EDGAR SUBMISSION SUMMARY

Issuer Name	DATA I/O CORP
Submission Type	10-Q
Live File	On
Return Copy	On
Exchange	NONE
Confirming Copy	Off
Filer CIK	0000351998
Filer CCC	xxxxxxxx
Period of Report	06-30-2023
Smaller Reporting Company	On
Shell Company	Off
Emerging Growth Company	No
Notify via Filing website Only	Off
Emails	confirmations@issuerdirect.com

Documents

Form Type	File Name	Description
10-Q	daio_10q.htm	FORM 10-Q
EX-31.1	daio_ex311.htm	CERTIFICATION
EX-31.2	daio_ex312.htm	CERTIFICATION
EX-32.1	daio_ex321.htm	CERTIFICATION
EX-32.2	daio_ex322.htm	CERTIFICATION
EX-101.SCH	daio-20230630.xsd	XBRL TAXONOMY EXTENSION SCHEMA
EX-101.LAB	daio-20230630_lab.xml	XBRL TAXONOMY EXTENSION LABEL LINKBASE
EX-101.CAL	daio-20230630_cal.xml	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
EX-101.PRE	daio-20230630_pre.xml	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE
EX-101.DEF	daio-20230630_def.xml	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

Module and Segment References

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2023**
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 425-881-6444
(Address of principal executive offices, including zip code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	DAIO	NASDAQ

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated Filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 July 31, 2023: 9,018,875

DATA I/O CORPORATION

FORM 10-Q

For the Quarter Ended June 30, 2023

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,870	$ 11,510
Trade accounts receivable, net of allowance for doubtful accounts of $135 and $147, respectively	4,725	4,992
Inventories	6,868	6,751
Other current assets	847	645
TOTAL CURRENT ASSETS	24,310	23,898
Property, plant and equipment – net	989	1,072
Other assets	1,802	2,195
TOTAL ASSETS	$ 27,101	$ 27,165
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,590	$ 1,366
Accrued compensation	1,723	1,670
Deferred revenue	1,363	1,575
Other accrued liabilities	1,542	1,596
Income taxes payable	91	112
TOTAL CURRENT LIABILITIES	6,309	6,319
Operating lease liabilities	1,087	1,500
Long-term other payables	218	237
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, 9,018,875 shares as of June 30, 2023 and 8,816,381 shares as of December 31, 2022	22,165	21,897
Accumulated earnings (deficit)	(2,736)	(3,131)
Accumulated other comprehensive income	58	343
TOTAL STOCKHOLDERS' EQUITY	19,487	19,109
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 27,101	$ 27,165

See notes to consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net sales	$ 7,398	$ 4,769	$ 14,629	$ 9,734
Cost of goods sold	3,025	2,011	5,954	4,673
Gross margin	4,373	2,758	8,675	5,061
Operating expenses:				
Research and development	1,720	1,557	3,345	3,173
Selling, general and administrative	2,489	1,928	4,997	3,976
Total operating expenses	4,209	3,485	8,342	7,149
Operating income (loss)	164	(727)	333	(2,088)
Non-operating income (loss):				
Interest income	49	1	84	2
Gain on sale of assets	-	-	-	57
Foreign currency transaction gain (loss)	196	130	122	71
Total non-operating income (loss)	245	131	206	130
Income (loss) before income taxes	409	(596)	539	(1,958)
Income tax (expense) benefit	(109)	(61)	(144)	(519)
Net income (loss)	$ 300	$ (657)	$ 395	$ (2,477)
Basic earnings (loss) per share	$ 0.03	$ (0.08)	$ 0.04	$ (0.29)
Diluted earnings (loss) per share	$ 0.03	$ (0.08)	$ 0.04	$ (0.29)
Weighted-average basic shares	8,904	8,709	8,861	8,665
Weighted-average diluted shares	9,075	8,709	9,052	8,665

See notes to consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	$ 300	$ (657)	$ 395	$ (2,477)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(350)	(454)	(285)	(524)
Comprehensive income (loss)	$ (50)	$ (1,111)	$ 110	$ (3,001)

See notes to consolidated financial statements

DATA I/O CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(UNAUDITED)

	Common Stock		Retained Earnings (Deficit)	Accumulated and Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2021	8,621,007	$ 20,886	$ (2,011)	$ 978	$ 19,853
Stock awards issued, net of tax withholding	-	-	-	-	-
Issuance of stock through: ESPP	1,362	6	-	-	6
Share-based compensation	-	291	-	-	291
Net income (loss)	-	-	(1,820)	-	(1,820)
Other comprehensive income (loss)	-	-	-	(70)	(70)
Balance at March 31, 2022	8,622,369	$ 21,183	$ (3,831)	$ 908	$ 18,260
Stock awards issued, net of tax withholding	191,910	(177)	-	-	(177)
Issuance of stock through: ESPP	-	-	-	-	-
Share-based compensation	-	380	-	-	380
Net income (loss)	-	-	(657)	-	(657)
Other comprehensive income (loss)	-	-	-	(454)	(454)
Balance at June 30, 2022	8,814,279	$ 21,386	$ (4,488)	$ 454	$ 17,352
Balance at December 31, 2022	8,816,381	$ 21,897	$ (3,131)	$ 343	$ 19,109
Stock awards issued, net of tax withholding	-	-	-	-	-
Issuance of stock through: ESPP	1,695	7	-	-	7
Share-based compensation	-	249	-	-	249
Net income (loss)	-	-	95	-	95
Other comprehensive income (loss)		-	-	65	65
Balance at March 31, 2023	8,818,076	$ 22,153	$ (3,036)	$ 408	$ 19,525
Stock awards issued, net of tax withholding	200,799	(368)	-	-	(368)
Issuance of stock through: ESPP	-	-	-	-	-
Share-based compensation	-	380	-	-	380
Net income (loss)	-	-	300	-	300
Other comprehensive income (loss)		-	-	(350)	(350)
Balance at June 30, 2023	9,018,875	$ 22,165	$ (2,736)	$ 58	$ 19,487

See notes to consolidated financial statements

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

	For the Six Months Ended June 30,	
	2023	**2022**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 395	$ (2,477)
Adjustments to reconcile net income (loss)		
to net cash provided by (used in) operating activities:		
Depreciation and amortization	289	293
Equipment transferred to cost of goods sold	109	261
Share-based compensation	629	671
Net change in:		
Trade accounts receivable	262	(278)
Inventories	(216)	(701)
Other current assets	(211)	131
Accounts payable and accrued liabilities	239	(347)
Deferred revenue	(233)	(156)
Other long-term liabilities	(299)	(493)
Deposits and other long-term assets	256	344
Net cash provided by (used in) operating activities	1,220	(2,752)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(315)	(648)
Cash provided by (used in) investing activities	(315)	(648)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock, less payments for shares withheld to cover tax	(360)	(171)
Cash provided by (used in) financing activities	(360)	(171)
Increase (decrease) in cash and cash equivalents	545	(3,571)
Effects of exchange rate changes on cash	(185)	(328)
Cash and cash equivalents at beginning of period	11,510	14,190
Cash and cash equivalents at end of period	$ 11,870	$ 10,291
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 144	$ 445

See notes to consolidated financial statements

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

NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Data I/O Corporation ("Data I/O", "We", "Our", "Us") is a global market leader for advanced programming, security deployment, security provisioning and associated Intellectual Property ("IP") protection and management solutions used in electronics manufacturing with flash memory, microcontrollers, and flash memory-based intelligent devices as well as secure element devices, authentication devices and secure microcontrollers. Customers for our programming system products are located around the world, primarily in Asia, Europe and the Americas. Our manufacturing operations are currently located in Redmond, Washington, United States and Shanghai, China.

We prepared the financial statements as of June 30, 2023 and June 30, 2022 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, 2022 has been derived from the audited financial statements at that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America according to such SEC rules and regulations. Operating results for the six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

Significant Accounting Policies

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, 2022 (filed with the SEC on March 30, 2023). There have been no changes to our significant accounting policies described in the Annual Report that have had a material impact on our unaudited condensed consolidated financial statements and related notes.

Revenue Recognition

Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606) provides a single, principles-based, five-step model to be applied to all contracts with customers. It generally provides for the recognition of revenue in an amount that reflects the consideration to which the Company expects to be entitled, net of allowances for estimated returns, discounts or sales incentives, as well as taxes collected from customers when control over the promised goods or services are transferred to the customer.

We expense contract acquisition costs, primarily sales commissions, for contracts with terms of one year or less and will capitalize and amortize incremental costs with terms that exceed one year. During the second quarter of 2023 and 2022, the impact of capitalization of incremental costs for obtaining contracts was immaterial. We exclude sales, use, value added, some excise taxes and other similar taxes from the measurement of the transaction price.

We recognize revenue upon transfer of control of the promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. 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 a separate performance obligation. 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 upon transfer of control of the product to customers, which generally is at the time of shipment. Installation that is considered perfunctory includes any installation that is expected to be performed by other parties, such as distributors, other vendors, or the customers themselves. This analysis considers the complexity, skill and training needed, as well as customer expectations regarding installation.

We enter into arrangements with multiple performance obligations 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 transaction price 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 performance obligations, we use the value of the discount given to distributors who perform these components. For software maintenance performance obligations, 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. Deferred revenue includes service, support and maintenance contracts and represents the undelivered performance obligation of agreements that are typically for one year.

When we license software separately, we recognize revenue upon the transfer of control of the software, which is generally upon shipment, provided that only inconsequential performance obligations remain on our part and substantive acceptance conditions, if any, have been met.

We recognize revenue when there is an approved contract that both parties are committed to perform, both parties' rights have been identified, the contract has substance, collection of substantially all the consideration is probable, the transaction price has been determined and allocated over the performance obligations, the performance obligations including substantive acceptance conditions, if any, in the contract 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. Payment terms are generally 30 to 60 days from shipment.

We transfer certain products out of service from their internal use and make them available for sale. The products transferred are typically 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.

The following table represents our revenues by major categories:

	Three Months Ended			Six Months Ended		
Net sales by type	June 30, 2023	Change	June 30, 2022	June 30, 2023	Change	June 30, 2022
(in thousands)						
Equipment	$ 4,557	73.4%	$ 2,628	$ 8,608	64.5%	$ 5,234
Adapter	1,979	38.9%	1,425	4,246	39.3%	3,048
Software and Maintenance	862	20.4%	716	1,775	22.2%	1,452
Total	$ 7,398	55.1%	$ 4,769	$ 14,629	50.3%	$ 9,734

Share-Based Compensation

All stock-based compensation awards are measured based on estimated fair values on the date of grant and recognized as compensation expense on the straight-line method. Our share-based compensation is reduced for estimated forfeitures at the time of grant and revised as necessary in subsequent periods if actual forfeitures differ from those estimates.

Income Tax

Income taxes are computed at current enacted tax rates, less tax credits using the asset and liability method. Deferred taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, changes in deferred tax assets and liabilities that arise because of temporary differences between the timing of when items of income and expense are recognized for financial reporting and income tax purposes, and any changes in the valuation allowance caused by a change in judgment about the realization of the related deferred tax assets. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

Recently Adopted Accounting Pronouncements

For the six months ended June 30, 2023, there were no recently issued accounting pronouncements that had, or are expected to have, a material impact to Data I/O Corporation's consolidated financial statements. In the first quarter of 2023, ASU 326 became effective for the Company. The adoption of the ASU 326 CECL (Current Estimate of Credit Losses) did not have a material impact to Data I/O Corporation's consolidated financial statements.

NOTE 2 – INVENTORIES

Inventories consisted of the following components:

(in thousands)	June 30, 2023	December 31, 2022
Raw material	$ 3,717	$ 3,850
Work-in-process	1,814	1,911
Finished goods	1,337	990
Inventories	$ 6,868	$ 6,751

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, NET

Property and equipment consisted of the following components:

(in thousands)	June 30, 2023	December 31, 2022
Leasehold improvements	$ 388	$ 404
Equipment	4,845	4,683
Sales demonstration equipment	924	1,066
	6,157	6,153
Less accumulated depreciation	5,168	5,081
Property and equipment, net	$ 989	$ 1,072

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NOTE 4 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components:

(in thousands)	June 30, 2023	December 31, 2022
Lease liability - short term	$ 808	$ 799
Product warranty	458	425
Sales return reserve	71	71
Other taxes	113	163
Other	92	138
Other accrued liabilities	$ 1,542	$ 1,596

The changes in our product warranty liability for the six months ending June 30, 2023 and year ending December 31, 2022 are as follows:

(in thousands)	June 30, 2023	December 31, 2022
Liability, beginning balance	$ 425	$ 432
Net expenses	459	774
Warranty claims	(459)	(774)
Accrual revisions	33	(7)
Liability, ending balance	$ 458	$ 425

NOTE 5 – LEASES

Our leasing arrangements are primarily for facility leases we use to conduct our operations. The following table presents our future lease payments for long-term operating leases as of June 30, 2023:

(in thousands)	Operating Lease Commitments
2023 (remaining)	$ 445
2024	811
2025	590
2026	132
2027	47
Thereafter	-
Total	$ 2,025
Less imputed interest	(130)
Total operating lease liabilities	$ 1,895

Cash paid for operating lease liabilities for the three and six months ended June 30, 2023 were $219,254 and $442,909, respectively. There were no new operating leases during the six months ended June 30, 2023.

The following table presents supplemental balance sheet information related to leases as of:

(in thousands)	Balance at June 30, 2023	Balance at December 31, 2022
Right-of-use assets (Long-term other assets)	$ 1,736	$ 2,129
Lease liability-short term (Other accrued liabilities)	808	799
Lease liability-long term (Operating lease liabilities)	1,087	1,500

At June 30, 2023, the weighted average remaining lease term is 2.5 years and the weighted average discount rate used is 5%.

The components of our lease expense for the three and six months ended June 30, 2023 include operating lease costs of $213,000 and $430,000, respectively, and short-term lease costs of $7,000 and $13,000, respectively. This compares to the three and six months ended June 30, 2022 with operating lease costs of $213,000 and $434,000 respectively, and short-term lease costs of $6,000 and $27,000, respectively.

The Redmond, Washington headquarters facility lease runs to January 31, 2026. The lease is for approximately 20,460 square feet. The lease for a facility located in Shanghai, China runs to October 31, 2024. This lease is for approximately 19,400 square feet. The lease for our facility located near Munich, Germany runs to August 2027. This lease is for approximately 4,895 square feet.

NOTE 6 – 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 June 30, 2023, the purchase commitments and other obligations totaled $2.0 million of which all but $0.3 million are expected to be paid over the next twelve months.

NOTE 7 – CONTINGENCIES

As of June 30, 2023, 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 8 – INCOME TAXES

Income tax benefit (expense) primarily relates to foreign and state taxes. The first quarter of 2022 included dividend withholding taxes of $445,000 on a dividend repatriation.

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 $9.6 million as of June 30, 2023. As of June 30, for both 2023 and 2022, our deferred tax assets and valuation allowance have been reduced by approximately $437,000 and $405,000, respectively, associated with the requirements of accounting for uncertain tax positions. Given the uncertainty created by our loss history, as well as the volatile and uncertain economic outlook for our industry and capital spending, we have limited the recognition of net deferred tax assets including our net operating losses and credit carryforwards and continue to maintain a valuation allowance for the full amount of the net deferred tax asset balance.

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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		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
(in thousands except per share data)				
Numerator for basic and diluted earnings (loss) per share:				
Net income (loss)	$ 300	$ (657)	$ 395	$ (2,477)
Denominator for basic earnings (loss) per share:				
Weighted-average shares	8,904	8,709	8,861	8,665
Employee stock options and awards	171	-	191	-
Denominator for diluted earnings (loss) per share:				
Adjusted weighted-average shares & assumed conversions of stock options	9,075	8,709	9,052	8,665
Basic and diluted earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.03	$ (0.08)	$ 0.04	$ (0.29)
Diluted earnings (loss) per share	$ 0.03	$ (0.08)	$ 0.04	$ (0.29)

Options to purchase 12,500 and 12,500 shares, respectively, were outstanding as of June 30, 2023 and 2022, 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 six months ended June 30, 2023 and 2022, respectively, were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
(in thousands)				
Cost of goods sold	$ 30	$ 25	$ 48	$ 40
Research and development	81	69	129	133
Selling, general and administrative	269	286	452	498
Total share-based compensation	$ 380	$ 380	$ 629	$ 671

Equity awards granted during the three and six months ended June 30, 2023 and 2022 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Restricted Stock Units	272,100	324,200	282,100	326,715
Performance Stock Units	25,000	-	25,000	-

Non-employee directors Restricted Stock Units (“RSUs”) typically vest over the earlier of one year or the next annual meeting of shareholders and Non-Qualified stock options vest over three years and have a six-year exercise period. Employee RSUs typically vest annually over three or four years and employee Non-Qualified stock options typically vest quarterly over four years and have a six-year exercise period. Performance Stock Units (“PSUs”) typically cliff vest at the end of the performance period and the performance metric is cumulative revenue growth over the three-year period ending December 31, 2025 with a cumulative revenue threshold, target, and maximum.

The remaining unamortized expected future equity compensation expense and remaining amortization period associated with award grants of unvested options, PSUs and RSUs at June 30, 2023 and 2022 are:

	June 30, 2023	June 30, 2022
Unamortized future equity compensation expense (in thousands)	$ 2,683	$ 2,631
Remaining weighted average amortization period (in years)	2.64	2.82

The weighted average number of shares outstanding used to compute earnings (loss) per share included the following:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Restricted Stock Units	169,990	92,525	195,204	140,049
Performance Stock Units	232	-	96	-
Stock Options	237	177	236	218

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 economic outlook, impact of COVID-19 including shutdown in Shanghai, China and related recovery; industry prospects and trends; expected business recovery; industry partnerships; future results of operations or financial position; future spending; expected expenses, breakeven revenue point; expected market decline, bottom or growth; market acceptance of our newly introduced or upgraded products or services; the sufficiency of our cash to fund future operations and capital requirements; development, introduction and shipment of new products or services; changing foreign operations; taxes, trade issues and tariffs; expected inventory levels; expectations for unsupported platform or product versions and related inventory and other charges; Russian invasion of Ukraine impacts; supply chain expectations; semiconductor chip shortages; 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 Data I/O 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 Quarterly 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, 2022, describe some, but not all, of the factors that could cause these differences.

Overview

The second quarter of 2023 reflects strong revenues, gross margin, and profitability. It represented the fourth consecutive quarter of profitability and more normal operations. The prior year comparisons reflect impacts from COVID-19, Ukraine war and a host of other challenges that have positioned us where we are now in 2023.

COVID-19 Background and Update

During 2022, we continued to react to, and manage our business relative to, the COVID-19 pandemic. Early in the year as our business started to return to more normal in parts of the world, challenges arose that were difficult for our business. During parts of the first and second quarters of 2022, our Shanghai facility and operations were shut down for two and a half months as required by China pursuant to their zero-COVID policy. This shutdown impacted our supply chains, shipping times, travel, trade shows, and forced remote work. We were largely able to resume operations and begin recovery late in the second quarter and throughout the third quarter of 2022. Customers continued to restrict in-person sales and other visits. We continued to do business by converting these interactions to remote and virtual means as we have implemented new processes and technology. Our resilient supply chain model was able to support our customers by having alternate facilities that were open and responded to the critical impacts of the shutdown. Later in the fourth quarter of 2022, China's zero-COVID policy was effectively cancelled. In December most of our employees in Shanghai China were out briefly with COVID-19 and we resumed normal operations early in 2023. We believe that our China demand was soft during the first and second quarter of 2023 due to both COVID-19 recovery in China and customers dealing with the implications of new emission standards effective mid-year.

Other Major Impacts

The war in Ukraine starting in early 2022, while having little direct impact on us from Russia or Ukraine, affected supply chains, shipping, European economic uncertainty and energy concerns. Inflation impacted everyone. We believe we were able to adequately address inflation with pricing adjustments such that our margins were mostly maintained. The strengthening of the dollar in 2022 created headwinds for revenues, as typically over 90% of our business is international. Interest rate hikes by central banks were a concern, especially for cyclical industries with resulting worries about capital spending and planning for recessionary impacts. Certain labor markets were tight during the year causing recruiting challenges. The impact of semiconductor chip shortages, that began mid-2021 and continued well into 2022, are not completely resolved yet in 2023. Many of the issues described in the overview have caused supply chain disruptions and lead time unreliability, which we have managed carefully by maintaining and increasing key inventory levels. We believe there is less risk exposure on these issues and we are now reducing inventory levels and expect to continue reducing inventory through 2023. Finally on a brighter note, the continued outlook by industry analysts for automotive electronics, which remains our primary market focus, remains strong based on the long-term forecast for a decade.

2023

During both the first and second quarter of 2023, our operations were much more normal. The strong dollar impacts started to reverse during the fourth quarter of 2022 and have provided tail winds for revenue sequentially through the second quarter of 2023, especially for the Euro. Macroeconomic news, while improving, continued to be fairly negative. On a more positive note, inflation, while still elevated, appears to be diminishing. Interest rates continue to be higher, but an anticipated recession has not occurred outside of Germany. COVID-19, semiconductor shortages, shipping & supply chain issues, and domestic labor tightness slowing recruiting, are improving situations and no longer top of mind. In-person trade shows are occurring and generating leads. Travel and face-to-face customer meetings are happening. We think our new capabilities of supplier resilience, inventory and production in multiple locations, leveraging remote and virtual services, are capabilities to retain and build upon. We continue to focus on managing our costs carefully and executing strategies for growth.

We are focusing our research and development efforts in our strategic growth markets, namely automotive electronics and IoT new programming technologies, secure supply chain solutions, automated programming systems and their enhancements for the manufacturing environment and software. At Data I/O, we are investing for the long-term to retain and extend our leadership position in automotive electronics and security deployment. We are continuing to develop technology to securely provision newer categories of semiconductors, including Secure Microcontrollers, Authentication Chips, and Secure Elements. We continue to focus on extending the capabilities and support for our product lines and supporting the latest semiconductor devices, including various configurations of NAND Flash, eMMC, UFS and microcontrollers on our newer products.

Our customer focus has been on global and strategic high-volume manufacturers in key market segments like automotive electronics, IoT, industrial controls and consumer electronics, as well as programming centers. Although the long-term prospects for our strategic growth markets should remain good, these markets and our business have been, and are likely to continue to be, adversely impacted by COVID-19 and other global political and economic factors.

On the product side, we continue to invest with a long-term focus towards expanding our markets and creating unique value for our customers. This is true for both our traditional core business as well as the emerging security deployment business. Our strong cash position and balance sheet, combined with our long-term view of the market, gives us the financial flexibility to make these investments.

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, sales returns, bad debts, inventories, 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: Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606) provides a single, principles-based, five-step model to be applied to all contracts with customers. It generally provides for the recognition of revenue in an amount that reflects the consideration to which the Company expects to be entitled, net of allowances for estimated returns, discounts or sales incentives, as well as taxes collected from customers when control over the promised goods or services are transferred to the customer.

We expense contract acquisition costs, primarily sales commissions, for contracts with terms of one year or less and will capitalize and amortize incremental costs with terms that exceed one year. During 2023 and 2022, the impact of capitalization of incremental costs for obtaining contracts was immaterial. We exclude sales, use, value added, some excise taxes and other similar taxes from the measurement of the transaction price.

We recognize revenue upon transfer of control of the promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. 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 a separate performance obligation. 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 upon transfer of control of the product to customers, which generally is at the time of shipment. Installation that is considered perfunctory includes any installation that is expected to be performed by other parties, such as distributors, other vendors, or the customers themselves. This analysis considers the complexity, skill and training needed, as well as customer expectations regarding installation.

We enter into arrangements with multiple performance obligations 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 transaction price 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 performance obligations, we use the value of the discount given to distributors who perform these components. For software maintenance performance obligations, 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. Deferred revenue includes service, support and maintenance contracts and represents the undelivered performance obligation of agreements that are typically for one year.

When we license software separately, we recognize revenue upon the transfer of control of the software, which is generally upon shipment, provided that only inconsequential performance obligations remain on our part and substantive acceptance conditions, if any, have been met.

We recognize revenue when there is an approved contract that both parties are committed to perform, both parties' rights have been identified, the contract has substance, collection of substantially all the consideration is probable, the transaction price has been determined and allocated over the performance obligations, the performance obligations including substantive acceptance conditions, if any, in the contract 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. Payment terms are generally 30 to 60 days from shipment.

We transfer certain products out of service from their internal use and make them available for sale. The products transferred are typically 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 (Current Estimate of Credit Losses) on our assessment of the credit losses collectively expected for the future, as well as 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, or events forecast that collectively indicate some impairment is expected, our estimates of the recoverability of amounts due to us could be adversely affected.

Inventory: Inventories are stated at the lower of cost or net realizable value. 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 and ongoing cyclical and COVID-19 pandemic related uncertain economic outlook for our industry, capital and geographic spending, as well as income and current net deferred tax assets by entity and country, 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 as we are able to take advantage of the underlying tax loss or other attributes in carry forward or their use by future income or circumstances allow us to realize these attributes. 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, performance stock unit awards and restricted stock unit awards, using the estimated grant date fair value method of accounting. For options, we estimate the fair value using the Black-Scholes valuation model and an estimated forfeiture rate. Restricted stock unit awards and performance stock unit awards are valued based on the average of the high and low price on the date of the grant and an estimated forfeiture rate. For options, performance and restricted stock unit awards, expense is recognized as compensation expense on the straight-line basis. 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	Three Months Ended June 30, 2023	Change	June 30, 2022	Six Months Ended June 30, 2023	Change	June 30, 2022
(in thousands)						
Automated programming systems	$ 5,935	62.9%	$ 3,644	$ 11,862	57.7%	$ 7,520
Non-automated programming systems	1,463	30.0%	1,125	2,767	25.0%	2,214
Total programming systems	$ 7,398	55.1%	$ 4,769	$ 14,629	50.3%	$ 9,734

Net sales by location	Three Months Ended June 30, 2023	Change	June 30, 2022	Six Months Ended June 30, 2023	Change	June 30, 2022
(in thousands)						
United States	$ 1,010	95.7%	$ 516	$ 1,947	142.2%	$ 804
% of total	13.7%		10.8%	13.3%		8.3%
International	$ 6,388	50.2%	$ 4,253	$ 12,682	42.0%	$ 8,930
% of total	86.3%		89.2%	86.7%		91.7%

Net sales by type	Three Months Ended June 30, 2023	Change	June 30, 2022	Six Months Ended June 30, 2023	Change	June 30, 2022
(in thousands)						
Equipment sales	$ 4,557	73.4%	$ 2,628	$ 8,608	64.5%	$ 5,234
Adapter sales	1,979	38.9%	1,425	4,246	39.3%	3,048
Software and maintenance	862	20.4%	716	1,775	22.2%	1,452
Total	$ 7,398	55.1%	$ 4,769	$ 14,629	50.3%	$ 9,734

Net sales in the second quarter of 2023 were $7.4 million, up 55% as compared with $4.8 million in the second quarter of 2022. The dramatic comparison reflects the continued second quarter of 2022 Shanghai COVID-19 restrictions and lockdowns, and the war in Ukraine which impacted European business as well as supply chain, and revenue recognition for shipments that had been held up or delayed. Revenues also benefited from the impact of the weakening US Dollar for translation of foreign subsidiary amounts. Recurring and consumable revenues, which includes adapter sales, represented a more normal proportion at 41% of revenues in the second quarter of 2023, as compared with 45% of the second quarter of 2022. Year-to-date, total capital equipment sales were 59% of revenues, adapters were 29%, and software and services revenues were 12% of revenues, respectively, in the second quarter of 2023 compared with 54%, 31% and 15%, respectively, for the second quarter of 2022.

On a geographic basis, international sales represented approximately 86.3% of total net sales for the second quarter of 2023 compared with 89.2% in the prior year period.

Second quarter 2023 bookings were $7.6 million, as compared with $6.4 million in the prior year period. Year-to -date bookings were $13.3 million, as compared with $12.6 million in the prior year-to date period. We experienced softness in China demand in the first and second quarter of 2023, we believe, as they recovered from COVID-19 and in their preparation for new automotive emission standards. Longer term, we see potential for more demand in China driven by new production changes and especially the transition to electric vehicles (EV).

Backlog at June 30, 2023 was approximately $3.8 million, up from $3.2 million at March 31, 2023 and down from $5.8 million at June 30, 2022, which reflected the build up from the Shanghai shutdown. Data I/O had $1.6 million in deferred revenue at June 30, 2023, down from $2.0 million at March 31, 2023 due to a lease to purchase conversion with a large deferred credit recognition, and $1.5 million at June 30, 2022.

GROSS MARGIN

	Three Months Ended			Six Months Ended		
	June 30, 2023	Change	June 30, 2022	June 30, 2023	Change	June 30, 2022
(in thousands)						
Gross margin	$ 4,373	58.6%	$ 2,758	$ 8,675	71.4%	$ 5,061
Percentage of net sales	59.1%		57.8%	59.3%		52.0%

Gross margins as a percentage of sales were 59.1% in the second quarter of 2023 as compared to 57.8% in the same period of 2022 with margins improved by higher sales volume on relatively fixed costs; product mix including a recognition of previously deferred rental income as a purchasing credit; and our channel mix, offset in part by less favorable factory variances. For our channel mix, with direct sales from the Americas and parts of Europe stronger in the second quarter of 2023, and where we account for selling commissions in our operating expenses, we show a higher level of gross margin as a percentage of sales.

Year-to-date gross margins were similar for the three- and six-month periods of 2023, but the same periods in 2022 were impacted by the Shanghai COVID-19 shutdown, sales volume relative to fixed costs, currency effects and factory variances.

RESEARCH AND DEVELOPMENT

	Three Months Ended			Six Months Ended		
	June 30, 2023	Change	June 30, 2022	June 30, 2023	Change	June 30, 2022
(in thousands)						
Research and development	$ 1,720	10.5%	$ 1,557	$ 3,345	5.4%	$ 3,173
Percentage of net sales	23.2%		32.6%	22.9%		32.6%

Research and development ("R&D") expenses in the second quarter of 2023 were up compared to the same period in 2022, with additional outside services in support of our product lines, as well as incentive compensation where there was none in 2022 due to losses.

Year-to-date R&D expense changes were primarily due to the same factors as in the second quarter. We have maintained our investment in our product development and supporting our growth initiatives.

SELLING, GENERAL AND ADMINISTRATIVE

	Three Months Ended			Six Months Ended		
	June 30, 2023	Change	June 30, 2022	June 30, 2023	Change	June 30, 2022
(in thousands)						
Selling, general & administrative	$ 2,489	29.1%	$ 1,928	$ 4,997	25.7%	$ 3,976
Percentage of net sales	33.6%		40.4%	34.2%		40.8%

Selling, General and Administrative ("SG&A") expenses in the second quarter of 2023 increased by approximately $561,000 from the prior year period primarily due to higher channel and sales commissions associated with higher revenue; recruiting fees; outside services; and additional information technology projects and support, as well as incentive compensation where there was none in 2022 due to losses.

Year-to-date SG&A expenses varied primarily due to the same factors as in the second quarter. Cost control measures have remained in place during the first two quarters of 2023 and are expected to continue in the third quarter of 2023.

INTEREST

	Three Months Ended			Six Months Ended		
	June 30, 2023	Change	June 30, 2022	June 30, 2023	Change	June 30, 2022
(in thousands)						
Interest income	$ 49	4800.0%	$ 1	$ 84	4100.0%	$ 2

Interest income was higher in the second quarter of 2023 and year-to-date compared to the same periods in 2022 due to higher average interest rates and higher invested balances.

INCOME TAXES

	Three Months Ended			Six Months Ended		
	June 30, 2023	Change	June 30, 2022	June 30, 2023	Change	June 30, 2022
(in thousands)						
Income tax benefit (expense)	$ (109)	78.7%	$ (61)	$ (144)	(72.3)%	$ (519)

Income tax benefit (expense) for the second quarter of both 2023 and 2022 primarily related to foreign and state taxes.

Year-to-date income tax benefit (expense) was primarily due to the same factors as in the second quarter, as well as during the first quarter of 2022, a China dividend withholding tax of $442,000 was paid in connection with a dividend repatriation to the US parent company.

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 $9.6 million as of June 30, 2023. As of June 30, for both 2023 and 2022, our deferred tax assets and valuation allowance have been reduced by approximately $437,000 and $405,000, respectively, associated with the requirements of accounting for uncertain tax positions. Given the uncertainty created by our loss history, as well as the volatile and uncertain economic outlook for our industry and capital spending, we have limited the recognition of net deferred tax assets including our net operating losses and credit carryforwards and continue to maintain a valuation allowance for the full amount of the net deferred tax asset balance.

Financial Condition

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	June 30, 2023	Change	December 31, 2022
Working capital	$ 18,001	$ 422	$ 17,579

At June 30, 2023, our principal sources of liquidity consisted of existing cash and cash equivalents. Cash at $11.9 million has increased $360,000 year-to-date, but was approximately the same as on March 31, 2023.

Net working capital at June 30, 2023 was $18.0 million, up $0.4 million compared to December 31, 2022, and approximately the same as on March 31, 2023. Receivables were reduced $267,000 compared to December 31, 2022. Collection of receivables was good during the second quarter of 2023 with DSO (Days Sales Outstanding, a collections metric) well below our target. Inventory increased by $150,000 compared to December 31, 2022. While inventory had been elevated in 2022 to address potential shortage risks, we no longer see the same exposure, so we are managing operations to reduce inventory levels going forward during 2023.

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

As a result of our cyclical industry, significant product development, customer support and 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 or managing lower business levels related to COVID-19. We have implemented or have initiatives to implement geographic shifts in our operations, optimize real estate usage, reduce exposure to the impact of currency volatility and tariffs, increase product development differentiation, and control costs.

We believe that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through the next one-year period, and beyond. We may require additional cash at the U.S. headquarters, which could cause potential repatriation of cash that is held in our foreign subsidiaries. We currently do not have plans and/or intentions to make further repatriations. For any repatriation, there may be tax and other impediments to any repatriation actions. As many repatriations typically have associated withholding taxes, those amounts withheld will be a current tax without generating a current or deferred tax benefit. 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 5, “Leases” and Note 6, “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 $490,000 in the second quarter of 2023 compared to ($445,000) in the second quarter of 2022. Adjusted EBITDA, excluding equity compensation (a non-cash item), was $869,000 in the second quarter of 2023, compared to ($65,000) in the second quarter of 2022.

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 June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
(in thousands)				
Net Income (loss)	$ 300	$ (657)	$ 395	$ (2,477)
Interest (income)	(49)	(1)	(84)	(2)
Taxes	109	61	144	519
Depreciation & amortization	130	152	288	293
EBITDA earnings (loss)	$ 490	$ (445)	$ 743	$ (1,667)
Equity compensation	380	380	629	671
Adjusted EBITDA, excluding equity compensation	$ 870	$ (65)	$ 1,372	$ (996)

Recently Adopted Accounting Pronouncements

See Note 1 of Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 for a discussion of recently adopted accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

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

Changes in internal controls

There were no changes made in our internal controls during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting which is still under the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (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 June 30, 2023, 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, investors 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, 2022, 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, Use of Proceeds, and Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

10 **Material Contracts:**

None

31	**Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002:**	
	31.1	Chief Executive Officer Certification
	31.2	Chief Financial Officer Certification
32	**Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002:**	
	32.1	Chief Executive Officer Certification
	32.2	Chief Financial Officer Certification
101	**Interactive Data Files Pursuant to Rule 405 of Regulation S-T**	

SIGNATURES

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

DATED: August 14, 2023

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 Operating and 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: August 14, 2023

/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: August 14, 2023

/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 June 30, 2023 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)
August 14, 2023

EXHIBIT 32.2

Certification by Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Data I/O Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2023 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)
August 14, 2023