DATA I/O CORP
Form 10-Q
November 10, 2011

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, 2011

or

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

6464 185th Ave NE, Suite 101, Redmond, Washington, 98052
(425) 881-6444
(Address, including zip code, of registrant's principle executive offices and 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 o

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

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

Shares of Common Stock, no par value, outstanding as of November 4, 2011:

9,270,560

DATA I/O CORPORATION

FORM 10-Q
For the Quarter Ended September 30, 2011

INDEX

			Page
Part I.		Financial Information	
	Item 1.	Financial Statements	3
	Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	13
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	19
	Item 4.	Controls and Procedures	19
Part II		Other Information	
	Item 1.	Legal Proceedings	20
	Item 1A.	Risk Factors	20
	Item 2.	Unregistered Sales of Equity Securities, Use of Proceeds	20
	Item 3.	Defaults Upon Senior Securities	20
	Item 4.	[Removed and Reserved]	20
	Item 5.	Other Information	20
	Item 6.	Exhibits	20
Signatures			21

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(unaudited) September 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,380	$ 18,942
Trade accounts receivable, net of allowance for doubtful accounts of $131 and $137	4,775	4,975
Inventories	3,798	3,570
Other current assets	456	528
TOTAL CURRENT ASSETS	27,409	28,015
Property, plant and equipment – net	1,201	1,256
Intangible software technology – net	2,904	-
Other assets	98	153
TOTAL ASSETS	$ 31,612	$ 29,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,293	$ 1,234
Accrued compensation	1,234	1,578
Deferred revenue	1,447	1,572
Other accrued liabilities	703	770
Accrued costs of business restructuring	-	58
Income taxes payable	78	108
Current portion long-term debt	-	92
TOTAL CURRENT LIABILITIES	4,755	5,412
Long-term other payables	305	47
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, 9,270,560 and 9,027,867 shares		23,534		22,172
Accumulated earnings		1,961		900
Accumulated other comprehensive income		1,057		893
TOTAL STOCKHOLDERS' EQUITY		26,552		23,965
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	31,612	$	29,424

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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net Sales	$ 7,051	$ 6,605	$ 20,943	$ 19,448
Cost of goods sold	3,108	2,781	8,827	8,021
Gross margin	3,943	3,824	12,116	11,427
Operating expenses:				
Research and development	1,482	957	4,109	2,868
Selling, general and administrative	2,101	1,912	6,490	5,725
Total operating expenses	3,583	2,869	10,599	8,593
Gain on sale of assets	-	10	-	13
Operating income	360	965	1,517	2,847
Non-operating income (expense):				
Interest income	13	13	45	30
Interest expense	-	(3)	(2)	(9)
Foreign currency transaction (loss)	(178)	(44)	(244)	(221)
Total non-operating (loss)	(165)	(34)	(201)	(200)
Income before income taxes	195	931	1,316	2,647
Income tax (expense) benefit	(65)	(98)	(255)	(246)
Net income	$ 130	$ 833	$ 1,061	$ 2,401
Basic earnings per share	$ 0.01	$ 0.09	$ 0.12	$ 0.27
Diluted earnings per share	$ 0.01	$ 0.09	$ 0.11	$ 0.26
Weighted-average basic shares	9,270	9,018	9,159	8,987
Weighted-average diluted shares	9,391	9,148	9,323	9,110

See notes to consolidated financial statements

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,061	$ 2,401
Adjustments to reconcile income to net cash provided by (used in) operating activities:		
Depreciation and amortization	850	824
Gain on sale of assets	-	(13)
Equipment transferred to cost of goods sold	275	512
Share-based compensation	344	232
Net change in:		
Trade accounts receivable	230	(2,300)
Inventories	(212)	(12)
Other current assets	76	209
Accrued cost of business restructuring	-	(75)
Accounts payable and accrued liabilities	(394)	590
Deferred revenue	(135)	470
Other long-term liabilities	214	-
Deposits and other long-term assets	58	(49)
Net cash provided by (used in) operating activities	2,367	2,789
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(885)	(864)
Net proceeds from sale of assets	-	13
Purchase of Software Technology	(2,089)	-
Cash provided by (used in) investing activities	(2,974)	(851)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	17	76
Payment of capital lease obligation	(92)	(96)
Cash provided by (used in) financing activities	(75)	(20)
Increase (decrease) in cash and cash equivalents	(682)	1,918

Effects of exchange rate changes on cash		120		(10)
Cash and cash equivalents at beginning of period		18,942		15,642
Cash and cash equivalents at end of period	$	18,380	$	17,550
Supplemental disclosure of non-cash financing activities:				
Issuance of common stock for consideration in asset purchase 163,934 shares	$	1,000	$	-

See notes to consolidated financial statements

5

DATA I/O CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - FINANCIAL STATEMENT PREPARATION

Data I/O prepared the financial statements as of September 30, 2011 and September 30, 2010 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, 2010 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010.

Revenue Recognition

Data I/O recognizes revenue at the time of shipment. When arrangements include multiple elements, we use objective evidence of selling price to allocate revenue to the elements and recognize revenue when the criteria for revenue recognition have been met for each element. The amount of revenue recognized is affected by our judgments as to the collectability of the transaction or whether an arrangement includes multiple elements and if so, whether specific objective evidence of selling price exists for those elements.

The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment provided that persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, and collectability is reasonably assured. 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 measure the standalone selling price of the product versus the service installation value component by the amount paid to independent representative service groups or the amount of additional discount given to independent distributors to provide the service installation.

We record revenue from the sale of service and update contracts as deferred revenue and we recognize it on a straight-line basis over the contractual period, which is typically one year. Service revenue from time and materials contracts and training services are recognized as services are performed. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items. We have a stated return policy that customers can return standard products for any reason within 30 days after delivery, provided that the returned product is received in its original condition, including all packaging materials, for a refund of the price paid less a restocking charge of 30% of the total amount invoiced for the product returned, unless such restocking charge is waived by Data I/O.

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

Certain fixed-price engineering services contracts that require significant production, modification, or customization of software, are accounted for using the percentage-of-completion method. We use the percentage-of-completion method of accounting because it is the most accurate method to recognize revenue based on the nature and scope of certain of our fixed-price engineering services contracts; it is a better measure of periodic income results than other methods and it better matches revenue recognized with the cost incurred. Percentage-of-completion is measured based primarily on input measures such as hours incurred to date compared to total estimated hours at completion, with consideration given to output measures, such as contract milestones, when applicable. Significant judgment is required when estimating total hours and progress to completion on these arrangements, which determines the amount of revenue we recognize as well as whether a loss is recognized, if expected to be incurred upon project completion. Revisions to hour and cost estimates are incorporated in the period in which the facts that give rise to the revision become known.

Stock-Based Compensation Expense

Data I/O measures and recognizes compensation expense as required for all share-based payment awards, including employee stock options and restricted stock awards, based on estimated fair values on the grant dates. Total share-based compensation for the three and nine months ended September 30, 2011was $135,000 and $344,000 respectively. Total share-based compensation for the three and nine months ended September 30, 2010 was $74,000 and $232,000 respectively.

Income Tax

Historically when accounting for uncertainty in income taxes, Data I/O has not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during the three and nine months ended September 30, 2011. 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.

Data I/O has 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, as sufficient uncertainty exists regarding our ability to realize such tax assets in the future. There was $103,000 of unrecognized tax benefits related to uncertain tax positions and related valuation allowance as of September 30, 2011.

Tax years that remain open for examination include 2008, 2009 and 2010 in the United States of America. In addition, tax years from 1999 to 2007 may be subject to examination in the event that the Company utilizes the NOL’s or other carry forwards from those years in its current or future year tax return.

Recent Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08, “Intangibles – Goodwill and Other (Topic 350)”, an update to existing guidance on the assessment of goodwill impairment. This update simplifies the assessment of goodwill for impairment by allowing companies to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. It also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendments in ASU 2011-08 are effective as of September 15, 2011. Early adoption in permitted. The Company is currently evaluating the affects adoption of ASU 2011-08 will have on its condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”). This ASU amends requirements for the presentation of other comprehensive income (OCI), requiring presentation of comprehensive income in either a single, continuous statement of comprehensive income or on separate but consecutive statements, the statement of operations and the statement of OCI. The amendment is effective for the Company at the beginning of fiscal year 2013 with early adoption permitted. The adoption of this guidance will not impact the Company's financial position, results of operations or cash flows and will only impact the presentation of OCI on the financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Reporting Standards (“ASU No. 2011-04”) which amended the guidance regarding fair value measurement and disclosure. The amended guidance clarifies the application of existing fair value measurement and disclosure requirements. The amendment is effective for the Company at the beginning of January 2012, with early adoption prohibited. The adoption of this amendment is not expected to materially affect the Company's financial statements.

7

NOTE 2 - INVENTORIES

Inventories consisted of the following components:

(in thousands)	September 30, 2011	December 31, 2010
Raw material	$ 2,398	$ 2,098
Work-in-process	898	772
Finished goods	502	700
Inventories	$ 3,798	$ 3,570

NOTE 3 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following components:

(in thousands)	September 30, 2011	December 31, 2010
Leasehold improvements	$ 477	$ 396
Equipment	7,923	8,264
	8,400	8,660
Less accumulated depreciation	$ 7,199	$ 7,404
Property and equipment - net	$ 1,201	$ 1,256

NOTE 4 – INTANGIBLE SOFTWARE TECHNOLOGY, NET

On April 29, 2011, Data I/O purchased software technology for $2 million in cash and 163,934 shares of Data I/O common stock, valued at $1 million on the date of purchase. Acquisition costs of $89,000 were capitalized as part of the transaction. The transaction was accounted for as an asset purchase as it was determined the assets acquired did not constitute an operational business.

For a period of five years Data I/O will pay the seller royalties of 4% of directly associated revenues relating to this acquired software technology. The Company will expense the royalty payments when they are incurred as the Company cannot reasonably estimate the future royalty payment amount at the time of acquisition.

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

(in thousands)	September 30, 2011
Intangible software technology	$ 3,089
Less accumulated amortization	$ 185
Intangible software technology - net	$ 2,904

NOTE 5 – BUSINESS RESTRUCTURING

We took restructuring actions in 2008 totaling $542,000, primarily severance-related, and additional actions in 2009 totaling $203,000 to flatten and streamline the organization, as well as reducing cost and abandoning a portion of our building space.

An analysis of the restructuring is as follows:

Restructuring (in thousands)	Reserve Balance 12/31/2009	2010 Expense	2010 Payments/ Write-Offs	Reserve Balance 12/31/2010	2011 Expense	2011 Payments/ Write-Offs	Reserve Balance 9/30/2011
Downsizing US operations:							
Facility & other costs	$ 158	$ -	$ 100	$ 58	$ -	$ 58	$ -
Total	$ 158	$ -	$ 100	$ 58	$ -	$ 58	$ -

NOTE 6– OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following:

(in thousands)	September 30, 2011	December 31, 2010
Product warranty	$ 399	$ 376
Sales return reserve	89	66
Other taxes	112	109
Other	103	219
Other accrued liabilities	$ 703	$ 770

The changes in Data I/O's product warranty liability for the nine months ending September 30, 2011 are as follows:

(in thousands)	September 30, 2011
Liability, beginning balance	$ 376
Net expenses	594
Warranty claims	(594)
Accrual revisions	23
Liability, ending balance	$ 399

NOTE 7 – OPERATING LEASE COMMITMENTS

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

Future annual lease payments at September 30, 2011:

(in thousands)	Operating Leases
2011 (remaining)	$ 285
2012	1,147
2013	978
2014	854
2015	802
Thereafter	505
Total	$ 4,571

NOTE 8 – OTHER COMMITMENTS

Data I/O has purchase obligations for inventory and production costs as well as other obligations such as capital expenditures, service contracts, marketing, and development agreements. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice, typically less than 90 days. At September 30, 2011 the purchase and other obligations totaled $1,436,000.

NOTE 9 – CONTINGENCIES

As of September 30, 2011, Data I/O was not a party to any material pending legal proceedings.

NOTE 10 – LONG-TERM DEBT

On September 27, 2006, the Company entered into a five year capital lease agreement in the amount of $591,145. The imputed interest rate is 7.69%. At September 30, 2011, the capital lease obligation had been paid in full.

NOTE 11 – EARNINGS PER SHARE

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
(in thousands except per share data)				
Numerator for basic and diluted earnings per share:				
Net income	$ 130	$ 833	$ 1,061	$ 2,401
Denominator for basic earnings per share- weighted-average shares	9,270	9,018	9,159	8,987
Employee stock options and awards	121	130	164	123
Denominator for diluted earnings per share- adjusted weighted-average shares and assumed conversions of stock options	9,391	9,148	9,323	9,110

Basic and diluted earnings per share:				
Total basic earnings per share	$ 0.01	$ 0.09	$ 0.12	$ 0.27
Total diluted earnings per share	$ 0.01	$ 0.09	$ 0.11	$ 0.26

The computation for the three and nine months ended September 30, 2011 excludes 471,989 and 311,251 options, respectively, to purchase common stock as their effect is anti-dilutive. The computation for the three and nine months ended September 30, 2010 excludes 346,761 and 250,661 options, respectively, to purchase common stock as their effect is anti-dilutive.

NOTE 12 – SHARE-BASED COMPENSATION

The impact on our results of operations of recording share-based compensation for the three and nine months ended September 30, 2011 and September 30, 2010, respectively, are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
(in thousands)				
Cost of goods sold	$ 12	$ 11	$ 33	$ 24
Research and development	26	3	58	21
Selling, general and administrative	97	60	253	187
Total share-based compensation	$ 135	$ 74	$ 344	$ 232
Impact on net income per share:				
Basic and diluted	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.03)

The fair value of share-based awards for employee stock options was estimated using the Black-Scholes valuation model. The following weighted average assumptions were used to calculate the fair value of stock options granted during the three months and nine months ended September 30, 2011 and 2010:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Risk-free interest rates	1.39%	1.08%	0.66%	1.80%
Volatility factors	0.55	0.56	0.54	0.56
Expected life of the option in years	4.00	4.00	4.00	4.00
Expected dividend yield	None	None	None	None

Option grants during the nine months ended September 30, 2011 were 323,500.

At September 30, 2011, there remained approximately $1,320,923 of unamortized expected future compensation expense associated with unvested option grants and restricted stock awards, with a remaining weighted average amortization period of 2.85 years.

NOTE 13 – COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended September 30, 2011 and September 30, 2010, total comprehensive income (loss) was comprised of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
(in thousands)				
Net income	$ 130	$ 833	$ 1,061	$ 2,401
Foreign currency translation gain (loss)	(163)	309	164	(16)
Total comprehensive income (loss)	$ (33)	$ 1,142	$ 1,225	$ 2,385

11

NOTE 14 – SUBSEQUENT EVENTS

On October 19, 2011, Data I/O's Board of Directors authorized a stock repurchase program of $1 million over four quarters ending September 30, 2012. The program has been established under a Rule 10b5-1 plan under the Exchange Act to provide flexibility to make purchases throughout the period. Data I/O announced the authorization of a stock repurchase program in a press release dated October 20, 2011.

The shares will be purchased in the open market, by block purchases or in private transactions, based on prevailing market conditions and price limits. The program may be suspended or discontinued at any time. We had approximately 9.3 million shares of common stock outstanding as of October 19, 2011. The 10b5-1 trading plan allows us to repurchase our common stock in the open market during periods in which stock trading is otherwise closed. The discretionary repurchase provisions and the 10b5-1 provisions of the program became effective November 2, 2011 and repurchases will be able to start shortly thereafter.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information about themselves as long as they identify these statements as forward-looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact made in this Quarterly Report on Form 10-Q are forward-looking. In particular, statements herein regarding industry prospects or trends; expected revenues; expected level of expense; future results of operations, restructuring implications; breakeven point, or financial position; changes in gross margin; economic conditions and capital spending outlook; market acceptance of our newly introduced or upgraded products; 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, 2010 describe some, but not all, of the factors that could cause these differences.

OVERVIEW

We continued to focus on our primary goal of managing the business to grow profits, while developing, launching and enhancing products to drive revenue and earnings growth. Increased spending to accelerate the development initiatives during the last three quarters resulted in two new products being launched in the third quarter of 2011, RoadRunner3 and Factory Integration Software. Our challenge continues to be operating in a cyclical and rapidly evolving industry environment. We are continuing our efforts to balance business geography shifts, increasing costs and strategic investments in our business with the level of demand and mix of business we expect.

On April 29, 2011, Data I/O acquired software technology consisting of patents, software source code, and other intellectual property. This software technology is used in our internal development efforts and will be incorporated into new products currently in development and will be the basis for new software offerings in adjacent market spaces. We have named this software Azido, and starting in the fourth quarter have begun website based user evaluations to help determine the best vertical markets for product launch.

We are focusing our research and development efforts in our strategic growth markets, namely new programming technology, software, and automated programming systems for the manufacturing environment. We continue to focus on extending the capabilities and support for our FlashCORE architecture, and the ProLINE-RoadRunner, FLX, PS, and FlashPAK product lines, as well as new product initiatives. Our applications innovation strategy provides complete solutions to our target customer’s business problems. These solutions generally have a larger software element, may involve third-party components, and in many cases, will be developed or customized to address the specific requirements of individual customers. We believe by adding these features and applications to our strategic product platforms, we will be able to set ourselves apart from other product suppliers and elevate our relationships with our customers.

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. We also provide product solutions used by electronics design engineers. We continued to expand our China operations to take advantage of the growth of manufacturing in China and to operate close to our customers. We continued to address the effectiveness of our sales and marketing organization and sales channels by adding and changing channels and providing our channel partners with extensive product, sales and service training. We recognized the need to diversify our customer base and are continuing to take steps to broaden our channels of distribution and representation to reach a greater number of customers. We believe these channel actions help us grow our business, both by adding new customers and by increasing penetration of existing accounts.

CRITICAL ACCOUNTING POLICY JUDGMENTS AND ESTIMATES

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

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

Revenue Recognition: Sales of Data I/O's semiconductor programming equipment are recognized at the time of shipment. We have determined that our automated products have 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 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 customers and the history provided by our installed base of products upon which the current versions were based. When arrangements include multiple elements, we use objective evidence of selling price to allocate revenue to the various elements and recognize revenue when the criteria for revenue recognition have been met for each element. Effective January 1, 2011, under the provision of ASU 2009-13 Revenue Recognition (Topic 605), the allocation of revenue is done on a pro-rata versus residual basis for the recognized revenue. The amount of revenue recognized is affected by our judgments as to the collectability of the transaction or whether an arrangement includes multiple elements and if so, whether specific objective evidence of selling price exists for those elements. The measure of standalone selling price of the product versus the service installation value component is determined by the amount Data I/O pays to independent representative service groups or the amount of additional discount given to independent distributors, to provide the service installation. Changes to the elements in an arrangement and the ability to establish specific objective evidence for those elements could affect the timing of the revenue recognition. These conditions could be subjective and actual results could vary from the estimated outcome.

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 customer themselves. This takes into account the complexity, skill, and training needed as well as customer expectations regarding installation. The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment provided that persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, and collectability is reasonably assured.

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

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

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

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

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

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

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

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

Results of Operations

NET SALES

Net sales by product line (in thousands)	Three Months Ended September 30, 2011	Change	September 30, 2010	Nine Months Ended September 30, 2011	Change	September 30, 2010
Automated programming systems	$ 4,914	19.2%	$ 4,121	$ 13,746	10.0%	$ 12,496
Non-automated programming systems	2,137	(14.0%)	2,484	7,197	3.5%	6,952
Total programming systems	$ 7,051	6.8%	$ 6,605	$ 20,943	7.7%	$ 19,448

Net sales by location (in thousands)	September 30, 2011	Change	September 30, 2010	September 30, 2011	Change	September 30, 2010
United States	$ 928	(0.5%)	$ 933	$ 2,041	(15.6%)	$ 2,418
% of total	13.2%		14.1%	9.7%		12.4%
International	$ 6,123	8.0%	$ 5,672	$ 18,902	11.0%	$ 17,030
% of total	86.8%		85.9%	90.3%		87.6%

Revenues for the third quarter of 2011 were $7.1 million, an increase of 6.8% compared with $6.6 million in the third quarter of 2010, and $6.8 million in the second quarter of 2011. The increase in sales resulted primarily from PS family solutions and is attributed to automotive and programming center related business. International sales represented 86.8% of total sales for the third quarter. Revenue in the third quarter of 2011 increased in Europe 39% and in the Americas 13% but declined in Asia 17%, compared to the same period in 2010. Sequentially, revenue in the Americas increased 33% over the second quarter of 2011, while Europe declined 3% and Asia declined 10% compared to the second quarter of 2011.

Orders for the third quarter of 2011 were $7.1 million, a decrease of 3% compared with $7.3 million in the third quarter of 2010. Data I/O ended the third quarter of 2011 with a backlog of $1.3 million.

For the first nine months of 2011 revenues were $20.9 million, an increase of 7.7% compared with $19.4 million for the same period in 2010, with the increase in sales related primarily to the same factors as the third quarter.

During August 2011, we announced two new product launches; RoadRunner3 and Factory Integration Software.

GROSS MARGIN

Net sales by product line	Three Months Ended September 30, 2011	Change	September 30, 2010	Nine Months Ended September 30, 2011	Change	September 30, 2010

(in thousands)										
Gross margin	$	3,943	3.1%	$	3,824	$	12,116	6.0%	$	11,427
Percentage of net sales		55.9%			57.9%		57.9%			58.8%

Gross margin as a percentage of sales in the third quarter of 2011 was 55.9%, compared with 57.9% in the third quarter of 2010 and 58.5% in the second quarter of 2011. This gross margin decrease compared to the third quarter of 2010 was primarily due to the impact of increased direct materials cost as a result of the overall product mix. Higher service personnel costs compared to the third quarter of 2010 were offset by lower contract software development costs and labor and overhead costs.

Gross margin as a percentage of sales in the first nine months of 2011 was 57.9%, compared to 58.8% in the same period in 2010. The gross margin percentage decrease compared to the first nine months of 2010 was primarily due to the same factors described above.

RESEARCH AND DEVELOPMENT

	Three Months Ended			Nine Months Ended		
(in thousands)	September 30, 2011	Change	September 30, 2010	September 30, 2011	Change	September 30, 2010
Research and development	$ 1,482	54.9%	$ 957	$ 4,109	43.3%	$ 2,868
Percentage of net sales	21.0%		14.5%	19.6%		14.7%

Research and development ("R&D") expenses for the third quarter of 2011 increased by $525,000 compared to the third quarter of 2010 due primarily to the use of outside resources to accelerate our growth initiatives, as well as higher personnel cost and $130,000 less engineering costs absorbed by operations on custom software development contracts. Also included in the third quarter 2011 R&D expense is Azido amortization expense of $110,000 associated with the software technology acquisition.

R&D expenses increased $1,241,000 for the first nine months of 2011 compared to the same period in 2010, resulting from the same factors above, including $234,000 less engineering costs absorbed by operations on custom software development contracts and $183,000 of Azido amortization expense associated with the software technology acquisition.

R&D expenses are expected to decline in the fourth quarter with a reduction in temporary contractors and consultants associated with launched and other product initiatives. R&D expense will be higher than the prior year comparative quarter due to Azido related expense.

SELLING, GENERAL AND ADMINISTRATIVE

	Three Months Ended			Nine Months Ended		
(in thousands)	September 30, 2011	Change	September 30, 2010	September 30, 2011	Change	September 30, 2010
Selling, general & administrative	$ 2,101	9.9%	$ 1,912	$ 6,490	13.4%	$ 5,725
Percentage of net sales	29.8%		28.9%	31.0%		29.4%

Selling, general and administrative ("SG&A") expenses increased $189,000 in the third quarter of 2011 compared to the same period in 2010, due to increased use of outside professional consultants, higher compensation, rent and travel costs, offset in part by lower incentive compensation, channel commission and recruiting expense.

Selling, general and administrative ("SG&A") expenses increased $765,000 for the first nine months of 2011 compared to the same period in 2010, resulting from the same factors described above, as well as higher marketing costs related to Azido software technology business development costs.

INTEREST

	Three Months Ended			Nine Months Ended		
	September 30,	Change	September 30,	September 30,	Change	September 30,

(in thousands)	2011		2010	2011		2010
Interest income	$ 13	0.0%	$ 13	$ 45	50.0%	$ 30
Interest expense	$ -	(100.0%)	$ (3)	$ (2)	(77.8%)	$ (9)

Interest income for the third quarter of 2011 and 2010 did not change, but for the first nine months of 2011 interest income increased compared to the same period in 2010 due to higher average cash balances. Interest expense decreased for the three and nine months ended September 30, 2011 compared to the same periods in 2010 as a result of the lower balance on the equipment capital lease.

17

INCOME TAXES

	Three Months Ended			Nine Months Ended		
(in thousands)	September 30, 2011	Change	September 30, 2010	September 30, 2011	Change	September 30, 2010
Income tax (expense) benefit	$ (65)	(33.7%)	$ (98)	$ (255)	3.7%	$ (246)

Income tax expense recorded for the third quarter and first nine months of 2011 and 2010 resulted from foreign, state and federal alternative minimum taxes. The effective tax 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 $8,965,000 as of September 30, 2011. Our deferred tax assets and valuation allowance have been reduced by approximately $103,000 associated with the requirements of accounting for uncertain tax positions as of September 30, 2011.

Financial Condition

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	September 30, 2011	Change	December 31, 2010
Working capital	$ 22,654	$51	$ 22,603

The Company's cash position at September 30, 2011 was $18.4 million, up $1.4 million from the second quarter of 2011. Net accounts receivable decreased to $4.8 million at September 30, 2011 compared to $5.3 million at June 30, 2011 and $5.5 million at September 30, 2010, primarily due to improved collections. Inventories decreased slightly to $3.8 million at September 30, 2011 from $3.9 million at both June 30, 2011 and September 30, 2010. Deferred revenue was $1.4 million at both the beginning and end of the third quarter of 2011.

We expect that we will continue to make capital expenditures to support our business. Capital expenditures are expected to be funded by existing and internally generated funds or lease financing.

As a result of our significant product development, customer support, international expansion and selling and marketing efforts, we have required substantial working capital to fund our operations. Over the last few years, we restructured our operations to lower our costs and operating expenditures in some geographic regions, while investing in other regions, and to lower the level of revenue required for our net income breakeven point, 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. Our working capital is expected to be used, in part, for $1 million in stock repurchases and to fund growth initiatives, including acquisitions, which could reduce our liquidity. Any substantial inability to achieve our current business plan could have a material adverse impact on our financial position, liquidity, or results of operations and may require us to reduce expenditures and/or seek additional financing.

LONG-TERM DEBT

On September 27, 2006, the Company entered into a five year capital lease agreement in the amount of $591,145. The imputed interest rate is 7.69%. At September 30, 2011, the capital lease obligation had been paid in full. See Note 10, "Long-Term Debt"

OFF-BALANCE SHEET ARRANGEMENTS

Except as noted above in Note 7, “Operating Lease Commitments” and Note 8, “Other Commitments,” Data I/O had no off-balance sheet arrangements.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011, the FASB issued ASU 2011-08, “Intangibles – Goodwill and Other (Topic 350)”, an update to existing guidance on the assessment of goodwill impairment. This update simplifies the assessment of goodwill for impairment by allowing companies to consider qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two step impairment review process. It also amends the examples of events or circumstances that would be considered in a goodwill impairment evaluation. The amendments in ASU 2011-08 are effective as of September 15, 2011. Early adoption in permitted. The Company is currently evaluating the affects adoption of ASU 2011-08 will have on its condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”). This ASU amends requirements for the presentation of other comprehensive income (OCI), requiring presentation of comprehensive income in either a single, continuous statement of comprehensive income or on separate but consecutive statements, the statement of operations and the statement of OCI. The amendment is effective for the Company at the beginning of fiscal year 2013 with early adoption permitted. The adoption of this guidance will not impact the Company's financial position, results of operations or cash flows and will only impact the presentation of OCI on the financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Reporting Standards (“ASU No. 2011-04”) which amended the guidance regarding fair value measurement and disclosure. The amended guidance clarifies the application of existing fair value measurement and disclosure requirements. The amendment is effective for the Company at the beginning of January 2012, with early adoption prohibited. The adoption of this amendment is not expected to materially affect the Company's financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROLS

There were no changes made in our internal controls during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

As of September 30, 2011, Data I/O was not a party to any material pending legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010, 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. Other than the following item, there are no material changes to the Risk Factors described in our Annual Report:

Our recent acquisition of assets may have an adverse effect on our business if we cannot develop products on a timely basis or advance our business strategy.

We completed an acquisition of software technology assets in April 2011 and expect to invest resources to develop those assets. Development of this software technology investment involves significant challenges and risks including that the transaction does not advance our business strategy; that we do not realize a satisfactory return on our investment; or that we experience difficulty in the integration of new employees, development of the software and technology, or diversion of management’s attention from our other business. These events could harm our operating results or financial condition.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. [Removed and Reserved]

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

31	Certification – Section 302:
31.1	Chief Executive Officer Certification

31.2	Chief Financial Officer Certification
32	Certification – Section 906:
32.1	Chief Executive Officer Certification
32.2	Chief Financial Officer Certification
101	Interactive Date Files Pursuant to Rule 405 of Regulation S-T

20

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: November 4, 2011

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(a) of the Sarbanes-Oxley Act of 2002

I, Frederick R. Hume, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Data I/O Corporation;
2) Based upon 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.
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 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 controls over financial reporting.

DATED: November 4, 2011

/s/ Frederick R. Hume
Frederick R. Hume
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2
Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Joel S. Hatlen, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Data I/O Corporation;
2) Based upon 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 purpose 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.
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 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 controls over financial reporting.

DATED: November 4, 2011

/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, 2011 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 as amended; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Frederick R. Hume
Frederick R. Hume
Chief Executive Officer
(Principal Executive Officer)
November 4, 2011

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, 2011 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 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 4, 2011