

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, 2021**  
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  
(State or other jurisdiction of incorporation or organization)

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

**6645 185<sup>th</sup> 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. Accelerated filer

Large accelerated filer

Smaller reporting company

Non-accelerated filer

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 October 29, 2021: 8,621,007

**DATA I/O CORPORATION**  
**FORM 10-Q**  
**For the Quarter Ended September 30, 2021**

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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)**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$14,241	\$14,167
Trade accounts receivable, net of allowance for doubtful accounts of \$84 and \$66, respectively	4,051	2,494
Inventories	6,050	5,270
Other current assets	518	1,319
TOTAL CURRENT ASSETS	24,860	23,250
Property, plant and equipment – net	940	1,216
Other assets	1,454	1,126
TOTAL ASSETS	\$27,254	\$25,592
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$1,527	\$1,245
Accrued compensation	2,206	1,509
Deferred revenue	1,223	1,068
Other accrued liabilities	1,281	1,307
Income taxes payable	141	62
TOTAL CURRENT LIABILITIES	6,378	5,191
Operating lease liabilities	942	588
Long-term other payables	221	174
COMMITMENTS	-	-
STOCKHOLDERS' EQUITY		
Preferred stock -		
Authorized, 5,000,000 shares, including 200,000 shares of Series A Junior Participating Issued and outstanding, none	-	-
Common stock, at stated value -		
Authorized, 30,000,000 shares Issued and outstanding, 8,621,007 shares as of September 30, 2021 and 8,416,335 shares as of December 31, 2020	20,608	20,071
Accumulated earnings (deficit)	(1,806)	(1,456)
Accumulated other comprehensive income (loss)	911	1,024
TOTAL STOCKHOLDERS' EQUITY	19,713	19,639
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$27,254	\$25,592

*See notes to consolidated financial statements*

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net sales	\$6,730	\$5,947	\$19,478	\$15,387
Cost of goods sold	<u>2,642</u>	<u>2,670</u>	<u>8,215</u>	<u>6,887</u>
Gross margin	4,088	3,277	11,263	8,500
Operating expenses:				
Research and development	1,730	1,567	5,009	4,763
Selling, general and administrative	<u>2,216</u>	<u>1,810</u>	<u>6,332</u>	<u>5,324</u>
Total operating expenses	<u>3,946</u>	<u>3,377</u>	<u>11,341</u>	<u>10,087</u>
Operating income (loss)	142	(100)	(78)	(1,587)
Non-operating income:				
Interest income	8	4	11	13
Foreign currency transaction gain (loss)	<u>(26)</u>	<u>(271)</u>	<u>(64)</u>	<u>(302)</u>
Total non-operating income (loss)	<u>(18)</u>	<u>(267)</u>	<u>(53)</u>	<u>(289)</u>
Income (loss) before income taxes	124	(367)	(131)	(1,876)
Income tax (expense) benefit	<u>(112)</u>	<u>(340)</u>	<u>(219)</u>	<u>(442)</u>
Net income (loss)	<u>\$12</u>	<u>(\$707)</u>	<u>(\$350)</u>	<u>(\$2,318)</u>
Basic earnings (loss) per share	\$0.00	(\$0.09)	(\$0.04)	(\$0.28)
Diluted earnings (loss) per share	\$0.00	(\$0.09)	(\$0.04)	(\$0.28)
Weighted-average basic shares	8,621	8,394	8,519	8,305
Weighted-average diluted shares	8,760	8,394	8,519	8,305

*See notes to consolidated financial statements*

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net income (loss)	\$12	(\$707)	(\$350)	(\$2,318)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(85)	482	(113)	302
Comprehensive income (loss)	<u>(\$73)</u>	<u>(\$225)</u>	<u>(\$463)</u>	<u>(\$2,016)</u>

*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			
<b>Balance at December 31, 2019</b>	8,212,748	\$18,748	\$2,508	\$274	\$21,530
Stock awards issued, net of tax withheld	5,190	(10)	-	-	(10)
Issuance of stock through: ESPP	3,509	14	-	-	14
Share-based compensation	-	249	-	-	249
Net income (loss)	-	-	(554)	-	(554)
Other comprehensive income (loss)	-	-	-	(265)	(265)
<b>Balance at March 31, 2020</b>	8,221,447	\$19,001	\$1,954	\$9	\$20,964
Stock awards issued, net of tax withheld	169,496	(163)	-	-	(163)
Issuance of stock through: ESPP	-	-	-	-	-
Share-based compensation	-	481	-	-	481
Net income (loss)	-	-	(1,057)	-	(1,057)
Other comprehensive income (loss)	-	-	-	85	85
<b>Balance at June 30, 2020</b>	8,390,943	19,319	897	94	20,310
Stock awards issued, net of tax withheld	4,657	15	-	-	15
Issuance of stock through: ESPP	-	-	-	-	-
Share-based compensation	-	366	-	-	366
Net income (loss)	-	-	(707)	-	(707)
Other comprehensive income (loss)	-	-	-	482	482
<b>Balance at September 30, 2020</b>	8,395,600	19,700	190	576	20,466
<b>Balance at December 31, 2020</b>	8,416,335	\$20,071	(\$1,456)	\$1,024	\$19,639
Stock awards issued, net of tax withheld	2,089	(4)	-	-	(4)
Issuance of stock through: ESPP	3,175	16	-	-	16
Share-based compensation	-	278	-	-	278
Net income (loss)	-	-	(333)	-	(333)
Other comprehensive income (loss)	-	-	-	(180)	(180)
<b>Balance at March 31, 2021</b>	8,421,599	\$20,361	(\$1,789)	\$844	\$19,416
Stock awards issued, net of tax withheld	197,923	(442)	-	-	(442)
Issuance of stock through: ESPP	-	-	-	-	-
Share-based compensation	-	401	-	-	401
Net income (loss)	-	-	(29)	-	(29)
Other comprehensive income (loss)	-	-	-	152	152
<b>Balance at June 30, 2021</b>	8,619,522	\$20,320	(\$1,818)	\$996	\$19,498
Stock awards issued, net of tax withheld	176	-	-	-	-
Issuance of stock through: ESPP	1,309	8	-	-	8
Share-based compensation	-	280	-	-	280
Net income (loss)	-	-	12	-	12
Other comprehensive income (loss)	-	-	-	(85)	(85)
<b>Balance at September 30, 2021</b>	8,621,007	\$20,608	(\$1,806)	\$911	\$19,713

*See notes to consolidated financial statements*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(UNAUDITED)

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	(\$350)	(\$2,318)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	516	620
Equipment transferred to cost of goods sold	121	186
Share-based compensation	961	1,096
Net change in:		
Trade accounts receivable	(1,601)	18
Inventories	(465)	11
Other current assets	800	(140)
Accounts payable and accrued liabilities	897	477
Deferred revenue	228	(352)
Other long-term liabilities	(287)	(1,014)
Deposits and other long-term assets	443	1,074
Net cash provided by (used in) operating activities	1,263	(342)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(361)	(654)
Cash provided by (used in) investing activities	(361)	(654)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of common stock, less payments for shares withheld to cover tax	(424)	(144)
Cash provided by (used in) financing activities	(424)	(144)
Increase (decrease) in cash and cash equivalents	478	(1,140)
Effects of exchange rate changes on cash	(404)	186
Cash and cash equivalents at beginning of period	14,167	13,936
Cash and cash equivalents at end of period	\$14,241	\$12,982
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Income taxes	(\$463)	\$338
<i>See notes to consolidated financial statements</i>		

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

**NOTE 1 - FINANCIAL STATEMENT PREPARATION**

Data I/O Corporation ("Data I/O", "We", "Our", "Us") prepared the financial statements as of September 30, 2021 and September 30, 2020 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, 2020 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 nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. 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, 2020.

Revenue Recognition

Topic 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 2021 and 2020, 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 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 sell 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 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			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
Net sales by type (in thousands)						
Equipment	\$4,077	5.6%	\$3,861	\$11,554	29.5%	\$8,924
Adapter	1,901	52.6%	1,246	5,751	46.9%	3,915
Software and Maintenance	752	(10.5%)	840	2,173	(14.7%)	2,548
Total	<u>\$6,730</u>	<u>13.2%</u>	<u>\$5,947</u>	<u>\$19,478</u>	<u>26.6%</u>	<u>\$15,387</u>

#### 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 single-option 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. The CARES Act, enacted in Q1 2020, accelerated the AMT credit refund of \$640,000, which was previously carried as a current asset and was received in September, 2021.

## COVID-19

In 2021, we have continued to react to and manage our business relative to the COVID-19 pandemic. During 2020, COVID-19 had impacted all aspects of our business, from customer demand, to supply chain integrity, employee safety, business processes, and financial management. As a global company, we had to manage each of these while working within the guidelines of local and national policy in the U.S., China and Germany. Our philosophy at the start of the outbreak was simple:

1. Keep our people and their families safe;
2. Keep our facilities safe and operational while we serve our customers as an essential business; and
3. Preserve cash.

We have managed the COVID-19 impact successfully to date, with no known employee transmissions in the workplace and significant preservation of our cash and working capital. Our resilient supply chain model kept our facilities in Shanghai, China and Redmond, Washington open, and serving customers globally. We face continued international travel restrictions, shipping delays, and inability to meet with customers in person. As business has recovered we have been able to respond by having the working capital needed and the workforce in place. In the second quarter, we experienced a surge of demand as customers resumed operations and adding capacity. The backlog created by the surge resulted in the revenue growth in the third quarter. In supply chains around the world with the re-openings and now, in a believed ripple effect, factories are experiencing the impact of chip shortages on their production plans. This appears to be a shorter-term issue and the outlook by industry analysts for automotive electronics remains strong for a decade. Waves of COVID-19 infection rates and variants have kept or re-imposed revised travel restrictions. Customers largely have not permitted in-person sales and other visits. Converting these interactions to remote and virtual means has meant implementing new processes and technology.

In production, in addition to adding protective health measures for our employees, we have focused on supply chain resilience and duplicating production capability for some products in both our Shanghai, China and Redmond, USA facilities. We implemented additional supplier financial and other monitoring, as well as adding additional local suppliers and increasing inventory stock levels of key parts. Other than production employees who necessarily are onsite, most other Redmond employees are working remotely with hybrid flexibility to be onsite as desired or needed and this is expected to continue through year-end. China employees are generally onsite. We believe our exposure to COVID-19 risks are reduced by vaccination coverage, which is 98% in Redmond with our China and Germany facilities not far behind.

### New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Measurement of Credit Losses on Financial Instruments," which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments. We are planning to adopt the standard effective for years after December 15, 2022 and do not expect this to have a material impact on our financial statements.

### **NOTE 2 – INVENTORIES**

Inventories consisted of the following components:

	September 30, 2021	December 31, 2020
(in thousands)		
Raw material	\$3,743	\$3,143
Work-in-process	1,412	1,204
Finished goods	895	923
Inventories	<u>\$6,050</u>	<u>\$5,270</u>

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT, NET**

Property and equipment consisted of the following components:

	September 30, 2021	December 31, 2020
(in thousands)		
Leasehold improvements	\$425	\$421
Equipment	5,637	5,625
Sales demonstration equipment	767	963
	<u>6,829</u>	<u>7,009</u>
Less accumulated depreciation	5,889	5,793
Property and equipment, net	<u>\$940</u>	<u>\$1,216</u>

**NOTE 4 – OTHER ACCRUED LIABILITIES**

Other accrued liabilities consisted of the following components:

	September 30, 2021	December 31, 2020
(in thousands)		
Lease liability - short term	\$556	\$673
Product warranty	416	371
Sales return reserve	71	61
Other taxes	153	109
Other	85	93
Other accrued liabilities	<u>\$1,281</u>	<u>\$1,307</u>

The changes in our product warranty liability for the nine months ending September 30, 2021 are as follows:

	September 30, 2021
(in thousands)	
Liability, beginning balance	\$371
Net expenses	621
Warranty claims	(621)
Accrual revisions	45
Liability, ending balance	<u>\$416</u>

## 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 September 30, 2021:

	Operating Lease Commitments
(in thousands)	
2021 (remaining)	\$236
2022	682
2023	433
2024	371
2025	65
Thereafter	80
Total	\$1,867
Less Imputed interest	(369)
Total operating lease liabilities	\$1,498

Cash paid for operating lease liabilities for the three and nine months ended September 30, 2021 was \$203,000 and \$605,000, respectively. There were three new operating leases during the nine months ended September 30, 2021.

Cash paid for operating lease liabilities for the three and nine months ended September 30, 2020 was \$194,000 and \$568,000, respectively.

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

	Balance at September 30, 2021	Balance at December 31, 2020
(in thousands)		
Right-of-use assets (Long-term other assets)	\$1,409	\$1,081
Lease liability-short term (Other accrued liabilities)	556	673
Lease liability-long term (Operating lease liabilities)	942	588

At September 30, 2021, the weighted average remaining lease term is 2.90 years and the weighted average discount rate used is 5%.

The components of our lease expense for the three and nine months ended September 30, 2021 include operating lease costs of \$172,000 and \$515,000, respectively, and short-term lease costs of \$7,000 and \$22,000, respectively.

The components of our lease expense for the three and nine months ended September 30, 2020 include operating lease costs of \$168,000 and \$494,000, respectively, and short-term lease costs of \$9,000 and \$26,000, respectively.

Our lease for the Redmond, Washington headquarters facility ran through July 31, 2022. On October 4, 2021, we signed a lease amendment effective August 1, 2022 extending the lease to January 31, 2026. This lease is for approximately 20,460 square feet.

Our lease for a facility located in Shanghai, China ran through October 31, 2021. In April 2021, we signed a lease extension effective November 1, 2021 that extends the lease through October 31, 2024. This lease is for approximately 19,400 square feet.

Our lease near Munich, Germany runs through February 28, 2022 with a five year extension available. 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 September 30, 2021, the purchase commitments and other obligations totaled \$2.1 million of which all but \$58,000 are expected to be paid over the next twelve months.

#### **NOTE 7 – CONTINGENCIES**

As of September 30, 2021, 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) for the third quarter of both 2021 and 2020, primarily related to foreign and state taxes.

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 \$8.0 million as of September 30, 2021. As of September 30, for both 2021 and 2020, our deferred tax assets and valuation allowance have been reduced by approximately \$381,000 and \$370,000, 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.

#### **NOTE 9 – EARNINGS PER SHARE**

Basic earnings per share is calculated based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is calculated based on these same weighted average shares outstanding plus the effect of potential shares issuable upon assumed exercise of stock options based on the treasury stock method.

Potential shares issuable upon the exercise of stock options are excluded from the calculation of diluted earnings per share to the extent their effect would be anti-dilutive.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(in thousands except per share data)				
Numerator for basic and diluted earnings (loss) per share:				
Net income (loss)	\$12	(\$707)	(\$350)	(\$2,318)
Denominator for basic earnings (loss) per share:				
Weighted-average shares	8,621	8,394	8,519	8,305
Employee stock options and awards	139	69	-	57
Denominator for diluted earnings (loss) per share:				
Adjusted weighted-average shares & assumed conversions of stock options	8,760	8,463	8,519	8,362
Basic and diluted earnings (loss) per share:				
Basic earnings (loss) per share	\$0.00	(\$0.09)	(\$0.04)	(\$0.28)
Diluted earnings (loss) per share	\$0.00	(\$0.09)	(\$0.04)	(\$0.28)

Weighted average options to purchase 12,500 shares for the three month period ending September 30, 2021 were excluded from the computation of diluted earnings per share as the options were anti-dilutive. Other periods presented are net loss, and thus weighted average options to purchase anti-dilutive shares were excluded from the diluted earnings per share for those periods. For the nine months ending September 30, 2021, there were 20,421 weighted average options to purchase anti-dilutive share. For both the three and nine months ending September 30, 2020, there were 25,000 weighted average options to purchase anti-dilutive shares.

#### NOTE 10 – SHARE-BASED COMPENSATION

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

The impact on our results of operations of recording share-based compensation, net of forfeitures, for the three and nine months ended September 30, 2021 and 2020, respectively, were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
(in thousands)				
Cost of goods sold	\$16	\$12	\$42	\$33
Research and development	66	87	238	283
Selling, general and administrative	198	267	680	780
Total share-based compensation	\$280	\$366	\$960	\$1,096

Equity awards granted during the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Restricted Stock Units	1,000	-	257,400	376,200
Stock Options	-	-	-	-

Non-employee directors Restricted Stock Units (“RSUs”) vest over one year and options vest over three years and have a six-year exercise period. Employee RSUs typically vest over four years and employee Non-Qualified stock options typically vest quarterly over 4 years and have a six-year exercise period.

The remaining unamortized expected future equity compensation expense and remaining amortization period associated with unvested option grants, restricted stock awards and restricted stock unit awards at September 30, 2021 are:

	September 30, 2021
Unamortized future equity compensation expense (in thousands)	\$2,570
Remaining weighted average amortization period (in years)	2.75

#### **NOTE 11 – SUSEQUENT EVENTS**

The Company has evaluated events through November 12, 2021, the date the condensed consolidated financial statements were available to be issued.

## **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; industry prospects and trends; expected business recovery; industry partnerships; future results of operations or financial position; future spending; 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; trade issues and tariffs; expected inventory levels; expectations for unsupported platform or product versions and related inventory and other charges; 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, 2020, describe some, but not all, of the factors that could cause these differences.

## OVERVIEW

In 2021, we have continued to react to and manage our business relative to the COVID-19 pandemic. During 2020, COVID-19 had impacted all aspects of our business, from customer demand, to supply chain integrity, employee safety, business processes, and financial management. As a global company, we had to manage each of these while working within the guidelines of local and national policy in the U.S., China and Germany. Our philosophy at the start of the outbreak was simple:

1. Keep our people and their families safe;
2. Keep our facilities safe and operational while we serve our customers as an essential business; and
3. Preserve cash.

We have managed the COVID-19 impact successfully to date, with no known employee transmissions in the workplace and significant preservation of our cash and working capital. Our resilient supply chain model kept our facilities in Shanghai, China and Redmond, Washington open, and serving customers globally. We face continued international travel restrictions, shipping delays, and inability to meet with customers in person. As business has recovered we have been able to respond by having the working capital needed and the workforce in place. In the third quarter, we experienced a slowdown of demand as customers, we believe, were unable to secure an adequate silicon supply for planned capacity expansion. In supply chains around the world with the re-openings and now, in a believed ripple effect, factories are experiencing the impact of chip shortages on their production plans. This appears to be a shorter-term issue, but expected to have some continuing impact into 2022. However, the outlook by industry analysts for automotive electronics remains strong for a decade. Waves of COVID-19 infection rates and variants have kept or re-imposed revised travel restrictions. Customers largely have not permitted in-person sales and other visits. Converting these interactions to remote and virtual means has meant implementing new processes and technology.

In production, in addition to adding protective health measures for our employees, we have focused on supply chain resilience and duplicating production capability for some products in both our Shanghai, China and Redmond, USA facilities. We implemented additional supplier financial and other monitoring, as well as adding additional local suppliers and increasing inventory stock levels of key parts. Other than production employees who necessarily are onsite, most other Redmond employees are working remotely with hybrid flexibility to be onsite as desired or needed and this is expected to continue through year-end. China employees are generally onsite. We believe our exposure to COVID-19 risks are reduced by vaccination coverage, which is 98% in Redmond with our China and Germany facilities not far behind.

Our short-term challenge continues to be operating in a cyclical, COVID-19 impacted, and rapidly evolving industry environment, which saw significant improvement of revenue, up 27%, in the first three quarters of 2021 as compared to the same period of 2020. Bookings were up 30% for the same comparative periods, but declined in the third quarter, we believe, due to silicon chip shortages discussed above. Our focus has been dealing with COVID-19 related issues, especially supply chain shortages and lead-times, which have been managed though carefully maintaining inventory levels. We also continue to balance a host of current issues including industry changes, industry partnerships, new technologies, business geography shifts, travel and customer restrictions, customer shut downs, exchange rate volatility, trade issues and tariffs, semiconductor chip shortages, shipping challenges, increasing costs (inflation) and strategic investments in our business with the level of demand and mix of business we expect. We continue to manage our costs carefully and execute strategies for cash preservation, protecting our employee base and managing supply chain price increases.

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 Elements, Authentication Chips, and Secure Microcontrollers. In late 2020, we released updated SentiX hardware and tools which simplify the customer acquisition process, and reduce dependency on third party suppliers. We also upgraded SentiX® security deployment systems in the field to this new architecture. We plan to deliver new programming technology and automated handling systems for managed and secure programming in the manufacturing environment. 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, e-MMC, 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 be good, these markets and our business have been, and are likely to continue to be, adversely impacted by the global COVID-19 pandemic. Chip shortages are causing issues and some automotive plant or production shutdowns. This appears to be temporary and in some cases, for us, drives consumable adapter demand in order to support alternative chips.

As a global company with 93% of our 2020 sales in international markets, we have been and expect to continue to be significantly impacted by the COVID-19 pandemic. Although our facilities in Shanghai, Redmond and Germany are currently operating in some pandemic-related restricted ways, we believe that our classification as essential by certain U.S. customer groups will continue to keep operations open. We source some components from China and other countries that are used to manufacture our equipment in China and in our Redmond, Washington facility and these components may not be readily available or subject to delays. Our manufacturing facilities in Shanghai and Redmond have helped us to be part of a resilient supply chain to our customers with dual production of some products and local sourcing of many suppliers. Many of our employees and executives are still working from home, and we are limiting visitors to our facilities as the pandemic continues. All of our facilities are subject to restrictions, rapid regulation changes, and closure by governmental entities. The pandemic has and may continue to impact our revenues in some geographies, our ability to obtain key components and to manufacture our products, as well as sell, install and support our products around the world. We expect widespread vaccinations to help restore business interactions with customers, however we expect continued customer site restrictions on sales and service visits, travel restrictions, closed borders, cancelled trade shows and industry gatherings, and modifications in our operations. See also the detailed discussion of the impacts of COVID-19 on our business and markets in Item 1A, Risk Factors in our annual report on Form 10-K for the year ended December 31, 2020. The pandemic could have the effect of heightening many of the other risks described in our Form 10-K. Annual projections on spending, growth, mix, and profitability have been and are likely to be further revised substantially as new information is obtained.

#### **CRITICAL ACCOUNTING POLICY JUDGMENTS AND ESTIMATES**

Our critical accounting policies have not changed from those discussed in our 2020 Form 10-K.

## RESULTS OF OPERATIONS:

### NET SALES

	Three Months Ended			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
<b>Net sales by product line</b> (in thousands)						
Automated programming systems	\$5,528	16.7%	\$4,736	\$15,817	35.4%	\$11,685
Non-automated programming systems	1,202	(0.7%)	1,211	3,661	(1.1%)	3,702
Total programming systems	<u>\$6,730</u>	<u>13.2%</u>	<u>\$5,947</u>	<u>\$19,478</u>	<u>26.6%</u>	<u>\$15,387</u>
	Three Months Ended			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
<b>Net sales by location</b> (in thousands)						
United States	\$922	107.2%	\$445	\$1,676	66.4%	\$1,007
% of total	13.7%		7.5%	8.6%		6.5%
International	\$5,808	5.6%	\$5,502	\$17,802	23.8%	\$14,380
% of total	86.3%		92.5%	91.4%		93.5%
	Three Months Ended			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
<b>Net sales by type</b> (in thousands)						
Equipment sales	\$4,077	5.6%	\$3,861	\$11,554	29.5%	\$8,924
Adapter sales	1,901	52.6%	1,246	5,751	46.9%	3,915
Software and maintenance	752	(10.5%)	840	2,173	(14.7%)	2,548
Total programming systems	<u>\$6,730</u>	<u>13.2%</u>	<u>\$5,947</u>	<u>\$19,478</u>	<u>26.6%</u>	<u>\$15,387</u>

Net sales in the third quarter of 2021 were \$6.7 million, up 13% as compared with \$5.9 million in the third quarter of 2020. The increase from the prior year period primarily reflects higher overall demand for equipment and higher adapter sales associated with the increased usage and growing installed base of machines throughout the world. Recurring and consumable revenues, which include adapter sales, represented \$2.7 million or 39% of total revenues in the third quarter 2021, as compared with \$2.1 million or 35% of the lower third quarter 2020 total. Total capital equipment sales were 61% of revenues, adapters were 28% and software and services revenues were 11% of revenues respectively in the third quarter of 2021 compared with 65% and 21% and 14% respectively for the third quarter of 2020.

On a geographic basis, international sales represented approximately 86% of total net sales for the third quarter of 2021 compared with 93% in the prior year period.

Third quarter 2021 bookings were \$5 million, down from \$5.6 million in the third quarter of the prior year. The current quarter's bookings we believe were impacted by chip shortages and supply chain issues, which resulted in demand delays.

Backlog at September 30, 2021 was approximately \$3.3 million, down from \$5.0 million at June 30, 2021 and up from \$2.8 million at September 30, 2020. Data I/O had \$1.4 million in deferred revenue at the end of the third quarter of 2021 as compared with \$1.1 million at the end of fourth quarter of 2020.

## GROSS MARGIN

	Three Months Ended			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
(in thousands)						
Gross margin	\$4,088	24.7%	\$3,277	\$11,263	32.5%	\$8,500
Percentage of net sales	60.7%		55.1%	57.8%		55.2%

Gross margin as a percentage of sales was 60.7% in the third quarter of 2021, as compared to 55.1% in the same period of the prior year. The difference in gross margin as a percentage of sales primarily reflects the leverage on fixed production costs from higher revenues, and improved factory variances as well as channel mix.

## RESEARCH AND DEVELOPMENT

	Three Months Ended			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
(in thousands)						
Research and development	\$1,730	10.4%	\$1,567	\$5,009	5.2%	\$4,763
Percentage of net sales	25.7%		26.3%	25.7%		31.0%

Research and development (“R&D”) expenses were \$1.7 million in the third quarter of 2021 and \$1.6 million in the third quarter of 2020, and as a percentage of sales were relatively consistent compared to the same period in 2020.

## SELLING, GENERAL AND ADMINISTRATIVE

	Three Months Ended			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
(in thousands)						
Selling, general & administrative	\$2,216	22.4%	\$1,810	\$6,332	18.9%	\$5,324
Percentage of net sales	32.9%		30.4%	32.5%		34.6%

Selling, General and Administrative (“SG&A”) expenses in the third quarter of 2021 increased by approximately \$406,000 from the prior year period primarily due to higher sales commissions associated with the mix and higher sales volume for programming equipment as well as higher incentive compensation.

## INTEREST

	Three Months Ended			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
(in thousands)						
Interest income	\$8	100.0%	\$4	\$11	(15.4%)	\$13

Interest income was higher in the third quarter 2021 compared to the same period in 2020 primarily due to interest received on the AMT refund.

## INCOME TAXES

	Three Months Ended			Nine Months Ended		
	September 30, 2021	Change	September 30, 2020	September 30, 2021	Change	September 30, 2020
(in thousands)						
Income tax benefit (expense)	(\$112)	(67.1%)	(\$340)	(\$219)	(50.5%)	(\$442)

Income tax benefit (expense) for the third quarter of both 2021 and 2020, primarily related to foreign and minor state taxes.

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 \$8.0 million as of September 30, 2021. As of September 30, for both 2021 and 2020, our deferred tax assets and valuation allowance have been reduced by approximately \$381,000 and \$370,000, 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

	September 30, 2021	Change	December 31, 2020
	(in thousands)		
Working capital	\$18,482	\$423	\$18,059

At September 30, 2021, our principal sources of liquidity consisted of existing cash and cash equivalents. Cash increased \$74,000 from December 31, 2020 primarily to changes in working capital offset in part by funding the operating loss for 2021. A prior year AMT credit related tax refund of over \$600,000 was received during the quarter.

Net working capital at the end of the third quarter of 2021, compared to December 31, 2020, increased approximately \$400,000 to \$18.5 million, with redeployment of cash and offsetting changes in accounts receivable and current liabilities.

Although we have no significant external capital expenditure plans currently, we expect that we will continue to make and manage carefully 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 and seasonal 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 the impact on 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 reduce costs.

We believe that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through at least the next one-year period. We expect that cash will be needed to fund the business growth as operations recover to previous levels. We may require additional cash at the U.S. headquarters, which could cause potential repatriation of cash that is held in our foreign subsidiaries. For any repatriation, there may be tax and other impediments to any repatriation actions. Our working capital may be used to fund possible losses, business growth, project initiatives, share repurchases and business development initiatives including acquisitions, which could reduce our liquidity and result in a requirement for additional cash before that time. Any substantial inability to achieve our current business plan could have a material adverse impact on our financial position, liquidity, or results of operations and may require us to reduce expenditures and/or seek possible additional financing.

#### OFF-BALANCE SHEET ARRANGEMENTS

Except as noted in the accompanying consolidated financial statements in Note 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 \$284,000 in the third quarter of 2021 compared to (\$197,000) in the third quarter of 2020. Adjusted EBITDA, excluding equity compensation (a non-cash item), was \$564,000 in the third quarter of 2021, compared to \$169,000 in the third quarter of 2020.

EBITDA was \$374,000 in the nine months ended September 30, 2021 compared to (\$1,269,000) in the same period of 2020. Adjusted EBITDA, excluding equity compensation (a non-cash item) was \$1,334,000 in the nine months ended September 30, 2021 compared to (\$173,000) in the same period of 2020.

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

#### NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) FINANCIAL MEASURE RECONCILIATION

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
(in thousands)				
Net Income (loss)	\$12	(\$707)	(\$350)	(\$2,318)
Interest (income)	(8)	(4)	(11)	(13)
Taxes	112	340	219	442
Depreciation & amortization	168	174	516	620
EBITDA earnings (loss)	\$284	(\$197)	\$374	(\$1,269)
Equity compensation	280	366	960	1,096
Adjusted EBITDA earnings (loss), excluding equity compensation	\$564	\$169	\$1,334	(\$173)

### **New Accounting Pronouncements**

See Note 1 of Notes to Condensed Consolidated Financial Statements included in Part 1, Item 1 for a discussion of new 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 September 30, 2021, we were not a party to any material pending legal proceedings.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the Risk Factors described in our Annual Report.

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

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: November 12, 2021

### **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: November 12, 2021

/s/ Anthony Ambrose

Anthony Ambrose

Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Joel S. Hatlen, certify that:

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

DATED: November 12, 2021

/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, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Ambrose, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Anthony Ambrose  
Anthony Ambrose  
Chief Executive Officer  
(Principal Executive Officer)  
November 12, 2021

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, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joel S. Hatlen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Joel S. Hatlen  
Joel S. Hatlen  
Chief Financial Officer  
(Principal Financial Officer)  
November 12, 2021