

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 **March 31, 2017**

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**

(Address of principal executive offices, including zip code)

**(425) 881-6444**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 May 1, 2017:  
8,048,516

**DATA I/O CORPORATION**  
**FORM 10-Q**  
**For the Quarter Ended March 31, 2017**

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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>March 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|--|---------------------------|------------------------------|
|  |                           |                              |
| <b>ASSETS</b>  |                           |                              |
| CURRENT ASSETS:  |                           |                              |
| Cash and cash equivalents  | \$10,513                  | \$11,571                     |
| Trade accounts receivable, net of allowance for<br>doubtful accounts of \$109 and \$96, respectively   | 5,304                     | 4,725                        |
| Inventories  | 4,407                     | 4,059                        |
| Other current assets   | 540                       | 483                          |
| TOTAL CURRENT ASSETS   | 20,764                    | 20,838                       |
| Property, plant and equipment – net  | 1,998                     | 1,875                        |
| Other assets   | 62                        | 63                           |
| TOTAL ASSETS   | \$22,824                  | \$22,776                     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                           |                              |
| CURRENT LIABILITIES:   |                           |                              |
| Accounts payable   | \$1,490                   | \$1,428                      |
| Accrued compensation   | 1,557                     | 2,208                        |
| Deferred revenue   | 1,434                     | 1,926                        |
| Other accrued liabilities  | 797                       | 703                          |
| TOTAL CURRENT LIABILITIES  | 5,278                     | 6,265                        |
| Long-term other payables   | 451                       | 479                          |
| COMMITMENTS  | -                         | -                            |
| STOCKHOLDERS' EQUITY   |                           |                              |
| Preferred stock -  |                           |                              |
| Authorized, 5,000,000 shares, including<br>200,000 shares of Series A Junior Participating<br>Issued and outstanding, none                     | -                         | -                            |
| Common stock, at stated value -  |                           |                              |
| Authorized, 30,000,000 shares<br>Issued and outstanding, 8,048,516 shares as of March 31,<br>2017 and 8,015,746 shares as of December 31, 2016 | 19,206                    | 19,204                       |
| Accumulated (deficit)  | (2,381)                   | (3,360)                      |
| Accumulated other comprehensive income   | 270                       | 188                          |
| TOTAL STOCKHOLDERS' EQUITY   | 17,095                    | 16,032                       |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | \$22,824                  | \$22,776                     |

*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>March 31,</b>          |             |
|  | <b>2017</b>               | <b>2016</b> |
| Net Sales                                | \$7,224                   | \$4,613     |
| Cost of goods sold                       | 3,057                     | 2,085       |
| Gross margin                             | 4,167                     | 2,528       |
| Operating expenses:                      |                           |             |
| Research and development                 | 1,545                     | 1,125       |
| Selling, general and administrative      | 1,818                     | 1,578       |
| Total operating expenses                 | 3,363                     | 2,703       |
| Operating income (loss)                  | 804                       | (175)       |
| Non-operating income (expense):          |                           |             |
| Interest income                          | 8                         | 12          |
| Gain on sale of assets                   | 211                       | -           |
| Foreign currency transaction gain (loss) | (32)                      | (4)         |
| Total non-operating income (expense)     | 187                       | 8           |
| Income (loss) before income taxes        | 991                       | (167)       |
| Income tax (expense)                     | (12)                      | (1)         |
| Net income (loss)                        | \$979                     | (\$168)     |
| <br>                                     |                           |             |
| Basic earnings (loss) per share          | \$0.12                    | (\$0.02)    |
| Diluted earnings (loss) per share        | \$0.12                    | (\$0.02)    |
| Weighted-average basic shares            | 8,031                     | 7,945       |
| Weighted-average diluted shares          | 8,327                     | 7,945       |

*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>March 31,</b>          |                     |
|  | <u><b>2017</b></u>        | <u><b>2016</b></u>  |
| Net income (loss)                        | \$979                     | (\$168)             |
| Other comprehensive income:              |                           |                     |
| Foreign currency translation gain (loss) | <u>82</u>                 | <u>161</u>          |
| Comprehensive income (loss)              | <u><u>\$1,061</u></u>     | <u><u>(\$7)</u></u> |

*See notes to consolidated financial statements*

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

|  | <b>For the Three Months<br/>Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2017</b>   | <b>2016</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |   |             |
| Net income (loss)  | \$979   | (\$168)     |
| Adjustments to reconcile net income<br>to net cash provided by (used in) operating activities:     |   |             |
| Depreciation and amortization  | 164   | 128         |
| Gain on sale of assets   | (211)   | -           |
| Equipment transferred to cost of goods sold  | 116   | 378         |
| Share-based compensation   | 97  | 95          |
| Net change in:   |   |             |
| Trade accounts receivable  | (547)   | (699)       |
| Inventories  | (331)   | (679)       |
| Other current assets   | (55)  | 93          |
| Accounts payable and accrued liabilities   | (503)   | (355)       |
| Deferred revenue   | (522)   | 111         |
| Other long-term liabilities  | (17)  | 134         |
| Net cash provided by (used in) operating activities  | (830)   | (962)       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |   |             |
| Purchases of property, plant and equipment   | (403)   | (642)       |
| Net proceeds from sale of assets   | 211   | -           |
| Cash provided by (used in) investing activities  | (192)   | (642)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |   |             |
| Proceeds from issuance of common stock and (payments)<br>related to shares withheld to cover taxes | (95)  | 3           |
| Repurchase of common stock   | -   | (97)        |
| Cash provided by (used in) financing activities  | (95)  | (94)        |
| Increase/(decrease) in cash and cash equivalents   | (1,117)   | (1,698)     |
| Effects of exchange rate changes on cash   | 59  | 128         |
| Cash and cash equivalents at beginning of period   | 11,571  | 11,268      |
| Cash and cash equivalents at end of period   | \$10,513  | \$9,698     |
| <b>Supplemental disclosure of cash flow information:</b>   |   |             |
| Cash paid during the period for:   |   |             |
| Income Taxes   | \$30  | \$3         |

*See notes to consolidated financial statements*

**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 March 31, 2017 and March 31, 2016 and for each of the three month periods ended March 31, 2017 and March 31, 2016 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, 2016 has been derived from the audited financial statements at that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America according to such SEC rules and regulations. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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, 2016.

Revenue Recognition

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

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

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

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

We recognize revenue when persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, the buyer has paid or is obligated to pay, collectability is reasonably assured, substantive acceptance conditions, if any, have been met, the obligation is not contingent on resale of the product, the buyer's obligation would not be changed in the event of theft, physical destruction or damage to the product, the buyer

acquiring the product for resale has economic substance apart from us and we do not have significant obligations for future performance to directly bring about the resale of the product by the buyer. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items.

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

#### Stock-Based Compensation Expense

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

#### Income Tax

Historically, when accounting for uncertainty in income taxes, we have not incurred any interest or penalties associated with tax matters and no interest or penalties were recognized during the three months ended March 31, 2017. However, we have adopted a policy whereby amounts related to penalties associated with tax matters are classified as general and administrative expense when incurred and amounts related to interest associated with tax matters are classified as interest income or interest expense.

We have incurred net operating losses in certain past years. Given the uncertainty created by our loss history, as well as the ongoing uncertain economic outlook for our industry as well as capital and geographic spending, we expect to continue to limit the recognition of net deferred tax assets and accounting for uncertain tax positions and maintain the tax valuation allowances. We continue to maintain a valuation allowance for the full amount of the net deferred tax asset balance associated with our net operating losses and credit carryforwards, as sufficient uncertainty exists regarding our ability to realize such tax assets in the future. There were \$230,000 and \$214,000 of unrecognized tax benefits related to uncertain tax positions and related valuation allowance as of March 31, 2017 and 2016, respectively.

Tax years that remain open for examination include 2013, 2014, 2015 and 2016 in the United States of America. In addition, tax years from 2000 to 2012 may be subject to examination in the event that we utilize the net operating losses and credit carryforwards from those years in our current or future year tax returns.

#### Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (ASU 2016-09), "Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 requires excess tax benefits to be recognized in the statement of operations as an income tax expense and is applied prospectively by means of a cumulative-effect adjustment of excess tax benefits from equity in the period of adoption. The standard establishes an alternative practical expedient for estimating the expected term of an award by recognizing the effects of forfeitures in compensation cost when the forfeitures occur. Adoption of the alternative practical expedient is applied prospectively on an entity-wide basis. The standard requires that amounts paid to a taxing authority on the employee's behalf as a result of directly withholding shares for tax-withholding purposes are to be presented on a retrospective basis as a financing activity on the statement of cash flows. The standard became effective beginning January 1, 2017. The adoption of ASU 2016-09 was not material to our consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09). ASU 2014-09 provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers” (ASU 2015-14), deferring the effective date of the new revenue recognition standard by one year and now takes effect for public entities in fiscal years beginning after December 15, 2017. We currently expect to adopt the revenue standards as of January 1, 2018, utilizing the modified retrospective transition method. The new standard may, in certain circumstances, impact the timing of when revenue is recognized for product shipped, and the timing and classification of certain sales incentives. We have begun to evaluate the potential impact of the adoption on our consolidated financial statements, but at this time the impact is unknown. We will continue our evaluation of revenue from our contracts with customers, and we will update our expectations of the impact of adoption of the new revenue standards on our consolidated financial statements in future filings.

## NOTE 2 – INVENTORIES

Inventories consisted of the following components:

|                 | March 31,<br>2017 | December 31,<br>2016 |
|-----------------|-------------------|----------------------|
| (in thousands)  |                   |                      |
| Raw material    | \$2,484           | \$2,402              |
| Work-in-process | 1,343             | 1,226                |
| Finished goods  | 580               | 431                  |
| Inventories     | <u>\$4,407</u>    | <u>\$4,059</u>       |

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

Property and equipment consisted of the following components:

|                               | March 31,<br>2017 | December 31,<br>2016 |
|-------------------------------|-------------------|----------------------|
| (in thousands)                |                   |                      |
| Leasehold improvements        | \$379             | \$376                |
| Equipment                     | 4,701             | 4,449                |
| Sales demonstration equipment | 1,219             | 1,158                |
|                               | 6,299             | 5,983                |
| Less accumulated depreciation | 4,301             | 4,108                |
| Property and equipment, net   | <u>\$1,998</u>    | <u>\$1,875</u>       |

**NOTE 4 – OTHER ACCRUED LIABILITIES**

Other accrued liabilities consisted of the following components:

|                           | March 31,<br>2017 | December 31,<br>2016 |
|---------------------------|-------------------|----------------------|
| (in thousands)            |                   |                      |
| Product warranty          | \$404             | \$371                |
| Sales return reserve      | 68                | 50                   |
| Other taxes               | 134               | 149                  |
| Other                     | 191               | 133                  |
| Other accrued liabilities | \$797             | \$703                |

The changes in our product warranty liability for the three months ending March 31, 2017 are follows:

|                              | March 31,<br>2017 |
|------------------------------|-------------------|
| (in thousands)               |                   |
| Liability, beginning balance | \$371             |
| Net expenses                 | 177               |
| Warranty claims              | (177)             |
| Accrual revisions            | 33                |
| Liability, ending balance    | \$404             |

**NOTE 5 – OPERATING LEASE COMMITMENTS**

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

For the years ending December 31:

|                  | Operating<br>Leases |
|------------------|---------------------|
| (in thousands)   |                     |
| 2017 (remaining) | \$738               |
| 2018             | 888                 |
| 2019             | 916                 |
| 2020             | 900                 |
| 2021             | 487                 |
| Thereafter       | 10                  |
| Total            | \$3,939             |

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

In addition to the Redmond facility, approximately 24,000 square feet is leased at two foreign locations, including our sales, service, operations and engineering office located in Shanghai, China, and our German sales, service and engineering office located in Munich, Germany.

We signed a lease agreement effective November 1, 2015 and extends through October 31, 2021 for a new facility located in Shanghai, China which we moved into during the first quarter of 2016. The new lease approximately doubled our space to 19,400 square feet at approximately 54% of the prior lease rental rate.

During the fourth quarter of 2016, we signed a lease agreement for a new facility located in Munich, Germany which was effective March 1, 2017 and extends through February 28, 2022. The new lease slightly increased our space to 4,895 square feet at approximately the same cost per square foot as the prior lease.

#### **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 March 31, 2017, the purchase commitments and other obligations totaled \$1,575,000 of which all but \$28,000 are expected to be paid over the next twelve months.

#### **NOTE 7 – CONTINGENCIES**

As of March 31, 2017, 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 – EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during each period and is used for all loss per share amounts. Diluted earnings (loss) 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 (loss) per share to the extent their effect would be anti-dilutive.

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

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | Mar. 31,<br>2017   | Mar. 31,<br>2016 |
| (in thousands except per share data)                                    |                    |                  |
| Numerator for basic and diluted earnings (loss) per share:              |                    |                  |
| Net income (loss)   | \$979              | (\$168)          |
| Denominator for basic earnings (loss) per share:                        |                    |                  |
| weighted-average shares   | 8,031              | 7,945            |
| Employee stock options and awards                                       | 296                | -                |
| Denominator for diluted earnings (loss) per share:                      |                    |                  |
| adjusted weighted-average shares & assumed conversions of stock options | 8,327              | 7,945            |
| Basic and diluted earnings (loss) per share:                            |                    |                  |
| Total basic earnings (loss) per share                                   | \$0.12             | (\$0.02)         |
| Total diluted earnings (loss) per share                                 | \$0.12             | (\$0.02)         |

Options to purchase 90,000 and 244,000 shares were outstanding as of March 31, 2017 and 2016, respectively, but were excluded from the computation of diluted earnings (loss) per share for the periods then ended because the options were anti-dilutive.

#### NOTE 9 – 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 and reduced for estimated forfeitures.

The impact on our results of operations of recording share-based compensation, net of forfeitures, for the three months ended March 31, 2017 and 2016, respectively, was as follows:

|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | Mar. 31,<br>2017   | Mar. 31,<br>2016 |
| (in thousands)                           |                    |                  |
| Cost of goods sold                       | \$2                | \$2              |
| Research and development                 | 25                 | 18               |
| Selling, general and administrative      | 70                 | 75               |
| Total share-based compensation           | \$97               | \$95             |
| Impact on net earnings (loss) per share: |                    |                  |
| Basic and diluted                        | (\$0.01)           | (\$0.01)         |

Equity awards granted during the three months ended March 31, 2017 and 2016 respectively were as follows:

|                  | Three Months Ended |                  |
|------------------|--------------------|------------------|
|                  | Mar. 31,<br>2017   | Mar. 31,<br>2016 |
| Restricted Stock | 12,000             | 10,000           |

There were no stock option awards granted during both the three months ended March 31, 2017 and 2016.

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

The remaining unamortized expected future equity compensation expense and remaining amortization period associated with unvested option grants, restricted stock awards and restricted stock unit awards at March 31, 2017 are:

|   | Mar. 31,<br>2017 |
|---|------------------|
| Unamortized future equity compensation expense (in thousands) | \$1,036          |
| Remaining weighted average amortization period (in years)     | 2.34             |

#### **NOTE 10 – SHARE REPURCHASE PROGRAMS**

On February 24, 2016, our Board of Directors approved a share repurchase program with provisions to buy back up to \$1 million of our stock during the period from March 2, 2016 through March 31, 2017. The program was established with a 10b5-1 plan under the Exchange Act to provide flexibility to make purchases throughout the period. During the first quarter of 2017, no shares were purchased under the stock buyback program which expired on March 31, 2017. Overall, a total of 80,345 shares of stock have been repurchased at an average price of \$2.36 for a total of \$189,360 plus \$1,649 in commissions and charges.

The following is a summary of share repurchase activity under the plan through March 31, 2017:

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

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

### General

#### **FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information about themselves as long as they identify these statements as forward-looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact made in this Quarterly Report on Form 10-Q are forward-looking. In particular, statements herein regarding industry prospects or trends; expected revenues; expected level of expense; expected savings; future results of operations; reversals of tax valuation allowances; breakeven point, or financial position; changes in gross margin; economic conditions and capital spending outlook; market acceptance of our newly introduced or upgraded products; development, introduction and shipment of new products; building lease arrangements; sales channels and any other guidance on future periods are forward-looking statements. Forward-looking statements reflect management’s current expectations and are inherently uncertain. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or other future events. Moreover, neither we nor anyone else assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this report. The reader should not place undue reliance on these forward-looking statements. The discussions above and in the section in Item 1A., Risk Factors “Cautionary Factors That May Affect Future Results” in our Annual report on Form 10-K for the year ended December 31, 2016 describe some, but not all, of the factors that could cause these differences.

#### **OVERVIEW**

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

We are concentrating our research and development efforts in our strategic growth markets, namely automotive electronics and Internet of Things (IoT), focusing on new programming technologies, secure supply chain solutions, automated programming systems and their enhancements for the manufacturing environment and software. We are developing technology to securely program new categories of semiconductors, including secure elements, authentication chips, and secure microcontrollers. 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 NAND Flash, e-MMC, UFS and microcontrollers on our newer products.

Our customer focus remains on strategic high volume manufacturers in key market segments like automotive electronics, IoT, industrial controls, consumer electronics and wireless as well as programming centers.

## CRITICAL ACCOUNTING POLICY JUDGMENTS AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

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

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

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

**Share-based Compensation:** We account for share-based awards made to our employees and directors, including employee stock option awards and restricted stock unit awards, using the estimated grant date fair value method of accounting. For options, we estimate the fair value using the Black-Scholes valuation model and an estimated forfeiture rate, which requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using the historical volatility of our common stock. Changes in the subjective assumptions required in the valuation model may significantly affect the estimated value of the awards, the related stock-based compensation expense and, consequently, our results of operations. Restricted stock unit awards are valued based on the average of the high and low price on the date of the grant. For both options and restricted 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<br>(in thousands) | Three Months Ended |              |                  |
|---|--------------------|--------------|------------------|
|   | Mar. 31,<br>2017   | Change       | Mar. 31,<br>2016 |
| Automated programming systems               | \$5,925            | 80.0%        | \$3,292          |
| Non-automated programming systems           | 1,299              | (1.7%)       | 1,321            |
| Total programming systems                   | <u>\$7,224</u>     | <u>56.6%</u> | <u>\$4,613</u>   |

| Net sales by location<br>(in thousands) | Three Months Ended |         |                  |
|---|--------------------|---------|------------------|
|   | Mar. 31,<br>2017   | Change  | Mar. 31,<br>2016 |
| United States                           | \$748              | (26.9%) | \$1,023          |
| % of total                              | 10.4%              |         | 22.2%            |
| International                           | \$6,476            | 80.4%   | \$3,590          |
| % of total                              | 89.6%              |         | 77.8%            |

Net sales in the first quarter of 2017 were \$7.2 million, compared with \$4.6 million in the first quarter of 2016, which primarily resulted from higher Automotive Electronics and Internet of Things (IoT) demand from both OEMs and Programming Centers. International sales represented 90% of total sales for the first quarter of 2017 compared to 78% in the first quarter of 2016 and regionally, had the strongest growth in Europe.

On a product basis, our PSV product line, LumenX and consumables were higher while our legacy equipment business continued to decline. Revenue composition for the quarter was approximately 70% equipment, 22% consumables, and 8% software and services.

Order bookings were \$8.4 million in the first quarter of 2017, a 17-year high, compared to \$5.9 million in the first quarter of last year for year-over-year growth of 42%. The variation in revenue percentages versus order percentages relate to the change in deferred revenues and currency translation. Backlog at March 31, 2017 was \$4.9 million compared to \$3.2 million at December 31, 2016 and \$2.0 million at March 31, 2016. Deferred revenue at the March 31, 2017 was \$1.4 million, compared to \$1.9 million at December 31, 2016.

### GROSS MARGIN

| (in thousands)          | Three Months Ended |        |                  |
|-------------------------|--------------------|--------|------------------|
|                         | Mar. 31,<br>2017   | Change | Mar. 31,<br>2016 |
| Gross margin            | \$4,167            | 64.8%  | \$2,528          |
| Percentage of net sales | 57.7%              |        | 54.8%            |

Gross margin as a percentage of sales in the first quarter of 2017 was 57.7%, compared to 54.8% in the first quarter of 2016. The increase was primarily due to favorable factory variances, sales volume resulting in better fixed factory cost utilization and a favorable product mix.

## RESEARCH AND DEVELOPMENT

|                          | Three Months Ended |        |                  |
|--------------------------|--------------------|--------|------------------|
|                          | Mar. 31,<br>2017   | Change | Mar. 31,<br>2016 |
| (in thousands)           |                    |        |                  |
| Research and development | \$1,545            | 37.3%  | \$1,125          |
| Percentage of net sales  | 21.4%              |        | 24.4%            |

Research and development (“R&D”) increased \$420,000 in the first quarter of 2017 compared to the same period in 2016, primarily due to personnel costs including recruiting.

## SELLING, GENERAL AND ADMINISTRATIVE

|                                      | Three Months Ended |        |                  |
|--------------------------------------|--------------------|--------|------------------|
|                                      | Mar. 31,<br>2017   | Change | Mar. 31,<br>2016 |
| (in thousands)                       |                    |        |                  |
| Selling, general &<br>administrative | \$1,818            | 15.2%  | \$1,578          |
| Percentage of net sales              | 25.2%              |        | 34.2%            |

Selling, General and Administrative (“SG&A”) expenses increased \$240,000 in the first quarter of 2017 compared to the same period in 2016, primarily reflecting higher incentive, commission and consulting compensation, partially offset by lower rents.

## INTEREST

|                 | Three Months Ended |         |                  |
|-----------------|--------------------|---------|------------------|
|                 | Mar. 31,<br>2017   | Change  | Mar. 31,<br>2016 |
| (in thousands)  |                    |         |                  |
| Interest income | \$8                | (33.3%) | \$12             |

Interest income decreased in the first quarter of 2017 compared to the same period in 2016, primarily due to lower invested cash balances.

## INCOME TAXES

|                      | Three Months Ended |        |                  |
|----------------------|--------------------|--------|------------------|
|                      | Mar. 31,<br>2017   | Change | Mar. 31,<br>2016 |
| (in thousands)       |                    |        |                  |
| Income tax (expense) | (\$12)             | *      | (\$1)            |

\* not meaningful

Income tax (expense) for the first quarter of 2017 and 2016 is primarily due to domestic income 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 \$10.7 million as of March 31, 2017. Our deferred tax assets and valuation allowance have been reduced by approximately \$230,000 and \$214,000 associated with the

requirements of accounting for uncertain tax positions as of March 31, 2017 and 2016, respectively. Given the uncertainty created by our loss history, as well as the ongoing uncertain economic outlook for our industry as well as capital and geographic spending, we expect to continue to limit the recognition of net deferred tax assets and accounting for uncertain tax positions and maintain the tax valuation allowances.

## **GAIN ON SALE OF ASSETS**

During the first quarter of 2017, we sold non-core and excess internet domain addresses, resulting in a non-operating gain of \$211,000 net of commissions. Continued smaller sales are planned during 2017.

### Financial Condition

## **LIQUIDITY AND CAPITAL RESOURCES**

| (in thousands)  | Mar. 31,<br>2017 | Change | Dec. 31,<br>2016 |
|-----------------|------------------|--------|------------------|
| Working capital | \$15,486         | \$913  | \$14,573         |

At March 31, 2017 our cash position was \$10.5 million, with \$5.2 million in the USA and the balance in foreign subsidiaries. The change in cash during the quarter resulted primarily from a working capital shift to receivables, inventory, and annual payments of previously accrued 2016 incentive compensation and pension contributions partially offset by net income for the quarter.

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

As a result of our significant product development, customer support, selling and marketing efforts, we have required substantial working capital to fund our operations. In 2017 and recent years, we have managed balancing profitable operations, while addressing rising costs and foreign exchange rate challenges. This included geographic shifts in our operations, optimized real estate usage strategies and differentiated product development and cost strategies.

We believe that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through at least the next one year period. We may require additional cash for U.S. operations, which could result in potential repatriation of cash from the \$5.3 million held in our foreign subsidiaries. Although we have no current repatriation plans, there may be tax and other impediments to any repatriation actions. Our working capital may be used to fund possible losses, business growth, project initiatives, share repurchases and business development initiatives including acquisitions, which could reduce our liquidity and result in a requirement for additional cash before that time. Any substantial inability to achieve our current business plan could have a material adverse impact on our financial position, liquidity, or results of operations and may require us to reduce expenditures and/or seek additional financing.

## SHARE REPURCHASE PROGRAMS

On February 24, 2016, our Board of Directors approved a share repurchase program with provisions to buy back up to \$1 million of our stock during the period from March 2, 2016 through March 31, 2017. The program was established with a 10b5-1 plan under the Exchange Act to provide flexibility to make purchases throughout the period. During the first quarter of 2017, no shares were purchased under the stock buyback program which expired on March 31, 2017. Overall, a total of 80,345 shares of stock have been repurchased at an average price of \$2.36 for a total of \$189,360 plus \$1,649 in commissions and charges. See accompanying consolidated financial statements Note 10, "Share Repurchase Programs".

## OFF-BALANCE SHEET ARRANGEMENTS

Except as noted in the accompanying consolidated financial statements in Note 5, "Operating Lease Commitments" 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 \$1.1 million in the first quarter of 2017 compared to a loss of (\$51,000) in the first quarter of 2016. Adjusted EBITDA, excluding equity compensation (a non-cash item) was \$1.2 million in the first quarter of 2017, compared to \$44,000 in the first quarter of 2016.

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 |                  |
|--|--------------------|------------------|
|  | Mar. 31,<br>2017   | Mar. 31,<br>2016 |
| (in thousands)   |                    |                  |
| Net Income (loss)  | \$979              | (\$168)          |
| Interest (income) expense                                  | (8)                | (12)             |
| Taxes  | 12                 | 1                |
| Depreciation & amortization                                | 165                | 128              |
| EBITDA earnings (loss)                                     | \$1,148            | (\$51)           |
| Equity compensation  | 97                 | 95               |
| Adjusted EBITDA earnings,<br>excluding equity compensation | \$1,245            | \$44             |

## RECENT ACCOUNTING ANNOUNCEMENTS

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

retrospective basis as a financing activity on the statement of cash flows. The standard became effective beginning January 1, 2017. The adoption of ASU 2016-09 was not material to our consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09). ASU 2014-09 provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers” (ASU 2015-14), deferring the effective date of the new revenue recognition standard by one year and now takes effect for public entities in fiscal years beginning after December 15, 2017. We currently expect to adopt the revenue standards as of January 1, 2018, utilizing the modified retrospective transition method. The new standard may, in certain circumstances, impact the timing of when revenue is recognized for product shipped, and the timing and classification of certain sales incentives. We have begun to evaluate the potential impact of the adoption on our consolidated financial statements, but at this time the impact is unknown. We will continue our evaluation of revenue from our contracts with customers, and we will update our expectations of the impact of adoption of the new revenue standards on our consolidated financial statements in future filings.

**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 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 March 31, 2017, 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, 2016, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the Risk Factors described in our Annual Report.

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

See accompanying consolidated financial statements Note 10, "Share Repurchase Programs".

### **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: May 12, 2017

### **DATA I/O CORPORATION** (REGISTRANT)

By: //S//Anthony Ambrose  
Anthony Ambrose  
President and Chief Executive Officer  
(Principal Executive Officer and Duly Authorized Officer)

By: //S//Joel S. Hatlen  
Joel S. Hatlen  
Vice President and Chief Financial Officer  
Secretary and Treasurer  
(Principal Financial Officer and Duly Authorized Officer)

Exhibit 31.1

CERTIFICATION

I, Anthony Ambrose, certify that:

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

DATED: May 12, 2017

/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: May 12, 2017

/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 March 31, 2017 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)  
May 12, 2017

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 March 31, 2017 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)  
May 12, 2017