MARCUS CORP
Form 10-Q
January 08, 2008

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 November 29, 2007

[_] 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 1-12604

THE MARCUS CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin	39-1139844
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 East Wisconsin Avenue, Suite 1900 Milwaukee, Wisconsin	53202-4125
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (414) 905-1000

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 _X_ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ___ Accelerated filer _X_ Non-accelerated filer ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No _X_

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

COMMON STOCK OUTSTANDING AT JANUARY 2, 2008 21,045,996
CLASS B COMMON STOCK OUTSTANDING AT JANUARY 2, 2008 8,889,338

THE MARCUS CORPORATION

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

THE MARCUS CORPORATION
Consolidated Balance Sheets

(in thousands, except share and per share data)	(Unaudited) **November 29, 2007**	(Audited) **May 31, 2007**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,724	$ 12,018
Cash held by intermediaries	824	5,749
Accounts and notes receivable, net of reserves	17,795	16,224

	(Unaudited)	(Audited)
Receivables from joint ventures, net of reserves	1,704	3,732
Refundable income taxes	1,182	5,939
Deferred income taxes	720	1,056
Condominium units held for sale	6,948	7,320
Other current assets	5,576	6,340
Assets of discontinued operations (Note 2)	--	975
Total current assets	45,473	59,353
Property and equipment:		
Land and improvements	69,730	68,732
Buildings and improvements	464,053	464,928
Leasehold improvements	57,837	57,309
Furniture, fixtures and equipment	200,068	197,593
Construction in progress	8,786	3,995
Total property and equipment	800,474	792,557
Less accumulated depreciation and amortization	248,688	232,772
Net property and equipment	551,786	559,785
Other assets:		
Investments in joint ventures	1,833	1,868
Goodwill	37,805	37,805
Other	39,649	39,572
Total other assets	79,287	79,245
TOTAL ASSETS	$ 676,546	$ 698,383

See accompanying notes to consolidated financial statements.

THE MARCUS CORPORATION
Consolidated Balance Sheets

(in thousands, except share and per share data)	(Unaudited) **November 29, 2007**	(Audited) **May 31, 2007**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 223	$ 239
Accounts payable	15,921	24,242
Taxes other than income taxes	12,915	11,215
Accrued compensation	5,856	6,720
Other accrued liabilities	20,972	24,746
Current maturities of long-term debt	57,027	57,250
Liabilities of discontinued operations (Note 2)	--	2,731
Total current liabilities	112,914	127,143
Long-term debt	188,271	199,425
Deferred income taxes	29,224	29,376

	(Unaudited)	(Audited)
Deferred compensation and other	24,271	22,930
Shareholders equity:		
Preferred Stock, $1 par; authorized 1,000,000 shares; none issued	--	--
Common Stock, $1 par; authorized 50,000,000 shares; issued 22,300,175 shares at November 29, 2007 and 22,299,925 at May 31, 2007	22,300	22,300
Class B Common Stock, $1 par; authorized 33,000,000 shares; issued and outstanding 8,889,338 at November 29, 2007 and 8,889,588 at May 31, 2007	8,889	8,890
Capital in excess of par	46,741	46,438
Retained earnings	265,366	255,727
Accumulated other comprehensive loss	(1,815)	(1,515)
	341,481	331,840
Less cost of Common Stock in treasury (1,178,694 shares at November 29, 2007 and 795,335 shares at May 31, 2007)	(19,615)	(12,331)
Total shareholders' equity	321,866	319,509
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 676,546	$ 698,383

See accompanying notes to consolidated financial statements.

THE MARCUS CORPORATION
Consolidated Statements of Earnings (Unaudited)

	November 29, 2007		November 23, 2006	
(in thousands, except per share data)	13 Weeks	26 Weeks	13 Weeks	26 Weeks
Revenues:				
Rooms and telephone	$ 25,683	$ 54,922	$ 23,546	$ 50,121
Theatre admissions	20,866	57,938	17,772	47,716
Theatre concessions	10,259	28,503	8,733	23,635
Food and beverage	14,676	28,894	12,117	23,806
Other revenues	11,947	25,315	8,437	18,734
Total revenues	83,431	195,572	70,605	164,012
Costs and expenses:				
Rooms and telephone	8,669	18,014	8,059	16,296
Theatre operations	18,093	46,945	14,608	38,020
Theatre concessions	2,746	7,324	1,924	5,228
Food and beverage	10,850	21,777	8,716	17,178
Advertising and marketing	4,967	10,307	4,860	9,581
Administrative	8,932	18,509	7,981	16,242
Depreciation and amortization	7,959	16,041	6,303	12,708
Rent	1,292	2,423	814	1,678
Property taxes	4,245	7,128	2,730	5,247
Preopening expenses	10	309	931	1,206
Other operating expenses	7,030	14,642	5,212	10,979
Total costs and expenses	74,793	163,419	62,138	134,363

	November 29, 2007		November 23, 2006	
Operating income	8,638	32,153	8,467	29,649
Other income (expense):				
Investment income	339	706	661	1,457
Interest expense	(3,815)	(7,936)	(3,191)	(6,477)
Gain (loss) on disposition of property, equipment and other assets	(163)	(107)	8,582	8,569
Equity losses from unconsolidated joint ventures	(69)	(138)	(1,102)	(1,399)
	(3,708)	(7,475)	4,950	2,150
Earnings from continuing operations before income taxes	4,930	24,678	13,417	31,799
Income taxes	1,990	10,007	3,154	7,828
Earnings from continuing operations	2,940	14,671	10,263	23,971
Losses from discontinued operations, net of income taxes (benefit) of $(45) and $106 for the 13 and 26 weeks ended November 23, 2006, respectively (Note 2)	--	--	(172)	(173)
Net earnings	$ 2,940	$ 14,671	$ 10,091	$ 23,798
Earnings per share from continuing operations - basic:				
Common Stock	$ 0.10	$ 0.50	$ 0.35	$ 0.81
Class B Common Stock	$ 0.09	$ 0.46	$ 0.31	$ 0.74
Earnings per share from discontinued operations - basic:				
Common Stock	$ --	$ --	$ (0.01)	$ (0.01)
Class B Common Stock	$ --	$ --	$ --	$ (0.01)
Net earnings per share - basic:				
Common Stock	$ 0.10	$ 0.50	$ 0.34	$ 0.80
Class B Common Stock	$ 0.09	$ 0.46	$ 0.31	$ 0.73
Earnings per share from continuing operations - diluted:				
Common Stock	$ 0.10	$ 0.48	$ 0.33	$ 0.78
Class B Common Stock	$ 0.09	$ 0.45	$ 0.31	$ 0.73
Earnings per share from discontinued operations - diluted:				
Common Stock	$ --	$ --	$ --	$ (0.01)
Class B Common Stock	$ --	$ --	$ --	$ (0.01)
Net earnings per share - diluted:				
Common Stock	$ 0.10	$ 0.48	$ 0.33	$ 0.77
Class B Common Stock	$ 0.09	$ 0.45	$ 0.31	$ 0.72
Dividends per share:				
Class B Common Stock	$ 0.085	$ 0.170	$ 0.068	$ 0.136
Common Stock	$ 0.077	$ 0.155	$ 0.075	$ 0.150

See accompanying notes to consolidated financial statements.

THE MARCUS CORPORATION
Consolidated Statements of Cash Flows (Unaudited)

	26 Weeks Ended	
(in thousands)	November 29, 2007	November 23, 2006
OPERATING ACTIVITIES:		
Net earnings	$ 14,671	$ 23,798

	26 Weeks Ended	
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Losses on loans to and investments in joint ventures	138	1,486
Loss (gain) on disposition of property, equipment and other assets	56	(7,368)
Loss (gain) on sale of condominium units	51	(1,411)
Distributions from joint ventures	11	184
Amortization of favorable lease right	167	191
Depreciation and amortization	16,041	12,720
Stock compensation expense	620	596
Deferred income taxes	162	1,739
Deferred compensation and other	1,329	932
Changes in assets and liabilities:		
Accounts and notes receivable	(711)	607
Real estate and development costs	--	3,014
Condominium units held for sale	(88)	19
Other current assets	788	(5,243)
Accounts payable	(8,334)	(5,372)
Income taxes	5,489	3,806
Taxes other than income taxes	1,302	599
Accrued compensation	(864)	(950)
Other accrued liabilities	(1,801)	(11,892)
Total adjustments	14,356	(6,343)
Net cash provided by operating activities	29,027	17,455
INVESTING ACTIVITIES:		
Capital expenditures	(10,015)	(39,309)
Net proceeds from disposals of property, equipment and other assets	36	14,368
Net proceeds from sale of condominium units	409	20,571
Net proceeds received from (held with) intermediaries	4,925	(10,008)
Contributions received from Oklahoma City	--	1,967
Increase in other assets	(1,549)	(3,621)
Purchase of interest in joint venture, net of cash received	--	(9,211)
Cash advanced to joint ventures	(100)	(51)
Net cash used in investing activities	(6,294)	(25,294)
FINANCING ACTIVITIES:		
Debt transactions:		
Net proceeds from issuance of notes payable and long-term debt	18,024	19,919
Principal payments on notes payable and long-term debt	(29,417)	(27,848)
Equity transactions:		
Treasury stock transactions, except for stock options	(8,206)	(4,437)
Exercise of stock options	604	1,623
Dividends paid	(5,032)	(4,439)
Net cash used in financing activities	(24,027)	(15,182)
Net decrease in cash and cash equivalents	(1,294)	(23,021)
Cash and cash equivalents at beginning of period	12,018	34,528
Cash and cash equivalents at end of period	$ 10,724	$ 11,507

See accompanying notes to consolidated financial statements.

THE MARCUS CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 13 AND 26 WEEKS ENDED NOVEMBER 29, 2007
(Unaudited)

1. General

Accounting Policies Refer to the Company s audited financial statements (including footnotes) for the fiscal year ended May 31, 2007, contained in the Company s Form 10-K Annual Report for such year, for a description of the Company s accounting policies.

Basis of Presentation The consolidated financial statements for the 13 and 26 weeks ended November 29, 2007 and November 23, 2006 have been prepared by the Company without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to present fairly the unaudited interim financial information at November 29, 2007, and for all periods presented, have been made. The results of operations during the interim periods are not necessarily indicative of the results of operations for the entire year or other interim periods.

Comprehensive Income/Loss Accumulated other comprehensive loss consists of the accumulated net unrealized gain on available for sale securities and the net actuarial loss, both net of tax. Accumulated other comprehensive loss was $1,815,000 and $1,515,000 as of November 29, 2007 and May 31, 2007, respectively. Total comprehensive income for the 13 and 26 weeks ended November 29, 2007 was $2,727,000 and $14,371,000, respectively. Total comprehensive income for the 13 and 26 weeks ended November 23, 2006 was $10,160,000 and $23,854,000, respectively.

Earnings Per Share (EPS) Net earnings per share of Common Stock and Class B Common Stock is computed in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share* (SFAS No. 128) using the two-class method. Under the provisions of SFAS No. 128, basic net earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding less any non-vested stock. Diluted net earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding, adjusted for the effect of dilutive stock options and non-vested stock using the treasury method. Convertible Class B Common Stock is reflected on an if-converted basis. The computation of the diluted net earnings per share of Common Stock assumes the conversion of Class B Common Stock, while the diluted net earnings per share of Class B Common Stock does not assume the conversion of those shares.

Holders of Common Stock are entitled to cash dividends per share equal to 110% of all dividends declared and paid on each share of Class B Common Stock. As such, and in accordance with Emerging Issues Task Force 03-06, *Participating Securities and the Two-Class Method under FASB Statement No. 128* (EITF 03-06), the undistributed earnings for each period are allocated based on the proportionate share of entitled cash dividends. Basic earnings per share for the 13 and 26 weeks ended November 23, 2006 have been presented in accordance with EITF 03-06 for comparative purposes. The computation of diluted net earnings per share of Common Stock assumes the conversion of Class B Common Stock and, as such, the undistributed earnings are equal to net earnings for that computation.

The following table illustrates the computation of Common Stock and Class B Common Stock basic and diluted earnings per share for earnings from continuing operations and provides a reconciliation of the number of weighted-average basic and diluted shares outstanding:

	13 Weeks Ended November 29, 2007	13 Weeks Ended November 23, 2006	26 Weeks Ended November 29, 2007	26 Weeks Ended November 23, 2006
	(in thousands, except per share data)			
Numerator:				
Earnings from continuing operations	$ 2,940	$ 10,263	$ 14,671	$ 23,971
Denominator:				
Denominator for basic EPS	30,228	30,354	30,271	30,317
Effect of dilutive employee stock options and non-vested stock	263	451	340	433

	13 Weeks Ended November 29, 2007	13 Weeks Ended November 23, 2006	26 Weeks Ended November 29, 2007	26 Weeks Ended November 23, 2006
Denominator for diluted EPS	30,491	30,805	30,611	30,750
Earnings per share from continuing operations - Basic:				
Common Stock	$ 0.10	$ 0.35	$ 0.50	$ 0.81
Class B Common Stock	$ 0.09	$ 0.31	$ 0.46	$ 0.74
Earnings per share from continuing operations - Diluted:				
Common Stock	$ 0.10	$ 0.33	$ 0.48	$ 0.78
Class B Common Stock	$ 0.09	$ 0.31	$ 0.45	$ 0.73

Defined Benefit Plan The components of the net periodic pension cost of the Company s unfunded nonqualified, defined-benefit plan are as follows:

	13 Weeks Ended November 29, 2007	13 Weeks Ended November 23, 2006	26 Weeks Ended November 29, 2007	26 Weeks Ended November 23, 2006
		(in thousands)		
Service Cost	$ 122	$ 108	$ 243	$ 216
Interest Cost	256	272	512	543
Net amortization of prior service cost, transition obligation and actuarial loss	17	47	34	93
Net periodic pension cost	$ 395	$ 427	$ 789	$ 852

2. Discontinued Operations

On June 29, 2006, the Company sold the remaining timeshare inventory of its Marcus Vacation Club at Grand Geneva vacation ownership development. The assets sold consisted primarily of real estate and development costs. The sale did not have a material impact on the Company s results of operations for the periods presented. In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), the results of operations of the Marcus Vacation Club have been reported as discontinued operations in the consolidated statements of earnings for the 13 and 26 weeks ended November 23, 2006. Marcus Vacation Club revenues for the 13 and 26 weeks ended November 23, 2006 were $0 and $3,680,000, respectively. Marcus Vacation Club operating loss for the 13 and 26 weeks ended November 23, 2006 was $8,000 and $29,000, respectively. Beginning with the fiscal 2008 first quarter, any remaining assets and related results of operations from the Marcus Vacation Club, as well as from two remaining joint venture hotels from the Company s former limited-service lodging division, have been included in the hotels and resorts segment financial results.

3. Income Taxes

On June 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes.

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The only periods that remain subject to examination for the Company s federal return are the tax years 2003 through 2006. The periods that remain subject to examination for the Company s state returns are generally the tax years 2002 through

2006.

The Company did not recognize any change in the liability for unrecognized tax benefits as a result of the implementation of FIN 48. At the time of adoption of FIN 48, the Company had $779,000 of unrecognized tax benefits recorded in its financial statements, net of any federal tax impact related to state taxes, all of which if recognized, would impact the effective tax rate.

The Company recognizes interest and penalty expense related to unrecognized tax benefits in its provision for income tax expense. Interest and penalty expense was not material in both the 13 and 26 weeks ended November 29, 2007. As of June 1, 2007, the Company had $120,000 of accrued interest and penalties included in the amount of unrecognized tax benefits.

The Company s effective income tax rate for continuing operations for the 26 weeks ended November 29, 2007 and November 23, 2006 was 40.6% and 24.6%, respectively. The increase in the effective rate is primarily due to the impact of federal and state historic tax credits that were generated in fiscal 2007 upon completion of the renovation of a hotel in Oklahoma City, Oklahoma that were not replicated in fiscal 2008.

4. Contingency

The Company has approximately six years remaining on a ten and one half-year office lease. On July 7, 2005, the lease was amended in order to exit leased office space for the Company s former limited-service lodging division. To induce the landlord to amend the lease, the Company guaranteed the lease obligations of the new tenant of the relinquished space throughout the remaining term of the lease. The maximum amount of future payments the Company could be required to pay if the new tenant defaults on its lease obligations was approximately $2,651,000 as of November 29, 2007.

5. Business Segment Information

The Company s primary operations are reported in the following business segments: Theatres and Hotels/Resorts. Corporate items include amounts not allocable to the business segments. Corporate revenues consist principally of rent and the corporate operating loss includes general corporate expenses. Corporate information technology costs and accounting shared services costs are allocated to the business segments based upon several factors, including actual usage and segment revenues.

Following is a summary of business segment information for the 13 and 26 weeks ended November 29, 2007 and November 23, 2006 (in thousands):

13 Weeks Ended November 29, 2007	Theatres	Hotels/ Resorts	Corporate Items	Continuing Operations Total	Discontinued Operations	Total
Revenues	$ 33,285	$ 49,760	$ 386	$ 83,431	$ --	$ 83,431
Operating income (loss)	4,296	6,833	(2,491)	8,638	--	8,638
Depreciation and amortization	3,709	4,082	168	7,959	--	7,959

13 Weeks Ended November 23, 2006	Theatres	Hotels/ Resorts	Corporate Items	Continuing Operations Total	Discontinued Operations	Total
Revenues	$ 28,039	$ 42,254	$ 312	$ 70,605	$ 9	$ 70,614
Operating income (loss)	4,751	6,116	(2,400)	8,467	73	8,540
Depreciation and amortization	2,788	3,338	177	6,303	--	6,303

26 Weeks Ended November 29, 2007	Theatres	Hotels/ Resorts	Corporate Items	Continuing Operations Total	Discontinued Operations	Total
Revenues	$ 91,182	$ 103,697	$ 693	$ 195,572	$ --	$ 195,572
Operating income (loss)	19,680	17,066	(4,593)	32,153	--	32,153

Depreciation and amortization	7,462	8,233	346	16,041	--	16,041

26 Weeks Ended November 23, 2006	Theatres	Hotels/ Resorts	Corporate Items	Continuing Operations Total	Discontinued Operations	Total
Revenues	$ 74,517	$ 88,865	$ 630	$ 164,012	$ 3,690	$ 167,702
Operating income (loss)	17,008	17,152	(4,511)	29,649	12	29,661
Depreciation and amortization	5,636	6,657	415	12,708	12	12,720

THE MARCUS CORPORATION

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

Special Note Regarding Forward-Looking Statements

Certain matters discussed in this Management s Discussion and Analysis of Results of Operations and Financial Condition are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may generally be identified as such because the context of such statements include words such as we believe, anticipate, expect or words of similar import. Similarly, statements that describe our future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which may cause results to differ materially from those expected, including, but not limited to, the following: (1) the availability, in terms of both quantity and audience appeal, of motion pictures for our theatre division, as well as other industry dynamics such as the maintenance of a suitable window between the date such motion pictures are released in theatres and the date they are released to other distribution channels; (2) the effects of increasing depreciation expenses and preopening and start-up costs due to the capital intensive nature of our businesses; (3) the effects of adverse economic conditions in our markets, particularly with respect to our hotels and resorts division; (4) the effects of adverse weather conditions, particularly during the winter in the Midwest and in our other markets; (5) the effects on our occupancy and room rates resulting from the relative industry supply of available rooms at comparable lodging facilities in our markets; (6) the effects of competitive conditions in our markets; (7) our ability to identify properties to acquire, develop and/or manage and continuing availability of funds for such development; and (8) the adverse impact on business and consumer spending on travel, leisure and entertainment resulting from terrorist attacks in the United States, the United States responses thereto and subsequent hostilities. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this Form 10-Q and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

RESULTS OF OPERATIONS

General

We report our consolidated and individual segment results of operations on a 52-or-53-week fiscal year ending on the last Thursday in May. Fiscal 2008 will be a 52-week year. Fiscal 2007 was a 53-week year and our reported results for fiscal 2007 benefited from the additional week of reported operations. We divide our fiscal year into three 13-week quarters and a final quarter consisting of 13 or 14 weeks. Our primary operations are reported in the following two business segments: movie theatres and hotels and resorts. The assets and related results of operations from our former vacation ownership development adjacent to the Grand Geneva Resort and our two remaining joint venture Baymont Inns & Suites were presented as discontinued operations in the accompanying financial statements during fiscal 2007. Beginning with the fiscal 2008 first quarter, any remaining assets and related results of operations from these businesses are included in our hotels and resorts segment.

The following table sets forth revenues, operating income, other income (expense), earnings from continuing operations, earnings from discontinued operations, net earnings and earnings per common share for the comparable second quarter and first half of fiscal 2008 and 2007 (in millions, except for per share and variance percentage data):

	Second Quarter				First Half			
			Variance				Variance	
	F2008	F2007	Amt.	Pct.	F2008	F2007	Amt.	Pct.
Revenues	$ 83.4	$ 70.6	$ 12.8	18.2%	$ 195.6	$ 164.0	$ 31.6	19.2%
Operating income	8.6	8.5	0.1	2.0%	32.2	29.6	2.6	8.4%
Other income (expense)	(3.7)	5.0	(8.7)	-174.9%	(7.5)	2.2	(9.7)	-447.7%
Earnings from continuing operations	2.9	10.3	(7.4)	-71.4%	14.7	24.0	(9.3)	-38.8%
Earnings from discontinued operations	--	(0.2)	0.2	100.0%	--	(0.2)	0.2	100.0%
Net earnings	$ 2.9	$ 10.1	$ (7.2)	-70.9%	$ 14.7	$ 23.8	$ (9.1)	-38.4%
Earnings per common share - Diluted:								
Continuing operations	$ .10	$ .33	$ (.23)	-69.7%	$ .48	$ .78	$ (.30)	-38.5%
Discontinued operations	--	--	--	--	--	(.01)	.01	100.0%
Net earnings	$ .10	$ .33	$ (.23)	-69.7%	$ .48	$ .77	$ (.29)	-37.7%

Revenues increased in both of our operating divisions during the second quarter of fiscal 2008 and an increase in operating income (earnings before other income/expense and income taxes) from our hotels and resorts division offset a small decrease in operating income from our theatre division during the second quarter, compared to the same prior year period. Through the first half of fiscal 2008, revenues increased for both operating divisions compared to the first half of fiscal 2007 and operating income increased due to an increase in theatre division operating income. Hotel division first half operating income was even with last year . Our fiscal 2008 second quarter theatre division revenues were favorably impacted by new screens acquired during the fourth quarter of fiscal 2007, but operating results were negatively impacted by a weaker slate of movies compared to the prior year. The hotels and resorts division operating results during our fiscal 2008 second quarter were favorably impacted by improved results at several of our newer hotels, partially offset by a one-time real estate tax adjustment at one of our company-owned hotels. Fiscal 2008 first half hotel division operating results were negatively impacted by a major renovation at one of our hotels. A reduction in our investment income, increased interest expense, last year s significant gains on disposition of property, equipment and other assets and a substantially increased effective income tax rate contributed to an overall decrease in our fiscal 2008 second quarter and first half net earnings compared to the same periods last year.

We recognized investment income of approximately $340,000 and $700,000 during the second quarter and first half of fiscal 2008, respectively, compared to approximately $660,000 and $1.5 million during the same periods last year. The decrease in investment income during both periods was primarily the result of reduced interest earned on our cash balances during our fiscal 2008 periods compared to the same periods last year. Our fiscal 2008 cash balances were lower than the prior year due to the fact that we financed a portion of our fiscal 2007 fourth quarter theatre acquisition with cash. For this reason, our investment income for the remaining quarters for our fiscal 2008 will likely remain lower than the prior year.

Our interest expense totaled $3.8 million and $7.9 million for the second quarter and first half of fiscal 2008, respectively, compared to $3.2 million and $6.5 million during the same periods last year. The increase in interest expense during fiscal 2008 was also the result of increased borrowings related to our fiscal 2007 fourth quarter theatre acquisition. For this reason, we expect our fiscal 2008 third quarter interest expense to continue to increase compared to the same period last year. Current maturities of long-term debt on our balance sheet as of November 29, 2007 included $25.2 million related to a mortgage note on our new Chicago hotel with a maturity date recently extended to March 2008. We currently anticipate further extending the maturity date of this note, which may result in the majority of this amount being reclassified as long-term debt.

We did not recognize any significant gains or losses on the disposition of property, equipment and other assets during the second quarter and first half of fiscal 2008. Comparisons to last year were negatively impacted by the fact that we recognized gains on the disposition of property, equipment and other assets totaling $8.6 million during the second quarter and first half of fiscal 2007. The fiscal 2007 second quarter gains included a gain of approximately $1.6 million related to the sale of a former restaurant property in Appleton, Wisconsin, a gain of approximately $5.1 million related to the sale of a theatre in Waukesha, Wisconsin and a pro-rated gain of approximately $1.4 million related to the sale of condominium units at our Las Vegas Platinum Hotel. We currently anticipate another significant negative comparison to last year s

disposition gains during our fiscal 2008 third quarter. Disposition gains during the fiscal 2007 third quarter included significant one-time gains of approximately $5.5 million primarily resulting from the sale of condominium units at our Las Vegas Platinum Hotel. The timing of periodic sales of our property and equipment may vary from quarter to quarter, resulting in variations in our reported gains or losses on disposition of property and equipment. We anticipate periodic additional sales of non-core property and equipment with the potential for additional disposition gains from time to time during the remainder of fiscal 2008, including a gain during our fiscal 2008 third quarter related to the sale of one of our two remaining Baymont Inn joint ventures.

We reported net equity losses from unconsolidated joint ventures of approximately $70,000 during the second quarter of fiscal 2008 compared to net equity losses of over $1.1 million during the same period last year. For the first half of fiscal 2008, net equity losses have totaled approximately $140,000 compared to $1.4 million during the first half of fiscal 2007. Losses during fiscal 2008 included a small loss from one of our remaining Baymont joint ventures. The greater loss during fiscal 2007 was primarily the result of preopening costs from our then 50% ownership interest in the joint venture that was developing the Platinum Hotel in Las Vegas. We acquired an additional equity interest in this joint venture during the last month of our fiscal 2007 second quarter. Results from our Platinum Hotel venture are now included in our consolidated operating results and are no longer included in net equity losses from unconsolidated joint ventures. We do not expect significant variations in net equity earnings or losses during the remainder of fiscal 2008.

We reported income tax expense on continuing operations for the second quarter and first half of fiscal 2008 of $2.0 million and $10.0 million, respectively, compared to $3.2 million and $7.8 million during the same periods of fiscal 2007. Our fiscal 2008 second quarter and first half effective income tax rates for continuing operations were 40.4% and 40.6%, respectively. These rates were significantly higher than our fiscal 2007 second quarter and first half effective rates of 23.5% and 24.6%. These higher rates are primarily due to the fact that last year s effective income tax rate reflected the favorable impact of federal and state historic tax credits that were generated from our Oklahoma City Skirvin Hilton hotel project. The effective tax rate used during our fiscal 2008 periods reflects our current estimated rate for the full fiscal year and is slightly higher than our historical 39-40% range due to the impact of non-deductible stock compensation expense that we began reporting last year as a result of adopting a new accounting standard for employee stock option grants. Our actual fiscal 2008 effective income tax rate may be different from this estimated first half rate depending upon the actual facts and circumstances which may develop throughout this fiscal year.

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Net earnings during the fiscal 2007 second quarter and first half included a net after-tax loss from discontinued operations of approximately $170,000. A brief discussion of this item is included in the Discontinued Operations section following.

Theatres

The following table sets forth revenues, operating income and operating margin for our theatre division for the second quarter and first half of fiscal 2008 and 2007 (in millions, except for variance percentage and operating margin):

	Second Quarter				**First Half**			
			Variance				**Variance**	
	F2008	**F2007**	**Amt.**	**Pct.**	**F2008**	**F2007**	**Amt.**	**Pct.**
Revenues	$ 33.3	$ 28.0	$ 5.3	18.7%	$ 91.2	$ 74.5	$ 16.7	22.4%
Operating income	4.3	4.8	(0.5)	-9.6%	19.7	17.0	2.7	15.7%
Operating margin (% of revenues)	12.9%	16.9%			21.6%	22.8%		

Consistent with the seasonal nature of the motion picture exhibition industry, the second quarter of our fiscal year is typically the slowest period for our theatre division. Our theatre division recognized decreased operating income for our fiscal 2008 second quarter compared to last year s results during the same period. Our fiscal 2008 first half revenues and operating income remained ahead of last year s same period due to the impact of the 11 theatres and 122 screens that we acquired from Cinema Entertainment Corporation (CEC) and related parties during our fiscal 2007 fourth quarter and a stronger first quarter film slate. Our operating margin decreased during the second quarter and first half of fiscal 2008 due to reduced second quarter box office and concession revenues at comparable theatres and higher occupancy costs.

The following table breaks down the components of revenues for the theatre division for the second quarter and first half of fiscal 2008 and 2007 (in millions, except for variance percentage):

Second Quarter	First Half

	Second Quarter				First Half			
			Variance				Variance	
	F2008	F2007	Amt.	Pct.	F2008	F2007	Amt.	Pct.
Box office receipts	$ 20.9	$ 17.8	$ 3.1	17.4%	$ 57.9	$ 47.7	$ 10.2	21.4%
Concession revenues	10.3	8.7	1.6	17.5%	28.5	23.6	4.9	20.6%
Other revenues	2.1	1.5	0.6	40.8%	4.8	3.2	1.6	49.7%
Total revenues	$ 33.3	$ 28.0	$ 5.3	18.7%	$ 91.2	$ 74.5	$ 16.7	22.4%

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style="TEXT-ALIGN: justify; MARGIN: 0in 0in 0pt">Property and equipment, net

$906

$1,006

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NOTE 4 – BUSINESS RESTRUCTURING

As a result of the business downturn we experienced in the second half of 2011 and in 2012, as well as the uncertain business outlook at the 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 net restructuring charge associated with these 2012 actions was $207,000 and was primarily related to severance. The remaining 2012 restructuring actions were completely paid out during the first quarter of 2013.

We took additional restructuring actions in the second quarter of 2013 to reduce our excess office space and eliminate certain job positions. In addition to these previously announced actions in April which resulted in restructuring costs of $525,000, additional personnel related actions were taken in June that increased the restructuring charge by $117,000 to a total $642,000 for the quarter. The positions eliminated will allow us to have the flexibility to add other critical positions or change fixed to variable costs through outsourcing.

The restructuring charges associated with the second quarter of 2013 actions are approximately $313,000 for personnel severance related costs and approximately $329,000 for lease abandonment space. These restructuring charges were recorded in the second quarter of 2013; however the $329,000 related to lease abandonments will continue to be paid over the term of the leases unless the applicable leases are renegotiated with the landlords or costs are partially offset by unanticipated subleases.

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 Jun 30, 2013
(in thousands)							
Downsizing US operations:							
Employee severance	$0	$103	$103	$0	$302	$75	$227
Other costs	-	4	4	-	273	8	265
Downsizing foreign operations:							
Employee severance	-	57	32	25	20	45	-
Other costs	-	43	43	-	47	11	36
Total	$0	$207	$182	$25	$642	$139	$528

The portion of the reserve expected to be paid over the next twelve months is $332,000 while the long term liability is $196,000. The long term portion relates to the lease abandonment payments that are due in over one year.

NOTE 5 – OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following components:

(in thousands)	June 30, 2013	December 31, 2012
Product warranty	$287	$260
Sales return reserve	60	60
Other taxes	90	86
Other	128	133
Other accrued liabilities	$565	$539

The changes in Data I/O's product warranty liability for the six months ending June 30, 2013 are as follows:

(in thousands)	June 30, 2013
Liability, beginning balance	$260
Net expenses	216
Warranty claims	(216)
Accrual revisions	27
Liability, ending balance	$287

NOTE 6 – 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)	$588
2014	1,015
2015	840
2016	513
Total	$2,956

NOTE 7 – OTHER COMMITMENTS

We have purchase obligations for inventory and production costs as well as other obligations such as capital expenditures, service contracts, marketing, and development agreements. Arrangements are considered purchase obligations if a contract specifies all significant terms,

including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice, typically less than 90 days. At June 30, 2013, the purchase commitments and other obligations totaled $1,212,000 and are expected to be paid over the next twelve months.

NOTE 8 – CONTINGENCIES

As of June 30, 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 June 30, 2013.

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

(in thousands except per share data)	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Numerator for basic and diluted earnings (loss) per share:				
Net income (loss)	($624)	($57)	($1,083)	($1,735)
Denominator for basic earnings (loss) per share: weighted-average shares	7,762	7,734	7,756	8,250
Employee stock options and awards	-	-	-	-
Denominator for diluted earnings (loss) per share: adjusted weighted-average shares & assumed conversions of stock options	7,762	7,734	7,756	8,250
Basic and diluted earnings (loss) per share:				
Total basic earnings (loss) per share	($0.08)	($0.01)	($0.14)	($0.21)
Total diluted earnings (loss) per share	($0.08)	($0.01)	($0.14)	($0.21)

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The earnings per share computation for the three months and six months ended June 30, 2013 and 2012 excludes the following options to purchase common stock, as their effect is anti-dilutive:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Anti-dilutive options to purchase shares	910,392	1,086,892	990,998	905,571

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.

The impact on our results of operations of recording share-based compensation, net of forfeitures, for the three months and six months ended June 30, 2013 and 2012, respectively, was as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
(in thousands)				
Cost of goods sold	$13	$15	$24	$26
Research and development	28	34	48	60
Selling, general and administrative	95	101	134	195
Total share-based compensation	$136	$150	$206	$281
Impact on net earnings per share:				
Basic and diluted	($0.02)	($0.02)	($0.03)	($0.03)

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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 and six months ended June 30, 2013 and 2012:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Risk-free interest rates	0.50%	0.61%	0.66%	0.62%
Volatility factors	0.54	0.53	0.54	0.53
Expected life of the option in years	4.00	4.00	4.00	4.00
Expected dividend yield	None	None	None	None

Stock option grants during the three months and six months ended June 30, 2013 and 2012 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Stock Options Granted	3,000	175,000	33,000	190,000

The remaining unamortized expected future compensation expense and remaining amortization period associated with unvested option grants and restricted stock awards at June 30, 2013 are:

	June 30, 2013
Unamortized future compensation expense	$1,102,965
Remaining weighted average amortization period in years	2.74

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

General

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information about themselves as long as they identify these statements as forward-looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact made in this Quarterly Report on Form 10-Q are forward-looking. In particular, statements herein regarding industry prospects or trends; expected revenues; expected level of expense; future results of operations; reversals of tax valuation allowances; restructuring implications; breakeven point, or financial position; changes in gross margin; economic conditions and capital spending outlook; market acceptance of our newly introduced or upgraded products; development, introduction and shipment of new products; sales channels and any other guidance on future periods are forward-looking statements. Forward-looking statements reflect management’s current expectations and are inherently uncertain. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or other future events. Moreover, neither we nor anyone else assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this report. The reader should not place undue reliance on these forward-looking statements. The discussions above and in the section in Item 1A., Risk Factors “Cautionary Factors That May Affect Future Results” in our Annual report on Form 10-K for the year ended December 31, 2012 describe some, but not all, of the factors that could cause these differences.

OVERVIEW

We have renewed our focus on managing the core programming business to return to profitability, while developing and enhancing products to drive future revenue and earnings growth. Our challenge continues to be operating in a cyclical and rapidly evolving industry environment. We are continuing our efforts to balance business geography shifts, increasing

costs and strategic investments in our business with the level of demand and mix of business we expect. During the second quarter of 2013, we took the additional restructuring actions discussed below under “Business Restructuring Progress”.

We are focusing our research and development efforts in our strategic growth markets, namely new programming technology, automated programming systems for the manufacturing environment and software. We continue to focus on extending the capabilities and support for our product lines.

At the end of 2012, an impairment evaluation of our Azido software technology acquired in April of 2011 resulted in a $2.3 million write down of the investment. We are continuing the process of evaluating strategic alternatives for the Azido technology.

Our customer focus has been on strategic high volume manufacturers in key market segments like wireless and consumer electronics, automotive electronics, industrial controls and programming centers. Our product focus has been on automated programming systems, enhancing our programming technology and supporting the latest semiconductor devices, including NAND Flash, like e-MMC, and microcontrollers on our newer products.

BUSINESS RESTRUCTURING PROGRESS

As a result of the business downturn we experienced in the second half of 2011 and in 2012, as well as the uncertain business outlook at the 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 net restructuring charge associated with these 2012 actions was $207,000 and was primarily related to severance. The remaining 2012 restructuring actions were completely paid out during the first quarter of 2013.

During the second quarter of 2013, we took additional restructuring actions to reduce our excess office space and eliminate certain job positions. In addition to these previously announced actions in April, which resulted in restructuring costs of $525,000, additional personnel related actions were taken in June that increased the restructuring charge by $117,000 to a total $642,000 for the quarter. The positions eliminated will allow us to have the flexibility to add other critical positions or change fixed to variable costs through outsourcing. The net effect of the space and personnel reductions, offset in part by the other planned additions, will be to reduce annual operating expenses by approximately $300,000 when fully implemented by the third quarter of 2013.

The restructuring charges associated with the second quarter of 2013 actions are approximately $313,000 for personnel severance related costs and approximately $329,000 for lease abandonment space. These restructuring charges were recorded in the second quarter of 2013; however the $329,000 related to lease abandonments will continue to be paid over the term of the leases unless the applicable leases are renegotiated with the landlords or costs are partially offset by unanticipated subleases.

cRITICAL aCCOUNTING pOLICY jUDGMENTS AND eSTIMATES

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

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

Revenue Recognition: We recognize revenue at the time the product is shipped. We have determined that our programming equipment has reached a point of maturity and stability such that product acceptance can be assured by testing at the factory prior to shipment and that the installation meets the criteria to be considered a separate element. These systems are standard products with published product specifications and are configurable with standard options. The evidence that these systems could be deemed as accepted was based upon having standardized factory production of the units, results from batteries of tests of product performance to our published specifications, quality inspections and installation standardization, as well as past product operation validation with the customer and the history provided by our installed base of products upon which the current versions were based. 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 June 30, 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 and six months ended June 30, 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.

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

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

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

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

Share-based Compensation: We account for share-based awards made to our employees and directors, including employee stock option awards and restricted stock awards, using the estimated grant date fair value method of accounting. We estimate the fair value using the Black-Scholes valuation model, which requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was determined using the historical volatility of our common stock. Changes in the subjective assumptions required in the valuation model may significantly affect the estimated value of the awards, the related stock-based compensation expense and, consequently, our results of operations.

Results of Operations

Net Sales

	Three Months Ended			Six Months Ended		
Net sales by product line (in thousands)	June 30, 2013	Change	June 30, 2012	June 30, 2013	Change	June 30, 2012
Automated programming systems	$3,543	(1.3%)	$3,590	$6,484	15.4%	$5,620
Non-automated programming systems	1,728	(2.4%)	1,770	3,545	3.7%	3,419
Total programming systems	$5,271	(1.7%)	$5,360	$10,029	11.0%	$9,039

	Three Months Ended			Six Months Ended		
Net sales by location	June 30, 2013	Change	June 30, 2012	June 30, 2013	Change	June 30, 2012

(in thousands)						
United States	$501	(33.7%)	$756	$862	(29.7%)	$1,226
% of total	9.5%		14.1%	8.6%		13.6%
International	$4,770	3.6%	$4,604	$9,167	17.3%	$7,813
% of total	90.5%		85.9%	91.4%		86.4%

Net sales decreased slightly when compared to the second quarter of 2012. On a regional basis, net sales increased 27% in the Americas and 80% in Asia, while declining 60% in Europe compared to the second quarter of 2012. International sales were 90% of total sales for the second quarter of 2013 compared to 86% for the second quarter of 2012.

Orders for the second quarter of 2013 were $6.7 million, up 30%, compared with $5.2 million in the second quarter of 2012 and sequentially up 41% compared to the first quarter of 2013. The increase in orders was primarily due to a significant PS and FLX order we received from a manufacturer of consumer electronics and most of this order remained in backlog at the end of the quarter. On a regional basis, order bookings increased 41% in the Americas and 192% in Asia, while declining 54% in Europe compared to the second quarter of 2012. We ended the quarter with a backlog of $2.4 million, compared to $1.1 million at the end of the second quarter of 2012 and $0.9 million at December 31, 2012. The systems in backlog are scheduled to ship in the third and fourth quarter.

For the six months ending June 30, 2013, the sales increase compared to the same period of 2012, was primarily due to purchasing by wireless original equipment manufacturer ("OEM") and related electronics manufacturing service ("EMS") customers and a new consumer home electronics customer. For the six months ending June 30, 2013 compared to the same period of 2012, orders increased 22% primarily due to same reasons sales increased, as well as the significant PS and FLX order we received from a manufacturer of consumer electronics in the second quarter of 2013.

Gross Margin

	Three Months Ended			Six Months Ended		
	June 30, 2013	Change	June 30, 2012	June 30, 2013	Change	June 30, 2012
(in thousands)						
Gross margin	$2,939	(0.1%)	$2,941	$5,480	12.2%	$4,882
Percentage of net sales	55.8%		54.9%	54.6%		54.0%

Gross margin as a percentage of sales in the second quarter of 2013 was 55.8%, compared with 54.9% in the second quarter of 2012. The gross margin increase as a percentage of sales for the second quarter was primarily due to a favorable product mix and favorable variances. The favorable product mix was largely due to an increase in sales of RoadRunner systems, which have a higher gross margin. The significant backlog of PS and FLX systems at the end of the quarter, indicate that next quarter a lower gross margin may be expected due to a less favorable product mix with higher direct material costs.

For the first six months of 2013, the gross margin increase as a percentage of sales was primarily due to the increased sales volume in relation to fixed costs, as well as the same factors affecting the second quarter of 2013.

Research and Development

	Three Months Ended			Six Months Ended		
	June 30, 2013	Change	June 30, 2012	June 30, 2013	Change	June 30, 2012
(in thousands)						
Research and development	$1,117	(21.7%)	$1,427	$2,321	(17.7%)	$2,819
Percentage of net sales	21.2%		26.6%	23.1%		31.2%

Research and development ("R&D") decreased by $310,000 in the second quarter of 2013 compared to the same period in 2012 primarily due to the elimination of most of the amortization and expenses related to the Azido initiative, as well as savings from personnel reductions from the April 2013 and September 2012 restructuring actions and reduced use of contractors that support R&D efforts.

For the first six months of 2013 compared to the same period in 2012, the decrease in R&D expense was due to the same factors as for the second quarter.

Selling, General and Administrative

	Three Months Ended			Six Months Ended		
	June 30, 2013	Change	June 30, 2012	June 30, 2013	Change	June 30, 2012
(in thousands)						
Selling, general & administrative	$1,785	(10.6%)	$1,996	$3,592	(15.4%)	$4,245
Percentage of net sales	33.9%		37.2%	35.8%		47.0%

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Selling, General and Administrative expenses decreased $211,000 in the second quarter of 2013 compared to the second quarter of 2012. The decrease was primarily related to savings from personnel and contractor reductions from the September 2012 restructuring actions, offset in part by $50,000 of relocation costs, $40,000 higher incentive compensation and higher commissions related to sales volume and channel mix.

For the first six months of 2013 compared to the same period in 2012, the decrease in SG&A expense was primarily due to the CEO search firm and separation pay expense of $460,000 in 2012 as well as the same general factors discussed above for the second quarter.

Interest

	Three Months Ended			Six Months Ended		
	June 30, 2013	Change	June 30, 2012	June 30, 2013	Change	June 30, 2012
(in thousands)						
Interest income	$56	(67.8%)	$174	$74	(64.3%)	$207

Interest income for the second quarter and first six months of 2013 decreased compared to the same periods in 2012 primarily due to interest received related to foreign income tax refunds that occurred in 2012.

Income Taxes

	Three Months Ended			Six Months Ended		
	June 30, 2013	Change	June 30, 2012	June 30, 2013	Change	June 30, 2012
(in thousands)						
Income tax (expense) benefit	($20)	(106.8%)	$296	($25)	(109.1%)	$276

Income tax (expense) benefit recorded for the second quarter and first six months of 2013 resulted primarily from current year foreign taxes on subsidiary income. Income tax (expense) benefit recorded for the second quarter and first six months of 2012 resulted primarily from refund settlements received of foreign income taxes during 2012, offset in part by foreign taxes on current year subsidiary income.

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 $11.1 million as of June 30, 2013. Our deferred tax assets and valuation allowance have been reduced by approximately $132,000 and $117,000 associated with the requirements of accounting for uncertain tax positions as of June 30, 2013 and 2012, respectively. Given the uncertainty created by our past loss history and the cyclical nature of the industry in which we operate, we expect to continue to limit the recognition of net deferred tax assets and maintain the tax valuation allowances.

Financial Condition

Liquidity and Capital Resources

	June 30, 2013	Change	December 31, 2012
(in thousands)			
Working capital	$13,226	($611)	$13,837

Our cash position at June 30, 2013 increased $196,000 during the quarter to $10.6 million. This increase in cash was primarily attributable to the reduction of inventory during the quarter, offset in part by other changes in working capital. Accounts receivable increased to $3.2 million at June 30, 2013 compared to $2.6 million at December 31, 2012. Inventories were at $3.4 million at June 30, 2013, down from $4.0 million at December 31, 2012. We expect that inventories will increase during the third quarter as we expect to replenish or increase certain product inventories.

Although we have no significant capital expenditure plans currently, we expect that we will continue to make capital expenditures to support our business. Capital expenditures are expected to be funded by existing and internally generated funds or lease financing.

As a result of our significant product development, customer support, selling and marketing efforts, we have required substantial working capital to fund our operations. Over the last few years and again during the second quarter of 2013, we restructured our operations to lower our costs and operating expenditures in some geographic regions, while investing in other regions; creating headroom to hire critical product development resources; and to lower the level of revenue required for our net income breakeven point; as well as offsetting in part, costs rising over time; to preserve our cash position and to focus on profitable operations. See “Business Restructuring Progress” discussion above for future expected restructuring related payments.

We believe that we have sufficient working capital available under our operating plan to fund our operations and capital requirements through at least the next one-year period. Approximately $8.8 million of our cash is located in foreign subsidiary accounts at June 30, 2013. Although we have no current repatriation plans, there may be tax and other impediments to repatriating the cash to the United States. Our working capital may be used to fund share repurchases and growth initiatives including acquisitions, which could reduce our liquidity. Any substantial inability to achieve our current business plan could have a material adverse impact on our financial position, liquidity, or results of operations and may require us to reduce expenditures and/or seek additional financing.

OFF-Balance sheet arrangements

Except as noted in the accompanying consolidated financial statements in Note 6, “Operating Lease Commitments” and Note 7, “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 a loss of $498,000 and $192,000 for the three months ended June 30, 2013 and 2012, respectively. Excluding the restructuring charge, EBITDA was a profit of $144,000 for the second quarter of 2013. Non-GAAP financial measures should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. We believe that this non-GAAP financial measure provides meaningful supplemental information regarding our results and facilitates the comparison of results. A reconciliation of net income (loss) to EBITDA follows:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
(in thousands)				
Net Income (loss)	($624)	($57)	($1,083)	($1,735)
Interest income	(56)	(174)	(74)	(207)
Taxes	20	(296)	25	(276)
Depreciation and amortization	162	335	343	649
EBITDA earnings (loss)	($498)	($192)	($789)	($1,569)
Restructuring Charges	642	-	642	-
Adjusted EBITDA earnings (loss) excluding restructure charges	$144	($192)	($147)	($1,569)

RECENT ACCOUNTING ANNOUNCEMENTS

In July 2013, the FASB issued ASU 2013-11, *"Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,"* ("ASU 2013-11"), an amendment to ASC 740, "Income Taxes." ASU 2013-11 clarifies that an unrecognized tax benefit, or a portion or an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax benefit is disallowed. In situations where a net

operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be netted with the deferred tax asset. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. We are currently evaluating the impact that the adoption will have on the determination or reporting of our financial results.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

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

Changes in internal controls

There were no changes made in our internal controls during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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, 2013, 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, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There are no material changes to the Risk Factors described in our Annual Report.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

(a) **Exhibits**

10 **Material Contracts:**

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, 2013

DATA I/O CORPORATION

(REGISTRANT)

By: //S//Anthony Ambrose

Anthony Ambrose

President and Chief Executive Officer

(Principal Executive Officer and Duly Authorized Officer)

By: //S//Joel S. Hatlen

Joel S. Hatlen

Vice President and Chief Financial Officer

Secretary and Treasurer

(Principal Financial Officer and Duly Authorized Officer)

Exhibit 31.1

CERTIFICATION

I, Anthony Ambrose, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Data I/O Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) Disclosed in this quarterly report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

DATED: August 12, 2013

/s/ Anthony Ambrose

Anthony Ambrose

Chief Executive Officer

(Principal Executive Officer)

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Exhibit 31.2

CERTIFICATION

I, Joel S. Hatlen, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Data I/O Corporation;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) Disclosed in this quarterly report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATED: August 12, 2013

/s/ Joel S. Hatlen

Joel S. Hatlen

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

Certification by Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350

As Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report of Data I/O Corporation (the "Company") on Form 10-Q for the period ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony Ambrose, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony Ambrose

Anthony Ambrose

Chief Executive Officer

(Principal Executive Officer)

August 12, 2013

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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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joel S. Hatlen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joel S. Hatlen

Joel S. Hatlen

Chief Financial Officer

(Principal Financial Officer)

August 12, 2013