non-operating income (expense)	8	(20)	75	(149)
Income before income taxes	629	456	913	613
Income tax (expense)	(4)	(17)	(12)	(24)
Net income	\$625	\$439	\$901	\$589
Basic earnings per share	\$0.08	\$0.06	\$0.11	\$0.07
Diluted earnings per share	\$0.08	\$0.05	\$0.11	\$0.07
Weighted-average basic shares	7,977	7,930	7,955	7,896
Weighted-average diluted shares	8,183	8,042	8,083	8,055

See notes to consolidated financial statements

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

	Three Months Ended		Nine Months	
	September 30,		Ended	
	2016	2015	September 30,	2015
Net income	\$625	\$439	\$901	\$589
Other comprehensive income:				
Foreign currency translation gain (loss)	(17)	(92)	(77)	(204)
Comprehensive income	\$608	\$347	\$824	\$385

See notes to consolidated financial statements

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

	For the Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$901	\$589
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	409	401
Equipment transferred to cost of goods sold	720	184
Share-based compensation	409	330
Net change in:		
Trade accounts receivable	(2,385)	(1,126)
Inventories	(211)	759
Other current assets	213	108
Accrued cost of business restructuring	-	(66)
Accounts payable and accrued liabilities	160	(348)
Deferred revenue	163	(603)
Other long-term liabilities	86	225
Deposits and other long-term assets	1	-
Net cash provided by operating activities	466	453
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,688)	(632)
Cash (used in) investing activities	(1,688)	(632)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of tax withholding	(76)	(55)
Repurchase of common stock	(191)	-
Cash provided by (used in) financing activities	(267)	(55)
Increase/(decrease) in cash and cash equivalents	(1,489)	(234)
Effects of exchange rate changes on cash	(54)	(132)
Cash and cash equivalents at beginning of period	11,268	9,361
Cash and cash equivalents at end of period	\$9,725	\$8,995
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income Taxes	\$6	\$11
<i>See notes to consolidated financial statements</i>		

DATA I/O CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 - FINANCIAL STATEMENT PREPARATION

Data I/O Corporation ("Data I/O", "We", "Our", "Us") prepared the financial statements as of September 30, 2016 and September 30, 2015 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, 2015 has been derived from the audited financial statements at that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America according to such SEC rules and regulations. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These financial statements should be read in conjunction with the annual audited financial statements and the accompanying notes included in our Form 10-K for the year ended December 31, 2015.

Revenue Recognition

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

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

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

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

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

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

Stock-Based Compensation Expense

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

Income Tax

Historically, when accounting for uncertainty in income taxes, we have not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during the three and nine months ended September 30, 2016. However, we have adopted a policy whereby amounts related to penalties associated with tax matters are classified as general and administrative expense when incurred and amounts related to interest associated with tax matters are classified as interest income or interest expense.

We have incurred net operating losses in certain past years. We continue to maintain a valuation allowance for the full amount of the net deferred tax asset balance associated with our net operating losses and credit carryforwards, as sufficient uncertainty exists regarding our ability to realize such tax assets in the future. There were \$222,000 and \$211,000 of unrecognized tax benefits related to uncertain tax positions and related valuation allowance as of September 30, 2016 and 2015, respectively.

Tax years that remain open for examination include 2013, 2014, and 2015 in the United States of America. In addition, tax years from 2001 to 2012 may be subject to examination in the event that we utilize the net operating losses and credit carryforwards from those years in our current or future year tax returns.

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (ASU 2016-09), "Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 requires excess tax benefits to be recognized in the statement of operations as an income tax expense and is applied prospectively by means of a cumulative-effect adjustment of excess tax benefits from equity in the period of adoption. The standard establishes an alternative practical expedient for estimating the expected term of an award by recognizing the effects of forfeitures in compensation cost when the forfeitures occur. Adoption of the alternative practical expedient is applied prospectively on an entity-wide basis. The standard requires that amounts paid to a taxing authority on the employee's behalf as a result of directly withholding shares for tax-withholding purposes are to be presented on a retrospective basis as a financing activity on the statement of cash flows. The standard becomes effective beginning January 1, 2017. We are in the process of evaluating the impact of adoption on our consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09). ASU 2014-09 provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers" (ASU 2015-14). ASU 2015-14 defers the effective date of the new revenue recognition standard by one year. As such, it now takes effect for public entities in fiscal years beginning after December 15, 2017. We are in the process of evaluating the impact of adoption on our consolidated financial statements.

NOTE 2 – INVENTORIES

Inventories consisted of the following components:

(in thousands)	September 30, 2016	December 31, 2015
Raw material	\$2,373	\$2,262
Work-in-process	1,249	1,099
Finished goods	274	344
Inventories	\$3,896	\$3,705

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, NET

Property and equipment consisted of the following components:

(in thousands)	September 30, 2016	December 31, 2015
Leasehold improvements	\$389	\$77
Equipment	5,172	4,482
Sales demonstration equipment	992	1,257
	6,553	5,816
Less accumulated depreciation	4,759	4,579
Property and equipment, net	\$1,794	\$1,237

NOTE 4 – BUSINESS RESTRUCTURING

Our previous years' restructure actions have been fully implemented. As a result of the lease amendment discussed in Note 6, "Operating Lease Commitments", which started in July 2015, the balance of the restructure liability of approximately \$120,000 was incorporated into our deferred rent liability at July 2015 as part of the new lease incentive.

NOTE 5 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components:

(in thousands)	September 30, 2016	December 31, 2015
Product warranty	\$353	\$368
Sales return reserve	50	61
Other taxes	111	92
Other	119	19
Other accrued liabilities	\$633	\$540

The changes in our product warranty liability for the nine months ending September 30, 2016 are as follows:

(in thousands)	September 30, 2016
Liability, beginning balance	\$368
Net expenses	561
Warranty claims	(603)
Accrual revisions	27
Liability, ending balance	\$353

NOTE 6 – OPERATING LEASE COMMITMENTS

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

For the years ending December 31:

(in thousands)	Operating Leases
2016 (remaining)	\$218
2017	831
2018	816
2019	847

2020	844
Thereafter	432
Total	\$3,988

During the second quarter of 2015, we amended our lease agreement for the Redmond, Washington headquarters facility effective July 8, 2015. The amended lease resulted in our headquarters relocating to a nearby building, extending the term through April 2021, lowering the square footage to approximately 20,460, providing lease inducement incentives and lowering the rental rate. The new lease commitment of approximately \$1.7 million will be paid over the term of the lease. As a result of this lease amendment, the remaining balance of the restructure liability of approximately \$120,000 was incorporated into our deferred rent liability in July, 2015.

We renewed our lease agreement for what is now our former Shanghai, China facility, effective June 15, 2015, extending the term through December 31, 2015. Operations continued in this facility through January 31, 2016. In October 2015, we signed a lease agreement for a new facility located in Shanghai, China which was effective November 1, 2015 and extends through October 31, 2021. The new lease approximately doubled our space to 19,400 square feet at approximately 54% of the prior lease rental rate.

Our lease for our Munich, Germany facility is for approximately 4,306 square feet and is scheduled to end May 31, 2017.

NOTE 7 – OTHER COMMITMENTS

We have purchase obligations for inventory and production costs as well as other obligations such as capital expenditures, service contracts, marketing, and development agreements. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice, typically less than 90 days. At September 30, 2016, the purchase commitments and other obligations totaled \$1,394,000 of which all but \$38,000 are expected to be paid over the next twelve months.

NOTE 8 – CONTINGENCIES

As of September 30, 2016, we were not a party to any legal proceedings or aware of any indemnification agreement claims, the adverse outcome of which in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

NOTE 9 – EARNINGS PER SHARE

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

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

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2016	Sep. 30, 2015	Sep. 30, 2016	Sep. 30, 2015
(in thousands except per share data)				
Numerator for basic and diluted earnings per share:				
Net income	\$625	\$439	\$901	\$589
Denominator for basic earnings per share:				
weighted-average shares	7,977	7,930	7,955	7,896
Employee stock options and awards	206	112	128	159
Denominator for diluted earnings per share:				
adjusted weighted-average shares & assumed conversions of stock options	8,183	8,042	8,083	8,055
Basic and diluted earnings per share:				
Total basic earnings per share	\$0.08	\$0.06	\$0.11	\$0.07
Total diluted earnings per share	\$0.08	\$0.05	\$0.11	\$0.07

Options to purchase 198,395 and 162,526 shares were outstanding as of September 30, 2016 and 2015, respectively, but were excluded from the computation of diluted earnings per share for the periods then ended because the options were anti-dilutive.

NOTE 10 – SHARE-BASED COMPENSATION

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

The impact on our results of operations of recording share-based compensation, net of forfeitures, for the three and nine months ended September 30, 2016 and 2015, respectively, was as follows:

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2016	Sep. 30, 2015	Sep. 30, 2016	Sep. 30, 2015
(in thousands)				
Cost of goods sold	\$3	\$2	\$11	\$11
Research and development	23	18	82	58
Selling, general and administrative	84	73	316	261
Total share-based compensation	\$110	\$93	\$409	\$330
Impact on net earnings per share:				
Basic and diluted	(\$0.01)	(\$0.01)	(\$0.05)	(\$0.04)

Equity awards granted during the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2016	Sep. 30, 2015	Sep. 30, 2016	Sep. 30, 2015
Restricted Stock	3,000	-	225,100	193,800

There were no stock option awards issued during the three and nine months ended September 30, 2016 and 2015.

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

The remaining unamortized expected future equity compensation expense and remaining amortization period associated with unvested option grants, restricted stock awards and restricted stock unit awards at September 30, 2016 are:

	Sep. 30, 2016
(in thousands unless specified)	
Unamortized future equity compensation expense	\$1,188
Remaining weighted average amortization period in years	2.67

NOTE 11 – SHARE REPURCHASE PROGRAMS

On February 24, 2016, our Board of Directors approved a share repurchase program with provisions to buy back up to \$1 million of our stock during the period from March 2, 2016 through March 31, 2017. The program was established with a 10b5-1 plan under the Exchange Act to provide flexibility to make purchases throughout the period. For the three months ended September 30, 2016, 6,500 shares of stock have been repurchased at an average price of \$2.61 for a total of \$16,951 plus \$136 in commissions. For the nine months ended September 30, 2016, 80,345 shares of stock have been repurchased at an average price of \$2.36 for a total of \$189,360 plus \$1,652 in commissions.

The following is a summary of share repurchase activity under the plan through September 30, 2016:

Repurchases by Month	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program
March 2016	\$2.26	42,515	\$903,161
April 2016	\$2.35	8,480	\$883,064
May 2016	\$2.52	7,650	\$863,602
June 2016	\$2.45	15,200	\$826,078
July 2016	\$2.61	6,500	\$808,991
Total	\$2.36	80,345	

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; expected savings; future results of operations; reversals of tax valuation allowances; breakeven point, or financial position; changes in gross margin; economic conditions and capital spending outlook; market acceptance of our newly introduced or upgraded products; development, introduction and shipment of new products; building lease arrangements; sales channels and any other guidance on future periods are forward-looking statements. Forward-looking statements reflect management’s current expectations and are inherently uncertain. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or other future events. Moreover, neither we nor anyone else assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this report. The reader should not place undue reliance on these forward-looking statements. The discussions above and in the section in Item 1A., Risk Factors “Cautionary Factors That May Affect Future Results” in our Annual report on Form 10-K for the year ended December 31, 2015 describe some, but not all, of the factors that could cause these differences.

OVERVIEW

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

and create strategies for cost reduction.

We are focusing our research and development efforts in our strategic growth markets, namely managed and secure programming technology, automated programming systems and their enhancements for the manufacturing environment and software. We continue to focus on extending the capabilities and support for our product lines and supporting the latest semiconductor devices, including NAND Flash, e-MMC, and microcontrollers on our newer products. In 2015, we announced our new PSV5000 and our new Lumen™ X programmer. In 2016, we released the integrated PSV5000 with LumenX.

Our customer focus is on strategic high volume and high growth market segments: automotive electronics and IoT (Internet of Things) including industrial and consumer devices.

During the quarter ended September 30, 2016, we announced the signing of a five year supply agreement with Bosch Car Multimedia division, recognized to be a leading automotive electronics manufacturer. This resulted from a complex benchmark evaluation versus our key competitors. We have begun to see initial system orders in 2016, with a larger business impact expected for 2017 and 2018.

BUSINESS RESTRUCTURING PROGRESS

Our previous years' restructure actions have been fully implemented. As a result of the lease amendment discussed in Note 6, "Operating Lease Commitments", which started in July 2015, the balance of the restructure liability of approximately \$120,000 was incorporated into our deferred rent liability at July 2015 as part of the new lease incentive.

CRITICAL ACCOUNTING POLICY JUDGMENTS AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

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

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

Share-based Compensation: We account for share-based awards made to our employees and directors, including employee stock option awards and restricted stock unit awards, using the estimated grant date fair value method of accounting and estimated forfeiture rate. For options, we estimate the fair value using the Black-Scholes valuation model, which requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption is determined using the historical volatility of our common stock. Changes in the subjective assumptions required in the valuation model may significantly affect the estimated value of the awards, the related stock-based compensation expense and, consequently, our results of operations.

Results of Operations**Net Sales**

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2016	Change	Sep. 30, 2015	Sep. 30, 2016	Change	Sep. 30, 2015
Net sales by product line (in thousands)						
Automated programming systems	\$5,196	9.1%	\$4,762	\$13,417	3.9%	\$12,914
Non-automated programming systems	1,392	(0.4%)	1,397	3,585	(12.7%)	4,105
Total programming systems	\$6,588	7.0%	\$6,159	\$17,002	(0.1%)	\$17,019

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2016	Change	Sep. 30, 2015	Sep. 30, 2016	Change	Sep. 30, 2015
Net sales by location (in thousands)						
United States	\$464	3.3%	\$449	\$2,086	13.0%	\$1,846
% of total	7.0%		7.3%	12.3%		10.8%
International	\$6,124	7.3%	\$5,710	\$14,916	(1.7%)	\$15,173
% of total	93.0%		92.7%	87.7%		89.2%

Net sales in the third quarter of 2016 were \$6.6 million, compared with \$6.2 million in the third quarter of 2015. The year over year increase in sales was primarily a result of strong bookings in the second and third quarters of 2016, particularly for automotive electronics equipment to end customers and programming centers. During the third quarter, we shipped and recorded revenue for the 100th PSV system. On a regional basis, revenue in the third quarter of 2016 increased in Asia 21% and in the Americas 32% and declined 20% in Europe compared to the third quarter of 2015.

On a product basis, the net sales growth in the third quarter is primarily from higher PSV, LumenX and RoadRunner family and adapter sales, offset in part by declining older product family sales. A sales breakdown by type for the third quarter of 2016 was 63% equipment, 28% adapters, and 9% software and maintenance. Adapters are a consumable item and software and maintenance are typically recurring under annual subscription contracts.

Order bookings were \$7.9 million in the third quarter of 2016 compared to \$5.9 million in the same period in 2015. The variation in revenue amounts versus order amounts related to the change in deferred revenues, backlog and currency translation. Backlog at September 30, 2016 was \$3.1 million compared to \$1.6 million on September 30, 2015 and \$2.0 million on June 30, 2016. Deferred revenue at September 30, 2016 was \$1.3 million compared to \$1.1 million on September 30, 2015 and \$1.1 million on June 30, 2016.

For the nine months ending September 30, 2016, compared to the same period in 2015, net sales are approximately the same, with a continued trend of higher automated and lower non-automated system sales. On a regional basis, net sales increased 16% in Asia and 13% in the Americas, while declining 20% in Europe compared to the same period in 2015.

Gross Margin

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2016	Change	Sep. 30, 2015	Sep. 30, 2016	Change	Sep. 30, 2015
(in thousands)						
Gross margin	\$3,643	15.0%	\$3,169	\$9,259	5.8%	\$8,749
Percentage of net sales	55.3%		51.5%	54.5%		51.4%

Gross margin increased in dollars due to the sales volume increase. Gross margin as a percentage of sales was 55.3%, compared to 51.5% in the third quarter of 2015, with the increase primarily due to a product mix shift and favorable factory variances as well as the leverage of relatively fixed factory costs with higher sales volume.

For the first nine months of 2016 compared to the same period in 2015, gross margin as a percentage of sales increased generally due to the same factors discussed above for the third quarter. Based on past experience, we expect variations in our gross margin as a percentage of sales due to changes in key factors for future periods including: sales volume, product mix, channel mix, pricing, inventory fluctuations, warranty, factory variances and currency exchange rates.

Research and Development

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2016	Change	Sep. 30, 2015	Sep. 30, 2016	Change	Sep. 30, 2015
(in thousands)						
Research and development	\$1,358	14.3%	\$1,188	\$3,655	3.5%	\$3,530
Percentage of net sales	20.6%		19.3%	21.5%		20.7%

Research and development (“R&D”) increased \$170,000 in the third quarter of 2016 compared to the same period in 2015, primarily due to intellectual property patent filings and engineering recruiting and related compensation expense.

For the first nine months of 2016 compared to the same period in 2015, the increase in R&D expense was generally due to the same factors discussed above for the third quarter.

Selling, General and Administrative

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2016	Change	Sep. 30, 2015	Sep. 30, 2016	Change	Sep. 30, 2015
(in thousands)						
Selling, general & administrative	\$1,664	10.6%	\$1,505	\$4,766	6.9%	\$4,457
Percentage of net sales	25.3%		24.4%	28.0%		26.2%

Selling, General and Administrative (“SG&A”) expenses increased \$159,000 in the third quarter of 2016 compared to the same period in 2015, primarily due to higher commissions, consulting, employee related costs, and rent, offset in part by the one-time expense of our Redmond headquarters move in 2015.

For the first nine months of 2016 compared to the same period in 2015, the increase in SG&A expense was generally due to the same factors discussed above for the third quarter as well as less charges allocated out of SG&A in 2016.

Interest

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2016	Change	Sep. 30, 2015	Sep. 30, 2016	Change	Sep. 30, 2015
(in thousands)						
Interest income	\$11	(63.3%)	\$30	\$34	(61.4%)	\$88

Interest income decreased in the third quarter of 2016 compared to the same period in 2015, due to both lower invested cash balances and lower interest rates.

For the first nine months of 2016 compared to the same period in 2015, the decrease in interest income was generally due to the same factors discussed above for the third quarter.

Income Taxes

	Three Months Ended			Nine Months Ended		
	Sep. 30, 2016	Change	Sep. 30, 2015	Sep. 30, 2016	Change	Sep. 30, 2015
(in thousands)						
Income tax (expense)	(\$4)	(76.5%)	(\$17)	(\$12)	(50.0%)	(\$24)

Income tax (expense) for the third quarter of 2016 compared to same period in 2015, primarily resulted from foreign subsidiary income tax.

For the first nine months of 2016 compared to the same period in 2015, the change in income tax expense was generally due to the same factors discussed above for the third quarter.

The effective tax rate differed from the statutory tax rate primarily due to the effect of valuation allowances, as well as foreign taxes. We have a valuation allowance of \$11.2 million as of September 30, 2016. Our deferred tax assets and valuation allowance have been reduced by approximately \$222,000 and \$211,000 associated with the requirements of accounting for uncertain tax positions as of September 30, 2016 and 2015, respectively. Given the uncertainty created by our past loss history and the cyclical nature of the industry in which we operate, we expect to continue to limit the recognition of net deferred tax assets and maintain the tax valuation allowances.

Financial Condition**Liquidity and Capital Resources**

(in thousands)	Sep. 30, 2016	Change	Dec. 31, 2015
Working capital	\$14,285	\$462	\$13,823

At September 30, 2016 our cash position was \$9.7 million, with \$4.5 million in the USA and the balance in foreign subsidiaries. The change in cash during the quarter resulted primarily from earnings for the period.

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

As a result of our significant product development, customer support, selling and marketing efforts, we have required substantial working capital to fund our operations. We have tried to balance our level of development spending with the goal of profitable operations. We have implemented or have initiatives to implement geographic shifts in our operations, optimized real estate usage, reduced exposure to the impact of currency volatility, and additional product development differentiation and cost reductions.

We believe that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through at least the next one-year period. We may require additional cash for U.S. operations, which could cause potential repatriation of cash that is held in our foreign subsidiaries. Although we have no current repatriation plans, there may be tax and other impediments to any repatriation actions. Our working capital may be used to fund possible losses, business growth, project initiatives, share repurchases and business development initiatives including acquisitions, which could reduce our liquidity and result in a requirement for additional cash before that time. Any substantial inability to achieve our current business plan could have a material adverse impact on our

financial position, liquidity, or results of operations and may require us to reduce expenditures and/or seek possible additional financing.

OFF-Balance sheet arrangements

Except as noted in the accompanying consolidated financial statements in Note 6, "Operating Lease Commitments" and Note 7, "Other Commitments", we have no off-balance sheet arrangements.

Non-Generally accepted accounting principles (GAAP) FINANCIAL MeasureS

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") was \$755,000 in the third quarter of 2016 compared to \$552,000 in the third quarter of 2015. Adjusted EBITDA, excluding equity compensation (a non-cash item) was \$865,000 in the third quarter of 2016, compared to \$645,000 in the third quarter of 2015.

EBITDA was \$1.3 million for the first nine months of 2016 compared to \$925,000 in the first nine months of 2015. Adjusted EBITDA, excluding equity compensation was \$1.7 million for the first nine months of 2016, compared to \$1.3 million for the first nine months of 2015.

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

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

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2016	Sep. 30, 2015	Sep. 30, 2016	Sep. 30, 2015
(in thousands)				
Net Income	\$625	\$439	\$901	\$589
Interest (income)	(11)	(30)	(34)	(88)
Taxes	4	17	12	24
Depreciation & amortization	137	126	409	400
EBITDA earnings	\$755	\$552	\$1,288	\$925
Equity compensation	110	93	409	330
Adjusted EBITDA, excluding equity compensation	\$865	\$645	\$1,697	\$1,255

RECENT ACCOUNTING ANNOUNCEMENTS

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (ASU 2016-09), *“Improvements to Employee Share-Based Payment Accounting”*. ASU 2016-09 requires excess tax benefits to be recognized in the statement of operations as an income tax expense and is applied prospectively by means of a cumulative-effect adjustment of excess tax benefits from equity in the period of adoption. The standard establishes an alternative practical expedient for estimating the expected term of an award by recognizing the effects of forfeitures in compensation cost when the forfeitures occur. Adoption of the alternative practical expedient is applied prospectively on an entity-wide basis. The standard requires that amounts paid to a taxing authority on the employee’s behalf as a result of directly withholding shares for tax-withholding purposes are to be presented on a retrospective basis as a financing activity on the statement of cash flows. The standard becomes effective beginning January 1, 2017. We are in the process of evaluating the impact of adoption on our consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09, *“Revenue from Contracts with Customers”* (ASU 2014-09). ASU 2014-09 provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In August 2015, the FASB issued ASU 2015-14, *“Revenue from Contracts with Customers”* (ASU 2015-14). ASU 2015-14 defers the effective date of the new revenue recognition standard by one year. As such, it now takes effect for public entities in fiscal years beginning after December 15, 2017. We are in the process of evaluating the impact of adoption on our consolidated financial statements.

Item 3. **Risk**

Quantitative and Qualitative Disclosures About Market

Not applicable.

Item 4. **Controls and Procedures**

Evaluation of disclosure controls and procedures

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

Changes in internal controls

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of September 30, 2016, we were not a party to any material pending legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the Risk Factors described in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

See Note 11 to the consolidated financial statements for information regarding the Company’s stock repurchases.

Item 3. Defaults Upon Senior Securities

None

Item 4. **Mine Safety Disclosures**

Not Applicable

Item 5. **Other Information**

None

Item 6. **Exhibits**

(a) **Exhibits**

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

4.5 Amendment No. 3 to Rights Agreement, dated as of July 13, 2016, between Data I/O Corporation and Computershare. (Incorporated by reference to Exhibit 4.4 of Data I/O's Form 8-A/A filed on July 14, 2016).

10 Material Contracts:

10.31 Negotiation Protocol for the Purchase of Data I/O's PSV7000, a supply agreement executed July 20, 2016, between Data I/O Corporation and Bosch Car Multimedia Group. *

2002: 31 Certification pursuant to Section 302 of the Sarbanes Oxley Act of

31.1 Chief Executive Officer
Certification

31.2 Chief Financial Officer
Certification

2002: 32 Certification pursuant to Section 906 of the Sarbanes Oxley Act of

32.1 Chief Executive Officer
Certification

32.2 Chief Financial Officer Certification

101 Interactive Data Files Pursuant to Rule 405 of Regulation S-T

*Portions of this exhibit have been omitted based on an application for confidential treatment from the SEC. The omitted portions of these exhibits have been filed separately with the SEC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: November 10, 2016

DATA I/O CORPORATION

(REGISTRANT)

By: //S//Anthony
Ambrose

Anthony Ambrose

President and Chief Executive Officer

(Principal Executive Officer and Duly Authorized Officer)

By: //S//Joel S. Hatlen

Joel S. Hatlen

Vice President and Chief Financial Officer

Secretary and Treasurer

(Principal Financial Officer and Duly Authorized Officer)

Exhibit 31.1

CERTIFICATION

I, Anthony Ambrose, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Data I/O Corporation;
- 2) Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

DATED: November 10, 2016

/s/ Anthony Ambrose

Anthony Ambrose

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Joel S. Hatlen, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Data I/O Corporation;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

DATED: November 10, 2016

/s/ Joel S. Hatlen

Joel S. Hatlen

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

Certification by Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350

As Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Data I/O Corporation (the "Company") on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Ambrose, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Anthony Ambrose

Anthony Ambrose

Chief Executive Officer

(Principal Executive Officer)

November 10, 2016

Exhibit 32.2

Certification by Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350

As Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Data I/O Corporation (the "Company") on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel S. Hatlen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Joel S. Hatlen

Joel S. Hatlen

Chief Financial Officer

(Principal Financial Officer)

November 10, 2016

Exhibit 10.31

Negotiation Protocol for the Purchase of Data I/O's PSV7000, a supply agreement executed July 20, 2016, between Data I/O Corporation and Bosch Car Multimedia Group. *

*Portions of this exhibit have been omitted based on an application for confidential treatment from the SEC. The omitted portions of these exhibits have been filed separately with the SEC.