

DATA I/O CORP  
Form 10-Q  
May 15, 2013

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 **March 31, 2013**  
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.)

**6464 185<sup>th</sup> Ave NE, Suite 101, 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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, 2013:

7,752,859

**DATA I/O CORPORATION**  
**FORM 10-Q**  
**For the Quarter Ended March 31, 2013**

**INDEX**

<b>Part I.</b>	<b>Financial Information</b>	<u>Page</u>
	Item 1. Financial Statements	3
	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
	Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
	Item 4. Controls and Procedures	23
<b>Part II</b>	<b>Other Information</b>	
	Item 1. Legal Proceedings	24
	Item 1A. Risk Factors	24
	Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
	Item 3. Defaults Upon Senior Securities	24
	Item 4. Mine Safety Disclosures	24
	Item 5. Other Information	24
	Item 6. Exhibits	24
<b>Signatures</b>		<b>25</b>

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

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

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$10,392	\$10,528
Trade accounts receivable, net of allowance for doubtful accounts of \$89 and \$89, respectively	2,870	2,648
Inventories	3,626	4,033
Other current assets	394	486
<b>TOTAL CURRENT ASSETS</b>	<b>17,282</b>	<b>17,695</b>
Property, plant and equipment – net	847	1,006
Intangible software technology – net	34	35
Other assets	84	86
<b>TOTAL ASSETS</b>	<b>\$18,247</b>	<b>\$18,822</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$981	\$850
Accrued compensation	900	1,183
Deferred revenue	1,209	1,238
Other accrued liabilities	625	539
Accrued costs of business restructuring	-	25
Income taxes payable	23	23
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,738</b>	<b>3,858</b>
Long-term other payables	228	219
<b>COMMITMENTS</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDERS' EQUITY</b>		
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, 7,752,859 shares as of March 31, 2013 and 7,741,686 shares as of December 31, 2012	18,002	17,928
Accumulated earnings (deficit)	(4,925)	(4,466)
Accumulated other comprehensive income	1,204	1,283
TOTAL STOCKHOLDERS' EQUITY	14,281	14,745
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$18,247	\$18,822

*See notes to consolidated financial statements*

3

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net Sales	\$4,759	\$3,679
Cost of goods sold	2,218	1,737
Gross margin	2,541	1,942
Operating expenses:		
Research and development	1,205	1,392
Selling, general and administrative	1,806	2,250
Total operating expenses	3,011	3,642
Operating income (loss)	(470)	(1,700)
Non-operating income (expense):		
Interest income	18	33
Foreign currency transaction gain (loss)	(3)	9
Total non-operating income (expense)	15	42
Income (loss) before income taxes	(455)	(1,658)
Income tax (expense) benefit	(4)	(19)
Net income (loss)	(\$459)	(\$1,677)
Basic earnings (loss) per share	(\$0.06)	(\$0.19)
Diluted earnings (loss) per share	(\$0.06)	(\$0.19)
Weighted-average basic shares	7,749	8,765
Weighted-average diluted shares	7,749	8,765

*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>	
	<b>2013</b>	<b>2012</b>
Net Income (loss)	(\$459)	(\$1,677)
Other comprehensive income:		
Foreign currency translation gain (loss)	(79)	103
Comprehensive income (loss)	(\$538)	(\$1,574)

*See notes to consolidated financial statements*

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	(\$459)	(\$1,677)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	179	316
Equipment transferred to cost of goods sold	-	4
Share-based compensation	70	131
Net change in:		
Trade accounts receivable	(236)	2,486
Inventories	400	(510)
Other current assets	88	178
Accrued cost of business restructuring	(25)	-
Accounts payable and accrued liabilities	(60)	(376)
Deferred revenue	7	(293)
Other long-term liabilities	(13)	-
Net cash provided by (used in) operating activities	(49)	259
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(21)	(153)
Cash provided by (used in) investing activities	(21)	(153)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	5	13
Repurchase of common stock	-	(6,026)
Cash provided by (used in) financing activities	5	(6,013)
Decrease in cash and cash equivalents	(65)	(5,907)
Effects of exchange rate changes on cash	(71)	71
Cash and cash equivalents at beginning of period	10,528	18,120
Cash and cash equivalents at end of period	\$10,392	\$12,284
<b>Supplemental disclosure of non-cash financing activities:</b>		
Cash paid during the year for:		
Income Taxes	\$19	\$10
<i>See notes to consolidated financial statements</i>		





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

**NOTE 1 - FINANCIAL STATEMENT PREPARATION**

Data I/O Corporation ("Data I/O", "We", "Our", "Us") prepared the financial statements as of March 31, 2013 and March 31, 2012 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, 2012 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, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

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. When arrangements include multiple elements, we recognize revenue when the criteria for revenue recognition have been met for each element individually, with multiple elements done on a pro-rata basis.

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. The revenue related to products requiring installation that is perfunctory is recognized at the time of shipment provided that persuasive evidence of an arrangement exists, shipment has occurred, the price is fixed or determinable, and collectability is reasonably assured.

We record revenue from the sale of service and update contracts as deferred revenue and we recognize it on a straight-line basis over the contractual period, which is typically one year. We establish a reserve for sales returns based on historical trends in product returns and estimates for new items. We recognize revenue when, the price is fixed or determinable, the buyer has paid or is obligated to pay and the obligation is not contingent on resale of the product, the buyer's obligation would not be changed in the event of theft, physical destruction or damage to the product, the buyer acquiring the product for resale has economic substance apart from us and we do not have significant obligations for future performance to directly bring about the resale of the product by the buyer.

Sales were recorded net of actual sales returns and changes to the associated sales return reserve. Sales return reserves were \$60,000 and \$60,000 at March 31, 2013 and December 31, 2012, respectively.

When we sell software separately, we recognize software revenue upon shipment provided that only inconsequential obligations remain on our part, substantive acceptance conditions, if any, have been met and when the fee is fixed and determinable and when collection is deemed probable.

Certain fixed-price engineering services contracts that require significant production or customization of software, are accounted for using the percentage-of-completion method. We use the percentage-of-completion method of accounting because it is the most accurate method to recognize revenue based on the nature and scope of certain of our fixed-price engineering services contracts. It is a better measure of periodic income results than other methods and it better matches revenue recognized with the cost incurred.

Percentage-of-completion is measured based primarily on input measures such as hours incurred to date compared to estimated total hours at completion, with consideration given to output measures, such as contract milestones, when applicable. Significant judgment is required when estimating total hours and progress to completion on these arrangements which determines the amount of revenue we recognize as well as whether a loss is recognized if expected to be incurred upon project completion. Revisions to hour and cost estimates are incorporated in the period the amounts are recognized if the results of the period have not been reported; otherwise, the revision of estimates are recognized in the period in which the facts that give rise to the revision become known. No revenues were recorded using the percentage-of-completion method during the three months ended March 31, 2013 and 2012, respectively.

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 awards, based on estimated fair values on the grant dates. Total share-based compensation is as follows:

	Three Months Ended	
(in thousands)	March 31, 2013	March 31, 2012
Total share-based compensation	\$70	\$131

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, 2013. 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 the current and certain past years. We continue to maintain a valuation allowance for the full amount of the net deferred tax asset balance associated with our net operating losses and credit carryforwards, as sufficient uncertainty exists regarding our ability to realize such tax assets in the future. There was \$132,000 and \$115,000 unrecognized tax benefits related to uncertain tax positions and related valuation allowance as of March 31, 2013 and 2012, respectively.

Tax years that remain open for examination include 2009, 2010, 2011 and 2012 in the United States of America. In addition, tax years from 2000 to 2008 may be subject to examination in the event that we utilize the net operating losses and credit carryforwards from those years in its current or future year tax returns.

## Recent Accounting Pronouncements

In March 2013, the FASB issued ASU 2013-05, *“Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity,”* (“ASU 2013-05”). The objective of ASU 2013-05 is to clarify the applicable guidance for the release into net income of the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. ASU 2013-05 is effective for annual and interim reporting periods beginning after December 15, 2013 with early adoption permitted. We are currently evaluating the impact that the adoption will have on the determination or reporting of our financial results.

In February 2013, the FASB issued ASU No. 2013-02, *“Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.”* Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income (“AOCI”) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. ASU 2013-02 is effective for us on January 1, 2013. The adoption of this update did not have a material impact on our financial statements.

In July 2012, the FASB issued ASU No. 2012-02, *“Intangibles-Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment”*, which permits an entity to make a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. Entities are required to test indefinite-lived intangible assets for impairment at least annually and more frequently if indicators of impairment exist. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it is not required to perform the quantitative impairment test for that asset. Because the qualitative assessment is optional, an entity is permitted to bypass it for any indefinite-lived intangible asset in any period and apply the quantitative test. ASU 2012-02 also permits the entity to resume performing the qualitative assessment in any subsequent period. ASU 2012-02 is effective for impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The adoption of this update did not have a material impact on our financial statements.

**NOTE 2 – INVENTORIES**

Inventories consisted of the following components:

(in thousands)	March 31, 2013	December 31, 2012
Raw material	\$1,936	\$2,166
Work-in-process	1,200	1,262
Finished goods	490	605
Inventories	\$3,626	\$4,033

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

Property and equipment consisted of the following components:

(in thousands)	March 31, 2013	December 31, 2012
Leasehold improvements	\$481	\$481
Equipment	7,015	7,618
	7,496	8,099
Less accumulated depreciation	6,649	7,093
Property and equipment, net	\$847	\$1,006

**NOTE 4 – INTANGIBLE SOFTWARE TECHNOLOGY, NET**

On April 29, 2011, we purchased software technology for \$2 million in cash and issuance of 163,934 shares of our common stock, valued at \$1 million on the date of purchase. Acquisition costs of \$89,000 were capitalized as part of the transaction. The transaction was accounted for as an asset purchase.

We will pay and expense royalties (of 4% for five years to the seller and 2.5% for three years to the developer) for directly associated revenues relating to this acquired software technology. No royalty expense has been recognized since the acquisition date.

A year end 2012 impairment analysis was performed due to indicators of impairment from changes in our use and plans for Azido technology and our market capitalization being below our net book value. During the fourth quarter of 2012, changes in Azido projects and projected cash flows, which decreased or eliminated our expected future cash flows related to Azido technology's use or disposition, resulted in an impairment charge of \$2.3 million and a carrying value of \$35,000 at December 31, 2012.

The following is a summary of our intangible software technology:

(in thousands)	March 31, 2013	December 31, 2012
Intangible software technology	\$35	\$3,089
Less impairment charge	-	2,318
Less accumulated amortization	1	736
Intangible software technology, net	\$34	\$35



**NOTE 5 – BUSINESS RESTRUCTURING**

As a result of the business downturn we experienced this past year and the uncertain business outlook at that time, we took restructuring actions in September 2012 to reduce quarterly operating expenses and production costs. These actions included reductions in personnel and the use of contractors, professionals, and consultants, as well as focusing our development efforts on a smaller number of projects.

The restructuring charge associated with these actions was \$207,000 and was primarily related to severance. The restructuring charge was incurred in the third quarter of 2012 and was completed and has been fully paid out in the first quarter of 2013.

An analysis of the business restructuring is as follows:

	Reserve Balance Dec 31, 2011	2012 Expense	2012 Payments/ Write-Offs	Reserve Balance Dec 31, 2012	2013 Expense	2013 Payments/ Write-Offs	Reserve Balance Mar 31, 2013
(in thousands)							
Downsizing US operations:							
Employee severance	\$0	\$103	\$103	\$0	\$0	\$0	\$0
Other costs	-	4	4	-	-	-	-
Downsizing foreign operations:							
Employee severance	-	57	32	25	-	25	-
Other costs	-	43	43	-	-	-	-
Total	\$0	\$207	\$182	\$25	\$0	\$25	\$0

**NOTE 6 – OTHER ACCRUED LIABILITIES**

	March 31, 2013	December 31, 2012
(in thousands)		
Product warranty	\$301	\$260
Sales return reserve	60	60
Other taxes	113	86
Other	151	133
Other accrued liabilities	\$625	\$539

The changes in Data I/O's product warranty liability for the three months ending March 31, 2013 are as follows:

	March 31, 2013
(in thousands)	
Liability, beginning balance	\$260
Net expenses	85
Warranty claims	(85)
Accrual revisions	41
Liability, ending balance	\$301



**NOTE 7 – 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:

(in thousands)	Operating Leases
2013 (remaining)	\$719
2014	888
2015	840
2016	513
Total	\$2,960

**NOTE 8 – 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, 2013, the purchase commitments and other obligations totaled \$821,000 of which all but \$6,000 are 2013 commitments.

**NOTE 9 – CONTINGENCIES**

As of March 31, 2013, we were not a party to any legal proceedings, 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.

**Indemnification Arrangements:** We may, from time to time in the ordinary course of our business enter into contractual arrangements with third parties that include indemnification obligations. Under these contractual arrangements, we have agreed to defend, indemnify and/or hold the third party harmless from and against certain liabilities. These arrangements include indemnities in favor of customers in the event that our programming system products infringe a third party's intellectual property and indemnities in favor of our lessors in connection with facility leasehold liabilities that we may cause. In addition, we have entered into indemnification agreements with our directors and certain of our officers, and our bylaws contain indemnification obligations in favor of our directors, officers and agents. These

indemnity arrangements may limit the type of the claim, the total amount that we can be required to be paid in connection with the indemnification obligation and the time within which an indemnification claim can be made. The duration of the indemnification obligation may vary, and for most arrangements, survives the agreement term and is indefinite. We believe that substantially all of our indemnity arrangements provide either for limitations on the maximum potential future payments we could be obligated to make, or for limitations on the types of claims and damages we could be obligated to indemnify, or both. However, it is not possible to determine or reasonably estimate the maximum potential amount of future payments under these indemnification obligations due to the varying terms of such obligations, a lack of history of prior indemnification claims, the unique facts and circumstances involved in each particular contractual arrangement and in each potential future claim for indemnification, and the contingency of any potential liabilities upon the occurrence of events that are not reasonably determinable. We have not had any requests for indemnification under these arrangements. Our management believes that any liability for these indemnity arrangements would not be material to our accompanying consolidated financial statements. We have not recorded any liabilities for these indemnification arrangements on our consolidated balance sheet as of March 31, 2013.

**NOTE 10 – 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	
	March 31, 2013	March 31, 2012
(in thousands except per share data)		
Numerator for basic and diluted earnings (loss) per share:		
Net income (loss)	(\$459)	(\$1,677)
Denominator for basic earnings (loss) per share-		
weighted-average shares	7,749	8,765
Employee stock options and awards	-	-
Denominator for diluted earnings (loss) per share-		
adjusted weighted-average shares and assumed conversions of stock options	7,749	8,765
Basic and diluted earnings (loss) per share:		
Total basic earnings (loss) per share	(\$0.06)	(\$0.19)

The earnings per share computation for the three months ended March 31, 2013 and 2012 excludes the following options to purchase common stock, as their effect is anti-dilutive:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Anti-dilutive options to purchase shares	1,072,499	682,981

**NOTE 11 - 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, 2013 and 2012, respectively, was as follows:

	Three Months Ended	
	March 31, 2013	March 31, 2012
(in thousands)		
Cost of goods sold	\$11	\$12
Research and development	20	26
Selling, general and administrative	39	93
Total share-based compensation	\$70	\$131
Impact on net earnings per share:		
Basic and diluted	(\$0.01)	(\$0.01)

The fair value of share-based awards for employee stock options was estimated using the Black-Scholes valuation model. The following weighted average assumptions were used to calculate the fair value of stock options granted during the three months ended March 31, 2013 and 2012:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Risk-free interest rates	0.68%	0.70%
Volatility factors	0.54	0.52
Expected life of the option in years	4.00	4.00
Expected dividend yield	None	None

Stock option grants during the three months ended March 31, 2013 and 2012 were as follows:

	Three Months Ended	
	March 31, 2013	March 31, 2012
Stock Options Granted	30,000	15,000

The remaining unamortized expected future compensation expense and remaining amortization period associated with unvested option grants and restricted stock awards at March 31, 2013 are:



	March 31, 2013
Unamortized future compensation expense	\$879,684
Remaining weighted average amortization period in years	2.57

**NOTE 12 – SHARE REPURCHASE PROGRAMS**

On October 20, 2011, we announced a stock repurchase program to buy back up to \$1 million dollars of stock over four quarters. On January 13, 2012, this stock repurchase program was terminated. Under this program, we have

repurchased 73,497 shares of stock at an average price of \$3.96 for a total of \$291,260 plus \$2,983 in commissions.

On January 9, 2012, our board of directors approved a new and expanded 2012 share repurchase program with provisions to buy back up to \$6 million dollars of stock. The program included establishing a Rule 10b5-1 plan under the Exchange Act to provide flexibility to make purchases at any time. The 10b5-1 trading plan allows us to repurchase our common stock in the open market during periods in which stock trading is otherwise closed for us. For the quarter ended March 31, 2012, 1,472,208 shares of stock have been repurchased at an average price of \$4.03 for a total of \$5,927,937 plus \$56,938 in commissions, completing the program.

There has been no further share repurchase program activity from April 1, 2012 to March 31, 2013.

The following is a summary of share repurchase activity under both plans through March 31, 2013:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program
<u>\$1 million program dated October 20, 2011:</u>				
November 2011	32,068	\$3.88	32,068	\$874,328
December 2011	30,848	\$4.07	30,848	\$747,463
January 2012 (1)	10,581	\$3.90	10,581	\$0
<u>\$6 million program dated January 9, 2012:</u>				
January 2012	171,832	\$4.18	171,832	\$5,274,294
February 2012	243,862			