

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 **June 30, 2025**
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 185th Ave NE, Suite 100, Redmond, Washington, 98052
425-881-6444

(Address of principal executive offices, including zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

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

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

Shares of Common Stock, no par value, outstanding as of July 31, 2025: 9,387,663

DATA I/O CORPORATION
FORM 10-Q
For the Quarter Ended June 30, 2025

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

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

| | June 30, 2025 | December 31, 2024 |
|--|------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$9,969 | \$10,326 |
| Trade accounts receivable, net of allowance for credit losses of \$31 and \$22, respectively | 3,905 | 3,960 |
| Inventories | 5,972 | 6,212 |
| Other current assets | 781 | 659 |
| TOTAL CURRENT ASSETS | 20,627 | 21,157 |
| Property, plant and equipment – net | 1,050 | 1,001 |
| Other assets | 2,440 | 2,812 |
| TOTAL ASSETS | \$24,117 | \$24,970 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$1,366 | \$820 |
| Accrued compensation | 1,056 | 1,517 |
| Deferred revenue | 1,254 | 1,535 |
| Other accrued liabilities | 1,380 | 1,161 |
| Income taxes payable | 20 | 39 |
| TOTAL CURRENT LIABILITIES | 5,076 | 5,072 |
| Operating lease liabilities | 1,750 | 2,160 |
| Long-term other payables | 45 | 112 |
| COMMITMENTS | - | - |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock - | | |
| Authorized, 5,000,000 shares, including 200,000 shares of Series A Junior Participating | | |
| Issued and outstanding, none | - | - |
| Common stock, at stated value - | | |
| Authorized, 30,000,000 shares | | |
| Issued and outstanding, 9,374,698 shares as of June 30, 2025 and 9,236,040 shares as of December 31, 2024 | 23,804 | 23,475 |
| Accumulated earnings (deficit) | (6,862) | (5,738) |
| Accumulated other comprehensive income | 304 | (111) |
| TOTAL STOCKHOLDERS' EQUITY | 17,246 | 17,626 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$24,117 | \$24,970 |

See notes to consolidated financial statements

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2025 | 2024 | 2025 | 2024 |
| Net sales | \$5,948 | \$5,062 | \$12,124 | \$11,161 |
| Cost of goods sold | 2,988 | 2,305 | 5,976 | 5,184 |
| Gross margin | 2,960 | 2,757 | 6,148 | 5,977 |
| Operating expenses: | | | | |
| Research and development | 1,662 | 1,413 | 3,177 | 2,995 |
| Selling, general and administrative | 2,142 | 1,910 | 4,192 | 4,408 |
| Total operating expenses | 3,804 | 3,323 | 7,369 | 7,403 |
| Operating income (loss) | (844) | (566) | (1,221) | (1,426) |
| Non-operating income (loss): | | | | |
| Interest income | 35 | 73 | 73 | 153 |
| Foreign currency transaction gain (loss) | 47 | 49 | 26 | 62 |
| Total non-operating income (loss) | 82 | 122 | 99 | 215 |
| Income (loss) before income taxes | (762) | (444) | (1,122) | (1,211) |
| Income tax (expense) benefit | 20 | (353) | (2) | (393) |
| Net income (loss) | (\$742) | (\$797) | (\$1,124) | (\$1,604) |
| | | | | |
| Basic earnings (loss) per share | (\$0.08) | (\$0.09) | (\$0.12) | (\$0.18) |
| Diluted earnings (loss) per share | (\$0.08) | (\$0.09) | (\$0.12) | (\$0.18) |
| Weighted-average basic shares | 9,296 | 9,104 | 9,267 | 9,063 |
| Weighted-average diluted shares | 9,296 | 9,104 | 9,267 | 9,063 |

See notes to consolidated financial statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|----------------|--------------------------------------|------------------|
| | 2025 | 2024 | 2025 | 2024 |
| Net income (loss) | (\$742) | (\$797) | (\$1,124) | (\$1,604) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation gain (loss) | 289 | (70) | 304 | (238) |
| Comprehensive income (loss) | <u>(\$453)</u> | <u>(\$867)</u> | <u>(\$820)</u> | <u>(\$1,842)</u> |

See notes to consolidated financial statements

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(UNAUDITED)

| | Common Stock | | Retained Earnings (Deficit) | Accumulated and Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|--------------|----------|-----------------------------|---|----------------------------|
| | Shares | Amount | | | |
| Balance at December 31, 2023 | 9,020,819 | \$22,731 | (\$2,645) | \$233 | \$20,319 |
| Stock awards issued, net of tax withholding | 1,759 | - | - | - | - |
| Issuance of stock through: ESPP | 2,381 | 7 | - | - | 7 |
| Share-based compensation | - | 281 | - | - | 281 |
| Net income (loss) | - | - | (807) | - | (807) |
| Other comprehensive income (loss) | - | - | - | (168) | (168) |
| Balance at March 31, 2024 | 9,024,959 | \$23,019 | (\$3,452) | \$65 | \$19,632 |
| Stock awards issued, net of tax withholding | 194,879 | (229) | - | - | (229) |
| Issuance of stock through: ESPP | - | - | - | - | - |
| Share-based compensation | - | 382 | - | - | 382 |
| Net income (loss) | - | - | (797) | - | (797) |
| Other comprehensive income (loss) | - | - | - | (70) | (70) |
| Balance at June 30, 2024 | 9,219,838 | \$23,172 | (\$4,249) | (\$5) | \$18,918 |
| Balance at December 31, 2024 | 9,236,040 | \$23,475 | (\$5,738) | (\$111) | \$17,626 |
| Stock awards issued, net of tax withholding | 1,759 | (3) | - | - | (3) |
| Issuance of stock through: ESPP | 1,932 | 6 | - | - | 6 |
| Share-based compensation | - | 174 | - | - | 174 |
| Net income (loss) | - | - | (382) | - | (382) |
| Other comprehensive income (loss) | - | - | - | 126 | 126 |
| Balance at March 31, 2025 | 9,239,731 | \$23,652 | (\$6,120) | \$15 | \$17,547 |
| Stock awards issued, net of tax withholding | 134,967 | (98) | - | - | (98) |
| Issuance of stock through: ESPP | - | - | - | - | - |
| Share-based compensation | - | 250 | - | - | 250 |
| Net income (loss) | - | - | (742) | - | (742) |
| Other comprehensive income (loss) | - | - | - | 289 | 289 |
| Balance at June 30, 2025 | 9,374,698 | \$23,804 | (\$6,862) | \$304 | \$17,246 |

See notes to consolidated financial statements

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

| | For the Six Months Ended | |
|---|---------------------------------|-------------|
| | June 30, | |
| | 2025 | 2024 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | (\$1,124) | (\$1,604) |
| Adjustments to reconcile net income (loss) | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 237 | 340 |
| Equipment transferred to cost of goods sold | 61 | 250 |
| Share-based compensation | 424 | 663 |
| Net change in: | | |
| Trade accounts receivable | 191 | 2,362 |
| Inventories | 290 | (877) |
| Other current assets | (113) | 86 |
| Accounts payable and accrued liabilities | 232 | (1,601) |
| Deferred revenue | (432) | (17) |
| Other long-term liabilities | (409) | (281) |
| Deposits and other long-term assets | 410 | 395 |
| Net cash provided by (used in) operating activities | (233) | (284) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (347) | (164) |
| Cash provided by (used in) investing activities | (347) | (164) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of common stock, less payments | | |
| for shares withheld to cover tax | (95) | (223) |
| Cash provided by (used in) financing activities | (95) | (223) |
| Increase (decrease) in cash and cash equivalents | (675) | (671) |
| Effects of exchange rate changes on cash | 318 | (230) |
| Cash and cash equivalents at beginning of period | 10,326 | 12,341 |
| Cash and cash equivalents at end of period | \$9,969 | \$11,440 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Income taxes | \$14 | \$464 |
| <i>See notes to consolidated financial statements</i> | | |

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

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

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

We prepared the financial statements as of June 30, 2025 and June 30, 2024 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, 2024 has been derived from the audited financial statements at that date. We have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America according to such SEC rules and regulations. Operating results for the six months ended June 30, 2025 are not necessarily indicative of the results that may be expected for the year ending December 31, 2025.

Significant Accounting Policies

These financial statements should be read in conjunction with the annual audited financial statements and the accompanying notes included in our Form 10-K for the year ended December 31, 2024 (filed with the SEC on April 1, 2025). There have been no changes to our significant accounting policies described in the Annual Report that have had a material impact on our unaudited condensed consolidated financial statements and related notes.

Revenue Recognition

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

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

We recognize revenue upon transfer of control of the promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We have determined that our programming equipment has reached a point of maturity and stability such that product acceptance can be assured by testing at the factory prior to shipment and that the installation meets the criteria to be a separate performance obligation. These systems are standard products with published product specifications and are configurable with standard options. The evidence that these systems could be deemed as accepted was based upon having standardized factory production of the units, results from batteries of tests of product performance to our published specifications, quality inspections and installation standardization, as well as past product operation validation with the customer and the history provided by our installed base of products upon which the current versions were based.

The revenue related to products requiring installation that is perfunctory is recognized upon transfer of control of the product to customers, which generally is at the time of shipment. Installation that is considered perfunctory includes any

installation that is expected to be performed by other parties, such as distributors, other vendors, or the customers themselves. This analysis considers the complexity, skill and training needed and customer installation expectations.

We enter into arrangements with multiple performance obligations that arise during the sale of a system that could include hardware, software, installation, services and support and extended maintenance components. We allocate the transaction price of each element based on the 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 based on shipping terms, software based on delivery, installation and services based on completion of work, and software maintenance and extended warranty support ratably over the term of the agreement, typically one year. Total deferred revenue which represents undelivered performance obligations for installation, service, support and extended contracts were \$1.3 million and \$1.5 million for June 30, 2025 and 2024, respectively. The portion expected to be recognized within one year was \$1.3 million and \$1.3 million for June 30, 2025 and 2024, respectively.

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

We recognize revenue when there is an approved contract that both parties are committed to perform, both parties' rights have been identified, the contract has substance, collection of substantially all the consideration is probable, the transaction price has been determined and allocated over the performance obligations, the performance obligations including substantive acceptance conditions, if any, in the contract have been met, the obligation is not contingent on resale of the product, the buyer's obligation would not be changed in the event of theft, physical destruction or damage to the product, the buyer acquiring the product for resale has economic substance apart from us and we do not have significant obligations for future performance to directly bring about the resale of the product by the buyer. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items. Payment terms are generally 30 to 60 days from shipment.

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

The following table represents our revenues by major categories:

| | Three Months Ended | | | Six Months Ended | | |
|-------------------------------------|--------------------|--------------|------------------|------------------|-------------|------------------|
| Net sales by type (in thousands) | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| Equipment | \$2,997 | 27.4% | \$2,353 | \$6,315 | 10.4% | \$5,719 |
| Adapter | 2,331 | 28.4% | 1,816 | 4,293 | 17.2% | 3,662 |
| Software and Maintenance | 620 | (30.6%) | 893 | 1,516 | (14.8%) | 1,780 |
| Total | <u>\$5,948</u> | <u>17.5%</u> | <u>\$5,062</u> | <u>\$12,124</u> | <u>8.6%</u> | <u>\$11,161</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 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 for U.S. and foreign subsidiary operations 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.

On July 4, 2025, the “One Big Beautiful Bill Act” (the “Act”) was enacted into law. The Act includes changes to U.S. tax law, including provisions to accelerate tax deductions for qualified property and research expenditures. The legislation did not affect the Company’s income tax balances as of June 30, 2025. We are in the process of evaluating the impact of the Act on our consolidated financial statements.

New Accounting Pronouncements – Standards Issued and Not Yet Implemented

In December 2023, the FASB issued ASU 2023-09 "Income Taxes (Topics 740): Improvements to Income Tax Disclosures" to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for our annual periods beginning January 1, 2025, with early adoption permitted. We are currently evaluating the potential effect that the updated standard will have on our financial statement disclosures.

In November 2024, FASB issued ASU 2024-03, Income Statement – Reporting Comprehensive Income – Expense Disaggregation (Subtopic 220-40), which requires disclosure of specific information about costs and expenses within relevant expense captions on the face of the income statement, qualitative descriptions for expense captions not specifically disaggregated quantitatively, and the total amount and definition of selling expenses for interim and annual reporting periods. This standard is effective for the annual reporting period beginning January 1, 2027, and interim reporting periods beginning January 1, 2028, and should be applied retrospectively to all comparative periods. Early adoption is permitted. The Company is currently evaluating the effects of adopting this new accounting guidance.

NOTE 2 – INVENTORIES

Inventories consisted of the following components:

| | June 30, 2025 | December 31, 2024 |
|-----------------|------------------|----------------------|
| (in thousands) | | |
| Raw material | \$3,137 | \$3,273 |
| Work-in-process | 1,921 | 1,845 |
| Finished goods | 914 | 1,094 |
| Inventories | <u>\$5,972</u> | <u>\$6,212</u> |

NOTE 3– PROPERTY, PLANT AND EQUIPMENT, NET

Property and equipment consisted of the following components:

| | June 30, 2025 | December 31, 2024 |
|-------------------------------|------------------|----------------------|
| (in thousands) | | |
| Leasehold improvements | \$353 | \$343 |
| Equipment | 4,163 | 3,777 |
| Sales demonstration equipment | <u>1,099</u> | <u>1,031</u> |
| | 5,615 | 5,151 |
| Less accumulated depreciation | <u>(4,565)</u> | <u>(4,150)</u> |
| Property and equipment, net | <u>\$1,050</u> | <u>\$1,001</u> |

NOTE 4 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components:

| | June 30, 2025 | December 31, 2024 |
|------------------------------|------------------|----------------------|
| (in thousands) | | |
| Lease liability - short term | \$673 | \$640 |
| Product warranty | 468 | 350 |
| Sales return reserve | 32 | 32 |
| Other taxes | 59 | 69 |
| Other | <u>148</u> | <u>70</u> |
| Other accrued liabilities | <u>\$1,380</u> | <u>\$1,161</u> |

The changes in our product warranty liability at June 30, 2025 and year ended December 31, 2024 are as follows:

| | June 30, 2025 | December 31, 2024 |
|------------------------------|------------------|----------------------|
| (in thousands) | | |
| Liability, beginning balance | \$350 | \$449 |
| Net expenses | 229 | 901 |
| Warranty claims | (229) | (901) |
| Accrual revisions | <u>118</u> | <u>(99)</u> |
| Liability, ending balance | <u>\$468</u> | <u>\$350</u> |

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 of June 30, 2025, are as follows:

| | June 30, 2025 Operating Lease Commitments |
|-----------------------------------|---|
| (in thousands) | |
| 2025 (remaining) | \$ 389 |
| 2026 | 774 |
| 2027 | 693 |
| 2028 | 433 |
| 2029 & Thereafter | 369 |
| Total | \$ 2,658 |
| Less imputed interest | (235) |
| Total operating lease liabilities | <u>\$2,423</u> |

For the largest lease component, the Company has three facilities with our headquarters and primary engineering and operational functions located in Redmond, Washington. Our two subsidiary facilities in Munich, Germany and Shanghai, China provide extended worldwide sales, service, engineering and operation services. The components of our lease expense for the three months and six months ended June 30, 2025, include facility related operating lease costs of \$184,000 and \$366,000, respectively, and short-term lease costs of \$10,000 and \$19,000, respectively. In the prior year, components of our lease expense for the three months and six months ended June 30, 2024, include facility related operating lease costs of \$207,000 and \$415,000, respectively, and short-term lease costs of \$9,000 and \$19,000, respectively. There were no new operating leases during the six months ended June 30, 2025.

The Redmond, Washington headquarters facility lease runs to October 31, 2029, at approximately 20,460 square feet. The lease for the facility located in Shanghai, China runs to October 31, 2027, at approximately 19,400 square feet. The lease for the facility located near Munich, Germany runs to August 2027, at approximately 4,895 square feet.

The following table presents supplemental balance sheet information related to leases as of June 30, 2025, and December 31, 2024:

| | Balance at June 30, 2025 | Balance at December 31, 2024 |
|---|--------------------------------|------------------------------------|
| (in thousands) | | |
| Right-of-use assets (Long-term other assets) | \$2,328 | \$2,704 |
| Lease liability-short term (Other accrued liabilities) | \$673 | \$640 |
| Lease liability-long term (Operating lease liabilities) | \$1,750 | \$2,064 |

At June 30, 2025, the weighted average remaining lease term is 3.7 years and the weighted average discount rate used is 5%.

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. As of June 30, 2025, we had confirmed contracts with a commitment of approximately \$782,000 to be paid within one year and \$480,000 to be paid beyond one year.

NOTE 7 – CONTINGENCIES

As of June 30, 2025, 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 aggregate, would have a material adverse effect on our results of operations or financial position.

NOTE 8 – INCOME TAXES

Income tax expense for the second quarter of 2025 and 2024 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 allowance, as well as foreign taxes. We have a valuation allowance of \$9.1 million as of June 30, 2025. As of June 30, 2025 and 2024, our deferred tax assets and valuation allowance have been reduced by approximately \$447,000 and \$437,000, respectively. 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 | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2025 | June 30, 2024 | June 30, 2025 | June 30, 2024 |
| (in thousands except per share data) | | | | |
| Numerator for basic and diluted earnings (loss) per share: | | | | |
| Net income (loss) | (\$742) | (\$797) | (\$1,124) | (\$1,604) |
| Denominator for basic earnings (loss) per share: | | | | |
| Weighted-average shares | 9,296 | 9,104 | 9,267 | 9,063 |
| Employee stock options and awards | - | - | - | - |
| Denominator for diluted earnings (loss) per share: | | | | |
| Adjusted weighted-average shares & assumed conversions of stock options | 9,296 | 9,104 | 9,267 | 9,063 |
| Basic and diluted earnings (loss) per share: | | | | |
| Basic earnings (loss) per share | (\$0.08) | (\$0.09) | (\$0.12) | (\$0.18) |
| Diluted earnings (loss) per share | (\$0.08) | (\$0.09) | (\$0.12) | (\$0.18) |

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

| | Three Months Ended | | Six Months Ended | |
|-------------------------|--------------------|------------------|------------------|------------------|
| | June 30, 2025 | June 30, 2024 | June 30, 2025 | June 30, 2024 |
| Restricted Stock Units | 66,424 | 91,729 | 77,906 | 110,706 |
| Performance Stock Units | 19,638 | 8,098 | 17,811 | 5,784 |
| Stock Options | - | 161 | - | 168 |

Options to purchase 200,000 and 12,500 shares were outstanding as of June 30, 2025 and 2024, respectively, but were excluded from the computation of diluted earnings per share for the periods then ended because the options were anti-dilutive.

NOTE 10 – SHARE-BASED COMPENSATION

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

Second quarter 2025 shared-based compensation of \$250,000, was \$132,000 lower compared to the prior year period due to staff reductions which occurred in the fourth quarter of 2024. The impact on our results of operations of recording share-based compensation, net of forfeitures, for the three and six months ended June 30, 2025 and 2024, were as follows:

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|------------------|------------------|------------------|
| | June 30, 2025 | June 30, 2024 | June 30, 2025 | June 30, 2024 |
| (in thousands) | | | | |
| Cost of goods sold | \$36 | \$36 | \$61 | \$60 |
| Research and development | 65 | 82 | 113 | 146 |
| Selling, general and administrative | 149 | 264 | 250 | 457 |
| Total share-based compensation | <u>\$250</u> | <u>\$382</u> | <u>\$424</u> | <u>\$663</u> |

Equity awards granted during the three and six months ended June 30, 2025 and 2024 were as follows:

| | Three Months Ended | | Six Months Ended | |
|-------------------------|--------------------|------------------|------------------|------------------|
| | June 30, 2025 | June 30, 2024 | June 30, 2025 | June 30, 2024 |
| Restricted Stock Units | 81,200 | 231,650 | 96,472 | 231,650 |
| Performance Stock Units | - | 119,000 | - | 119,000 |

Employee RSUs typically vest annually over three or four years and employee Non-Qualified stock options typically vest quarterly over four years and have a six-year exercise period. Non-employee director Restricted Stock Units (“RSUs”) typically vest over the earlier of one year or the next annual meeting of shareholders and Non-Qualified stock options vest over three years and have a six-year exercise period.

Performance Stock Units (“PSUs”) typically cliff vest at the end of the performance period and the performance metric for 2023 awards is cumulative revenue growth over the three-year period ending December 31, 2025, with a cumulative revenue threshold, target, and maximum performance measure. For 2024 awards, the performance metrics included revenue growth, EBITDA and project objective targets over the three-year period ending December 31, 2026. There have been no Performance Stock awards granted in 2025.

The remaining unamortized expected future equity compensation expense and remaining amortization period associated with award grants of RSUs, PSUs and unvested options at June 30, 2025 and 2024 are:

| | June 30, 2025 | June 30, 2024 |
|---|------------------|------------------|
| Unamortized future equity compensation expense (in thousands) | \$1,197 | \$2,464 |
| Remaining weighted average amortization period (in years) | 1.92 | 2.27 |

NOTE 11 –SEGMENT INFORMATION

Data I/O operates as a single segment entity, with the sole objective to design, manufacture, and sell programming systems. We operate in three separate locations — Redmond, Washington; Shanghai, China; and Munich, Germany — these locations function as part of a single, integrated business and all operations are strategically aligned to support this objective.

The accounting policies of the programming system segment are the same as those described in the summary of significant accounting policies. The measure of segment assets is reported on the balance sheet as total consolidated assets.

Our Chief Operating Decision Maker (CODM) is the President/CEO who reviews the company's financial performance on a consolidated basis without distinguishing between different business lines or geographic areas for the purpose of making operating decisions, allocating resources and evaluating financial performance. Financial performance is assessed using operating results, actual net income vs. plan, balance sheet fluctuations, and other key performance indicators. Significant single segment expense categories that are provided to the chief operating decision maker and included in the reported segment operating profits are outlined in the following table:

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|--------------------|------------------|------------------|------------------|
| | June 30, 2025 | June 30, 2024 | June 30, 2025 | June 30, 2024 |
| (in thousands) | | | | |
| Net sales | \$5,948 | \$5,062 | \$12,124 | \$11,161 |
| Cost of goods sold | 2,988 | 2,305 | 5,976 | 5,184 |
| Gross margin | 2,960 | 2,757 | 6,148 | 5,977 |
| Operating Expenses: | | | | |
| Employee expenses | 2,392 | 2,281 | 4,647 | 4,747 |
| Customer acquisition costs | 240 | 272 | 533 | 706 |
| Professional and outside services | 570 | 340 | 1,111 | 982 |
| Occupancy costs (OPEX portion) | 243 | 179 | 462 | 378 |
| Depreciation & amortization | 139 | 144 | 265 | 287 |
| Other | 220 | 107 | 351 | 303 |
| Total operating expense | 3,804 | 3,323 | 7,369 | 7,403 |
| Operating income (loss) | (\$844) | (\$566) | (\$1,221) | (\$1,426) |

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; industry prospects and trends; expected business recovery; industry partnerships; future results of operations or financial position; future spending; expected expenses, breakeven revenue point; expected market decline, bottom or growth; market acceptance of our newly introduced or upgraded products or services; the sufficiency of our cash to fund future operations and capital requirements; development, introduction and shipment of new products or services; changing foreign operations; taxes, trade issues and tariffs; expected inventory levels; expectations for unsupported platform or product versions and related inventory and other charges; supply chain expectations; semiconductor chip shortages and recovery; 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 Annual Report. The Reader should not place undue reliance on these forward-looking statements. The following discussions and the 2024 Annual Report on Form 10-K section entitled “Risk Factors – Cautionary Factors That May Affect Future Results” describe some, but not all, of the factors that could cause these differences.

OVERVIEW

Data I/O continued to make progress in key operational areas during the second quarter, despite a challenging global economic environment. The second quarter represents a continuation in proving the growth and market expansion strategies being implemented over the past several months. At the same time, efficiency improvements and streamlining operations resulted in a lower cost basis for manufacturing and overhead. We are focused on improvements to our core programming platform and received a significant automated programming system order late in the second quarter from a leading global automotive EV supplier.

We are encouraged to see customers increase the utilization of their existing systems, which results in a greater need for engineering and maintenance services and heightened demand for consumable adapters, and represent a high margin source of revenue. We continue to grow our pipeline of opportunities beyond the automotive sector including a revitalization of our activities with semiconductor companies and forging strategic product development relationships with leading firms serving the memory and microcontroller sectors. Combined with continued efforts to expand our market reach, we expect to deliver revenue growth through end market diversification and an enhanced consultative sales process.

Overall demand for capital equipment continued to be negatively impacted by ongoing global trade and tariff negotiations throughout most of the second quarter. However, ongoing supply chain planning and other actions have helped mitigate the impact of new tariffs, trade and inflationary pressures, including shifting material sourcing and product manufacturing.

Significant progress has been made in a short period of time against a backdrop of significant economic and cross-border trade uncertainty. We remain cautious given the near-term headwinds, as this has created additional strain on the economy and stalled capital investments. We remain focused on setting the business up for sustainable growth by driving innovation, enhancing our products and improving our value proposition.

CRITICAL ACCOUNTING POLICY JUDGMENTS AND ESTIMATES

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

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

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

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

We recognize revenue upon transfer of control of the promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We have determined that our programming equipment has reached a point of maturity and stability such that product acceptance can be assured by testing at the factory prior to shipment and that the installation meets the criteria to be a separate performance obligation. These systems are standard products with published product specifications and are configurable with standard options. The evidence that these systems could be deemed as accepted was based upon having standardized factory production of the units, results from batteries of tests of product performance to our published specifications, quality inspections and installation standardization, as well as past product operation validation with the customer and the history provided by our installed base of products upon which the current versions were based.

The revenue related to products requiring installation that is perfunctory is recognized upon transfer of control of the product to customers, which generally is at the time of shipment. Installation that is considered perfunctory includes any installation that is expected to be performed by other parties, such as distributors, other vendors, or the customers themselves. This analysis considers the complexity, skill and training needed, as well as customer installation expectations.

We enter into arrangements with multiple performance obligations that arise during the sale of a system that could include hardware, software, installation, services and support and extended maintenance components. We allocate the transaction price of each element based on the relative selling price. Relative selling price is based on the selling price of the standalone system. Installation, services and support costs are based on the discount given to distributors who perform these services. For software maintenance performance obligations, we use the charge for annual software maintenance renewals after the expiration of the initial warranty coverage. Revenue is recognized on the system based on shipping terms, software based on delivery, installation and services based on completion of work and software maintenance and extended warranty support ratably over the term of the agreement, typically one year.

When we license software separately, we recognize revenue upon the transfer of control of the software, which is generally upon delivery, provided that only immaterial items in the context of the contract with the customer remain on our part and substantive acceptance conditions, if any, have been met.

We recognize revenue when there is an approved contract that both parties are committed to perform, both parties' rights have been identified, the contract has substance, collection of substantially all the consideration is probable, the transaction

price has been determined and allocated over the performance obligations, the performance obligations including substantive acceptance conditions, if any, in the contract have been met, the obligation is not contingent on resale of the product, the buyer's obligation would not be changed in the event of theft, physical destruction or damage to the product, the buyer acquiring the product for resale has economic substance apart from us and we do not have significant obligations for future performance to directly bring about the resale of the product by the buyer. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items. Payment terms are generally 30 to 60 days from shipment.

We transfer certain products out of service from their internal use and make them available for sale. The products transferred are typically our standard products in one of the following areas: service loaners, rental or test units; engineering test units; or sales demonstration equipment. Once transferred, the equipment is sold by our regular sales channels as used equipment inventory. These product units often involve refurbishing and are sold in our normal and ordinary course of business with standard warranty coverage. 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 Credit Losses: Allowance for credit losses is based on our assessment of the losses collectively expected for the future, as well as collectability of specific customer accounts and the aging of accounts receivable. If there is deterioration of a major customer's credit worthiness or actual defaults are higher than historical experience, or events forecast that collectively indicate some impairment is expected, our estimates of the recoverability of amounts due to us could be adversely affected.

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

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

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

Share-based Compensation: We account for share-based awards made to our employees and directors, including employee stock option awards, performance stock unit awards and restricted stock unit awards, using the estimated grant date fair value method of accounting. For options, we estimate the fair value using the Black-Scholes valuation model and an estimated forfeiture rate. Restricted stock unit awards and performance stock unit awards are valued based on the average of the high and low price on the date of the grant and an estimated forfeiture rate. For options, performance and restricted stock unit awards, expense is recognized as compensation expense on the straight-line basis. Employee Stock Purchase Plan ("ESPP") shares were issued under provisions that do not require us to record any equity compensation expense.

RESULTS OF OPERATIONS:

NET SALES

| | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|--------------|------------------|------------------|-------------|------------------|
| | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| Net sales by product line (in thousands) | | | | | | |
| Automated programming systems | \$3,317 | (17.3%) | \$4,009 | \$7,663 | (13.2%) | \$8,832 |
| Non-automated programming systems | 2,631 | 149.9% | 1,053 | 4,461 | 91.5% | 2,329 |
| Total programming systems | <u>\$5,948</u> | <u>17.5%</u> | <u>\$5,062</u> | <u>\$12,124</u> | <u>8.6%</u> | <u>\$11,161</u> |
| | | | | | | |
| | Three Months Ended | | | Six Months Ended | | |
| | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| Net sales by location (in thousands) | | | | | | |
| United States | \$284 | (51.6%) | \$587 | \$1,040 | 27.9% | \$813 |
| % of total | 4.8% | | 11.6% | 8.6% | | 7.3% |
| International | \$5,664 | 26.6% | \$4,475 | \$11,084 | 7.1% | \$10,348 |
| % of total | 95.2% | | 88.4% | 91.4% | | 92.7% |
| | | | | | | |
| | Three Months Ended | | | Six Months Ended | | |
| | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| Net sales by type (in thousands) | | | | | | |
| Equipment sales | \$2,997 | 27.4% | \$2,353 | \$6,315 | 10.4% | \$5,719 |
| Adapter sales | 2,331 | 28.4% | 1,816 | 4,293 | 17.2% | 3,662 |
| Software and maintenance | 620 | (30.6%) | 893 | 1,516 | (14.8%) | 1,780 |
| Total | <u>\$5,948</u> | <u>17.5%</u> | <u>\$5,062</u> | <u>\$12,124</u> | <u>8.6%</u> | <u>\$11,161</u> |

Net sales in the second quarter of 2025 were \$5.9 million, compared with \$5.1 million in the prior year period and \$6.2 million in the first quarter of 2025. First quarter 2025 revenues were elevated due to the completion of a large order received in the first quarter 2024. Overall demand for capital equipment continued to be negatively impacted by ongoing global trade and tariff negotiations through most of the second quarter 2025. Net sales of Consumable adapters and services revenue represented 50% of total revenue and provide a stable base of re-occurring revenue.

Total equipment sales were 50% of revenues, adapters were 39% and software and services revenues were 11% of revenues compared with 46% and 36% and 18% respectively in the second quarter of 2024. For 2025 year to date, equipment sales were 52% of revenues, adapters were 35% and software and services revenues were 13% of revenues compared with 2024 year to date sales of 51% and 33% and 16% respectively. On a geographic basis, international sales represented approximately 95% of total net sales for the second quarter of 2025 compared with 88% in the prior year period.

Bookings increased in the latter half of the second quarter as customers had been delaying purchase decisions amid ongoing global trade and tariff concerns. Second quarter 2025 bookings were \$5.8 million, up from \$4.6 million in the first quarter 2025 and \$5.6 million in the second quarter 2024. Second quarter 2025 bookings and backlog include an order for 10 PSV automated pro-gaming systems with LumenX programming platform from one of the largest EV manufacturing suppliers in China valued at over \$1.4 million which is expected to be delivered during the second half of the year. Automotive electronics, a primary business segment in the second quarter of 2025, was 66% of second quarter 2025 bookings.

Backlog at June 30, 2025, was \$2.8 million, down from \$3.0 million at the end of the prior quarter.

Deferred revenue was \$1.3 million on June 30, 2025, down from \$1.5 million on March 31, 2025.

GROSS MARGIN

| | Three Months Ended | | | Six Months Ended | | |
|-------------------------|--------------------|--------|------------------|------------------|--------|------------------|
| | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| (in thousands) | | | | | | |
| Gross margin | \$2,960 | 7.4% | \$2,757 | \$6,148 | 2.9% | \$5,977 |
| Percentage of net sales | 49.8% | | 54.5% | 50.7% | | 53.6% |

Gross margin as a percentage of sales in the second quarter of 2025 was 49.8% as compared to 54.5% in the same period last year and 51.6% in the first quarter of 2025. A lower margin product mix and configuration of automated systems driven by a large customer order led to reduced margins. Direct material costs remained steady and consistent with prior periods. Ongoing supply chain planning and other actions have been mitigating the impact of new tariffs, trade and inflationary pressures, including shifting material sourcing and product manufacturing.

RESEARCH AND DEVELOPMENT

| | Three Months Ended | | | Six Months Ended | | |
|--------------------------|--------------------|--------|------------------|------------------|--------|------------------|
| | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| (in thousands) | | | | | | |
| Research and development | \$1,662 | 17.6% | \$1,413 | \$3,177 | 6.1% | \$2,995 |
| Percentage of net sales | 27.9% | | 27.9% | 26.2% | | 26.8% |

Research and development ("R&D") expenses increased in the second quarter of 2025 as compared to the same period in 2024. The increase is due to transition to new R&D programs and the associated changes in project and outside services spending.

SELLING, GENERAL AND ADMINISTRATIVE

| | Three Months Ended | | | Six Months Ended | | |
|-----------------------------------|--------------------|--------|------------------|------------------|--------|------------------|
| | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| (in thousands) | | | | | | |
| Selling, general & administrative | \$2,142 | 12.1% | \$1,910 | \$4,192 | (4.9%) | \$4,408 |
| Percentage of net sales | 36.0% | | 37.7% | 34.6% | | 39.5% |

Selling, General and Administrative ("SG&A") expenses were higher in the second quarter of 2025 as compared to the same period in 2024. Second quarter spending increase includes higher compensation expenses and leadership and other human resource transition requirements that continued through June 30, 2025. Continued efficiency improvements and cost reduction efforts remain a focus.

INTEREST

| | Three Months Ended | | | Six Months Ended | | |
|-----------------|--------------------|---------|------------------|------------------|---------|------------------|
| | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| (in thousands) | | | | | | |
| Interest income | \$35 | (52.1%) | \$73 | \$73 | (52.3%) | \$153 |

Interest income was lower in the second quarter of 2025 compared to the same period in 2024 due to lower interest rates and invested balances.

INCOME TAXES

| | Three Months Ended | | | Six Months Ended | | |
|---------------------------------|--------------------|----------|------------------|------------------|---------|------------------|
| | June 30, 2025 | Change | June 30, 2024 | June 30, 2025 | Change | June 30, 2024 |
| (in thousands) | | | | | | |
| Income tax benefit (expense) | \$20 | (105.7%) | (\$353) | (\$2) | (99.5%) | (\$393) |

Income tax benefit (expense) for the second quarter of 2025 and 2024 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 \$9.1 million as of June 30, 2025. As of June 30, 2025 and 2024, our deferred tax assets and valuation allowance have been reduced by approximately \$447,000 and \$437,000, respectively. 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

| | June 30, 2025 | Change | December 31, 2024 |
|-----------------|------------------|---------|----------------------|
| (in thousands) | | | |
| Working capital | \$15,551 | (\$534) | \$16,085 |

At June 30, 2025, our principal sources of liquidity consisted of existing cash and cash equivalents. Cash at \$10 million decreased \$534,000 from December 31, 2024, primarily due to one-time expenses and investments in the second quarter, partially offset by an otherwise improved cost structure and lower inventory levels. Correspondingly, working capital of approximately \$15.6 million on June 30, 2025, was down slightly as compared to December 31, 2024. The Company continues to have no debt.

Although we have no significant capital expenditure plans currently, we expect to continue to carefully make and manage expenditures to support the business. Engineering and production tooling, test equipment and sales demonstration products will continue to be purchased as we develop and release new products. Capital expenditures are 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 working capital to fund our operations. We have tried to balance our spending with our anticipated revenue levels and the goal of profitable operations. We have implemented or have on-going initiatives to reduce material and logistic costs, enhance product quality, increase operational and R&D efficiencies and minimize tax expenses.

We believe that we have sufficient cash or working capital available under our operating plan to fund our operations and capital requirements through the next one-year period, and beyond. 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. If the Company determines to pursue significant acquisitions or business development initiatives, the Company may need to raise additional capital. If additional capital is required, the Company will review the amounts and options to raise capital at that time, but future financing would most likely be through debt and equity offerings. 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 further reduce expenditure 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 (\$687,000) in the second quarter of 2025 compared to (\$379,000) in the second quarter of 2024. Adjusted EBITDA, excluding equity compensation (a non-cash item), was (\$437,000) in the second quarter of 2025, compared to \$3,000 in the second quarter of 2024.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|-----------|
| | 2025 | 2024 | 2025 | 2024 |
| (in thousands) | | | | |
| Net Income (loss) | (\$742) | (\$797) | (\$1,124) | (\$1,604) |
| Interest (income) | (35) | (73) | (73) | (153) |
| Taxes | (20) | 353 | \$1 | 393 |
| Depreciation & amortization | 110 | 138 | 237 | 340 |
| EBITDA earnings (loss) | (\$687) | (\$379) | (\$959) | (\$1,024) |
| Equity compensation | 250 | 382 | 424 | 663 |
| Adjusted EBITDA, excluding equity compensation | (\$437) | \$3 | (\$535) | (\$361) |

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"). 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. 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.

As previously reported, we identified material weakness in our internal controls over financial reporting as of December 31, 2024. The material weakness related to user access and segregation of duties for the information technology system that support the Company's financial reporting process. Notwithstanding this material weakness, we have performed additional procedures to enable management to conclude that our consolidated financial statements included in this Form 10-Q fairly present in all material respects our financial condition and results of operations for the period ended June 30, 2025.

In response to the material weakness, we have made and will continue to expand the remediations needed to address this weakness. Management and the Audit Committee will monitor these remedial measures and the effectiveness of our overall control environment. A material weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and Management concludes, through testing, that these controls are operating effectively.

CHANGES IN INTERNAL CONTROLS

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of June 30, 2025, 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, 2024, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the Risk Factors described in our Annual Report.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

- (a) None
- (b) None
- (c) During the quarterly period ended June 30, 2025, no director or officer adopted or terminated any Rule 10b5-1 trading arrangement, and/or any non-Rule 10b5-1 trading arrangement (as such terms are defined pursuant to Item 408(a) of Regulation S-K).

Item 6. Exhibits

- (a) Exhibits

10 Material Contracts:

- 10.38 Independent Contractor Agreement and Proposal and Statement of Work effective on April 28, 2025 between Data I/O Corporation and Theisen Advisory Group, LLC dba TAG CXO (Portions of this exhibit have been omitted because it is both (i) not material and (ii) is the type that the company treats as private or confidential.)

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

- 31.1 Chief Executive Officer Certification
- 31.2 Chief Financial Officer Certification

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

- 32.1 Chief Executive Officer Certification
- 32.2 Chief Financial Officer Certification

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

SIGNATURES

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

DATED: August 12, 2025

DATA I/O CORPORATION
(REGISTRANT)

By: /s/William Wentworth
William Wentworth
President and Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)

By: /s/Todd J. Henne
Todd J. Henne
Interim Chief Financial Officer,
Secretary and Treasurer
(Principal Financial Officer and Duly Authorized Officer)

CERTIFICATION

I, William Wentworth, certify that:

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

DATED: August 12, 2025

/s/ William Wentworth
William Wentworth
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Todd J. Henne, certify that:

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

DATED: August 12, 2025

/s/ Todd J. Henne

Todd J. Henne
Interim Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the quarterly report of Data I/O Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2025 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William Wentworth, 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/ William Wentworth
William Wentworth
Chief Executive Officer
(Principal Executive Officer)
August 12, 2025

Exhibit 32.2

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

In connection with the quarterly report of Data I/O Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2025 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Todd J. Henne, Interim 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/ Todd J. Henne
Todd J. Henne
Interim Chief Financial Officer
(Principal Financial Officer)
August 12, 2025

Exhibit 10.38