



# Data I/O Corporation

Investor Update  
September 17, 2010

Fred Hume  
President & CEO



# Safe harbor statement

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Statements in this news release concerning future revenues, margins, results from operations, financial position, economic conditions, product releases and any other statement that may be construed as a prediction of future performance or events are forward-looking statements which involve known and unknown risks, uncertainties and other factors which may cause actual results to differ materially from those expressed or implied by such statements. These factors include uncertainties as to levels of orders, ability to record revenues based upon the timing of product deliveries and installations, market acceptance of new products, changes in economic conditions and market demand, pricing and other activities by competitors, and other risks including those described from time to time in the Company's filings on Forms 10K and 10Q with the Securities and Exchange Commission (SEC), press releases and other communications. The accuracy and completeness of forward-looking statements should not be unduly relied upon. Data I/O is under no duty to update any of these forward-looking statements.

# Four questions

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1. What do we do?
2. What drives our business?
3. How will we grow?
4. Why is DAIO stock a good investment?

# DAIO supplies programming equipment to electronics manufacturers

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1. Customer has a product to build.
2. The product has programmable devices.



3. They have software that needs to be placed inside the devices.
4. The software gets programmed into the devices using programming equipment.
5. The programmed devices get placed in the end product and together with the programmed software they allow the product to work as desired.

# World-Class Manufacturers Choose Data I/O

## Automotive



## Wireless

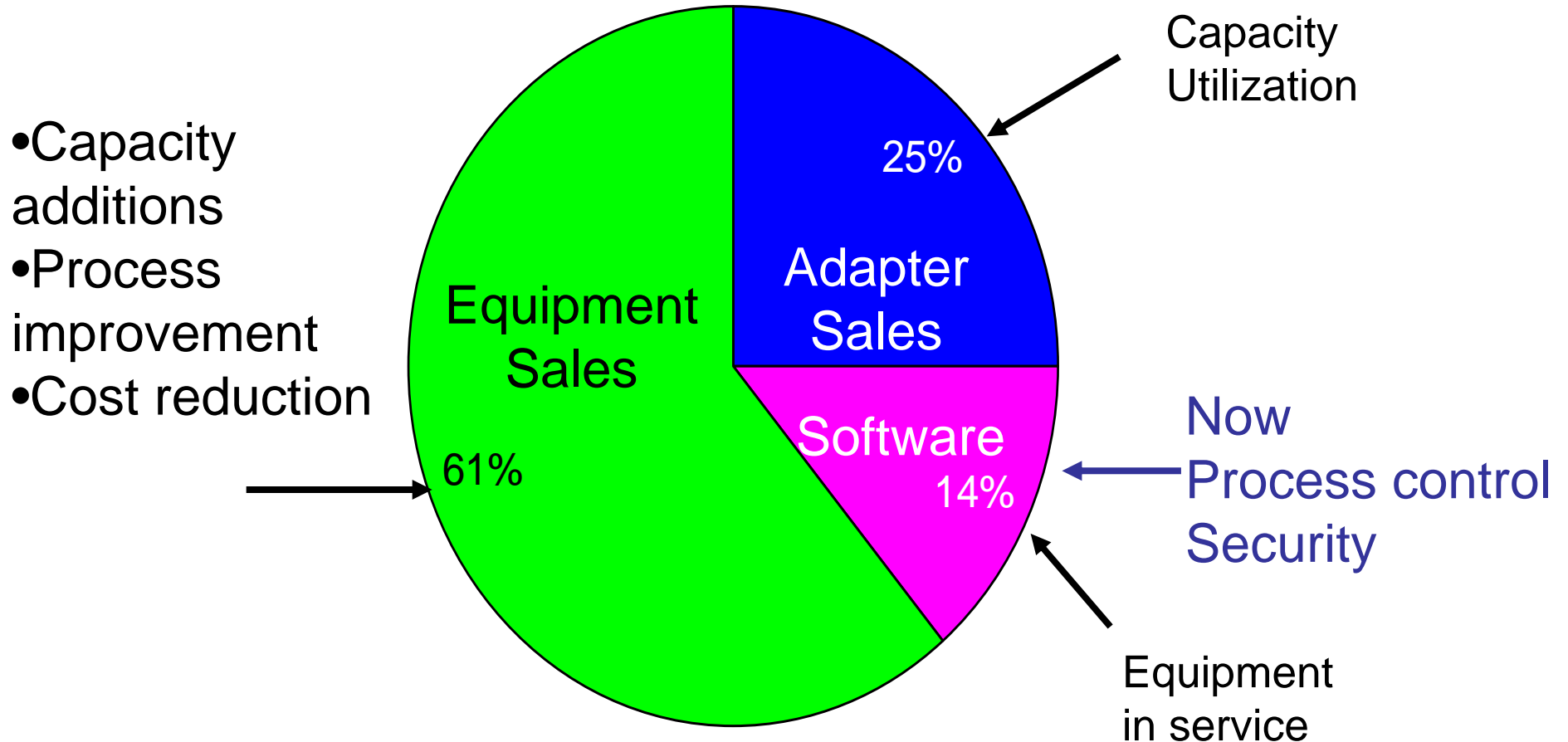


## Industrial Automation



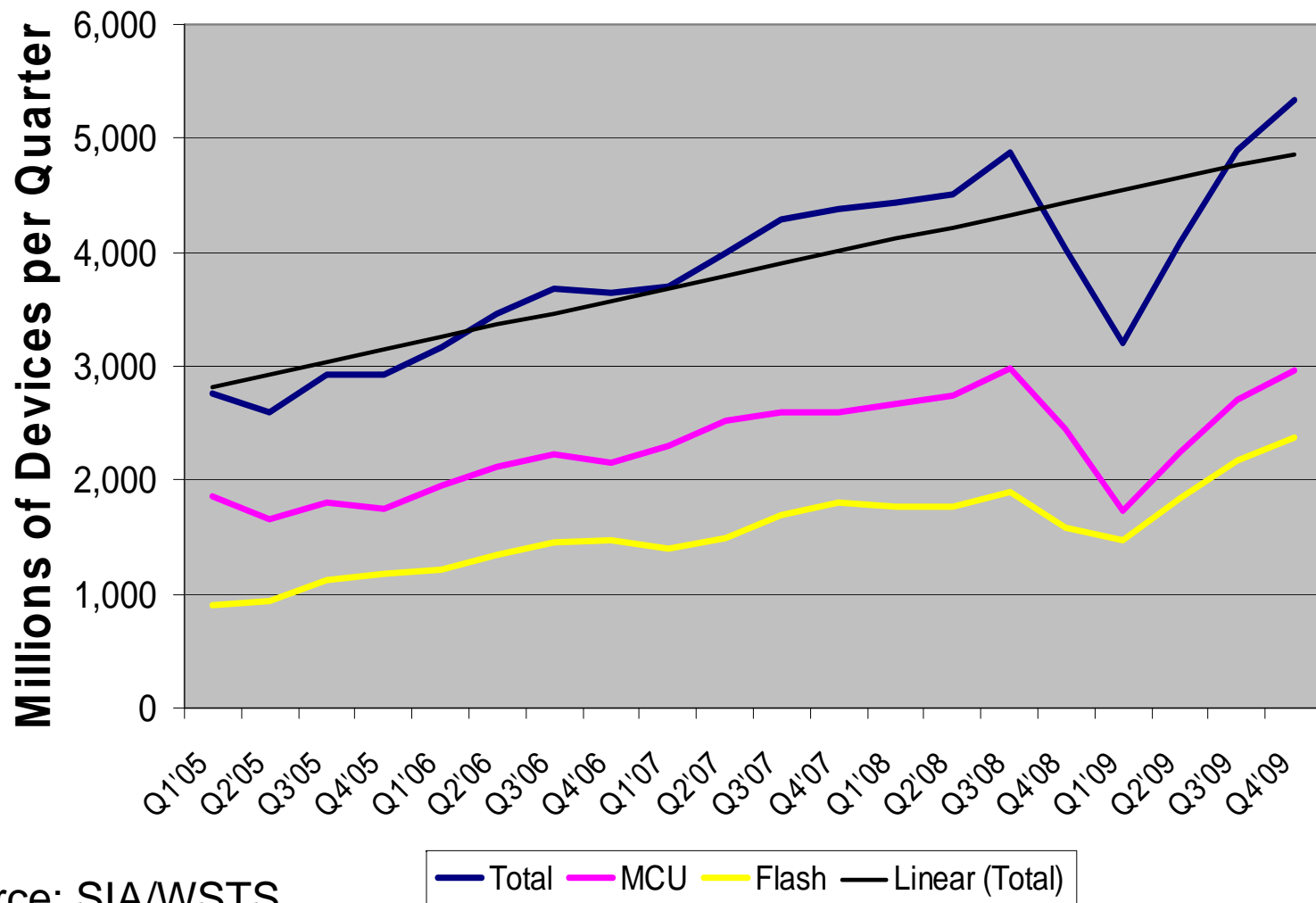
## 2. What drives our business?

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Note: % shown for YTD, 7/10

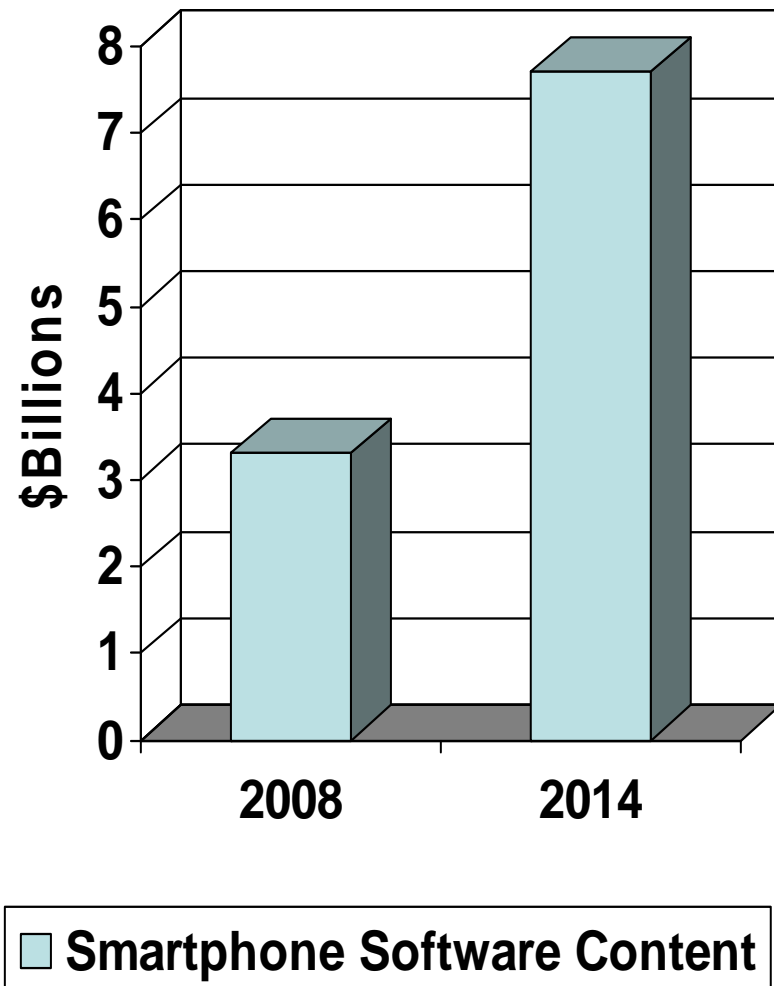
# Programmable device shipments drive capacity needs!



Source: SIA/WSTS

# Software content also drives capacity needs

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- The larger data files require more programming time
- Data I/O's new FlashCore III is the solution for these large data files
- The data file is the key intellectual property in the Smartphone
- Data I/O's security and process control software prevents unauthorized copying and malware

Source: iSuppli



### 3. How will we grow?

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- The market we serve is growing
  - Smartphones, Consumer electronics, Automotive electronics, and Industrial control
- The market we serve is large and growing; our share is <20%; we have plenty of room to grow
- We have an aggressive plan to grow our share through a:
  - Stronger sales organization
  - Better marketing targeting alternative solutions
  - New products and solutions the customers need
- The addition of high-value security and process control software

# Data I/O serves an expanding universe of programming needs

Wireless Speakers



BLU-RAY Players



SmartPhones



Programmed



Chip

Industrial Control



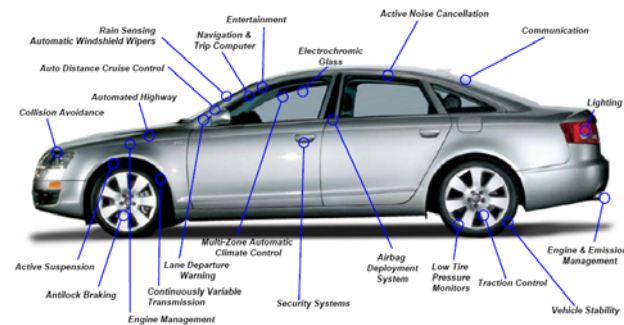
Consumer Electronics



eBooks



Automotive Electronics



# Our end customers are growth customers

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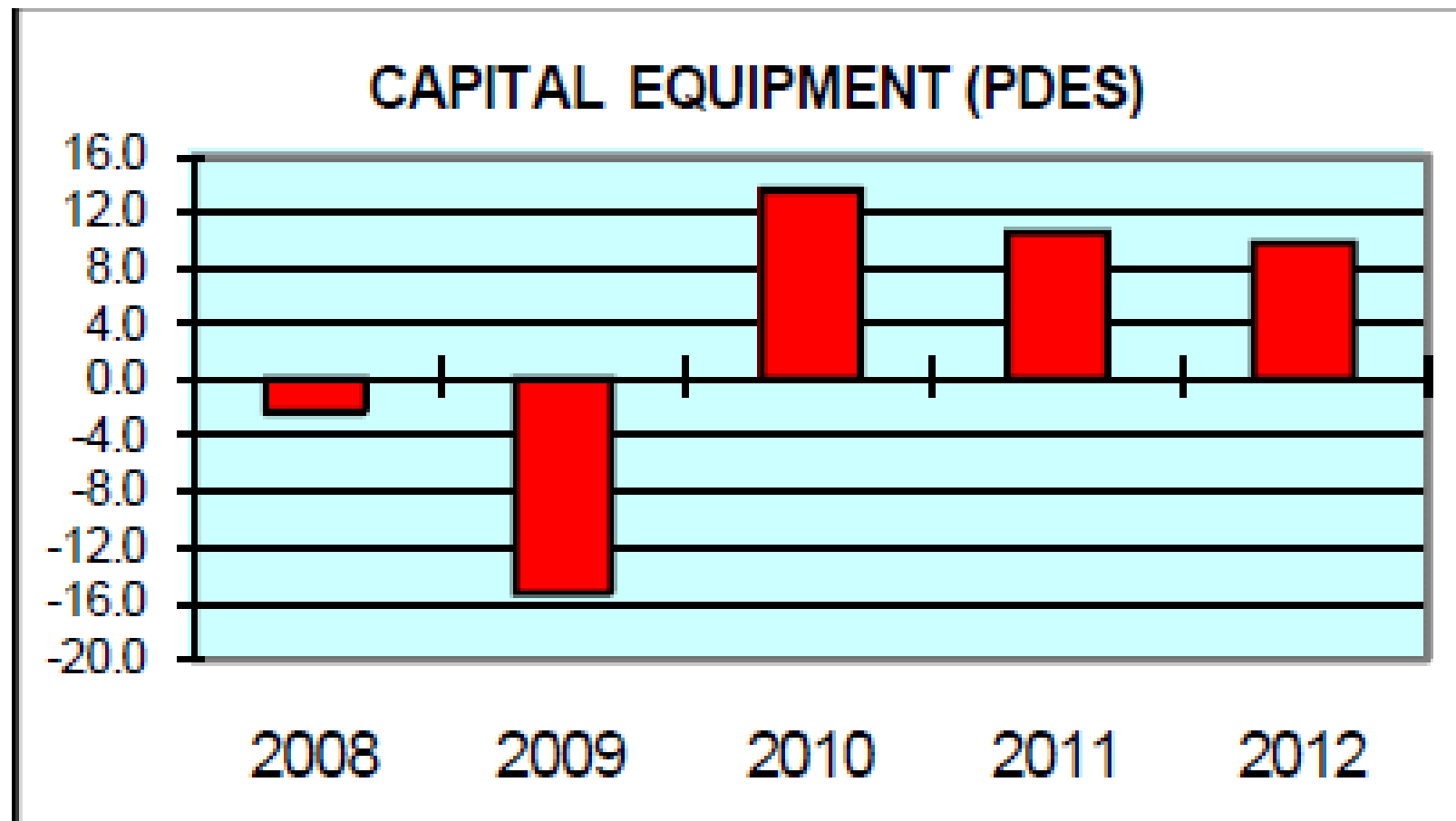
- Smartphones growing >55% in 2010 (IDC, Sept. 7<sup>th</sup>)
- Tablet computers will consume large quantities of Flash memory
- A host of iPad competitors from HTC, RIM, Nokia, Toshiba, Huawei, Samsung, and others, have been or will be introduced this year
- Semiconductor content in automobiles growing 27% to \$21 Billion in 2010 (Databeans, Aug. 20<sup>th</sup>)

# DAIO is taking share from alternatives

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Type	Share	Strengths	Weaknesses
Programming centers	~25%	Convenience, fixed cost per part (programming centers are also DAIO customers)	More expensive than DIY, turnaround time increases inventory, loss of control over production and IP
After-placement programming	~37%	Low hardware cost, no inventory float, inherently high quality, just in time	Requires dedicated engineering resources, doesn't scale for large files & complex devices, adds flow time
Direct competitors	~19%	Low cost alternatives for simple devices, low labor cost in Asia drives manual programming; small geo niches	Manual programming prone to error, devices easily damaged, inability to support global customers

## Henderson electronic market forecast for capital equipment, Sept. 2010



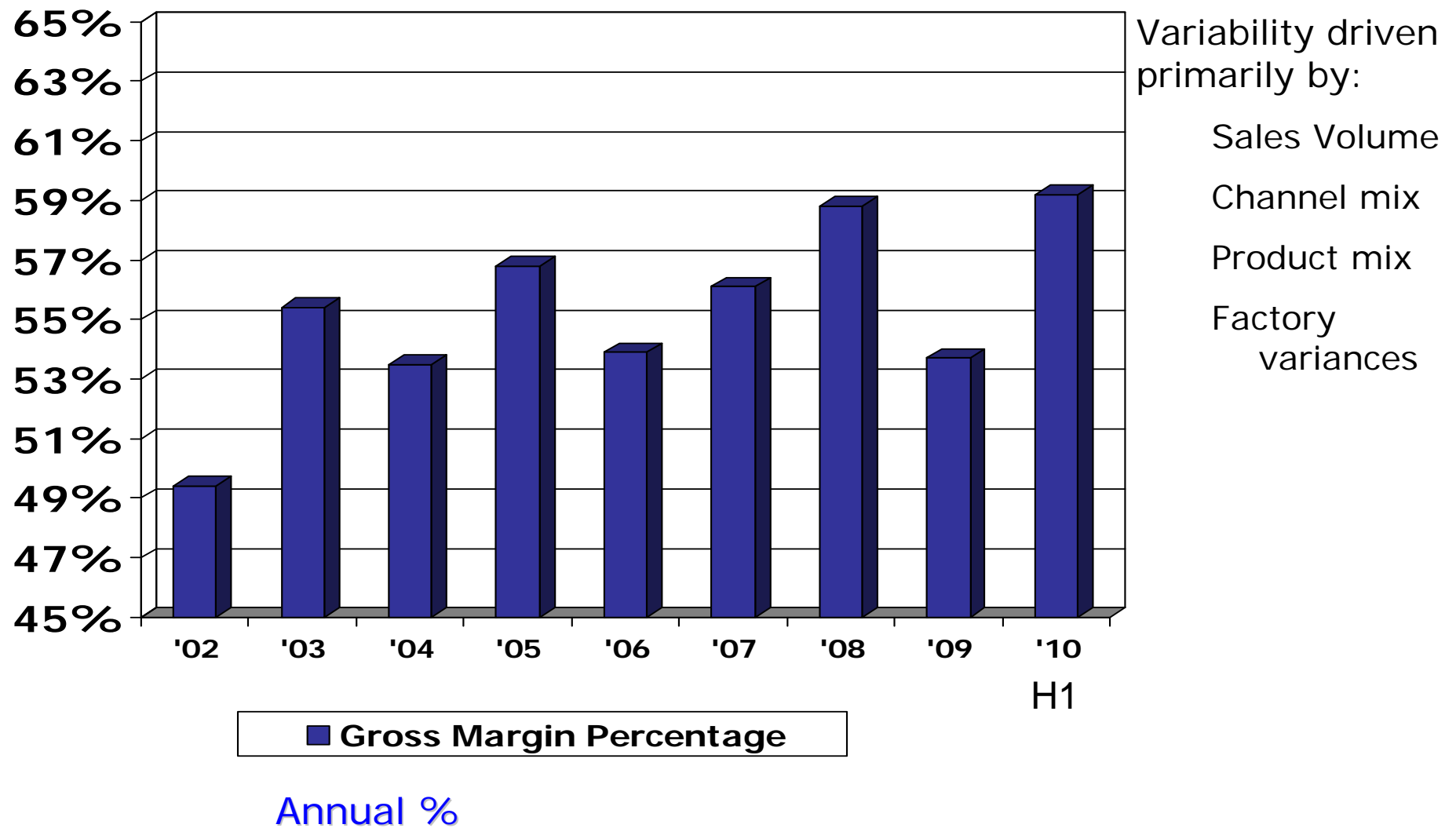


## 4. Why is DAIO stock a good investment?

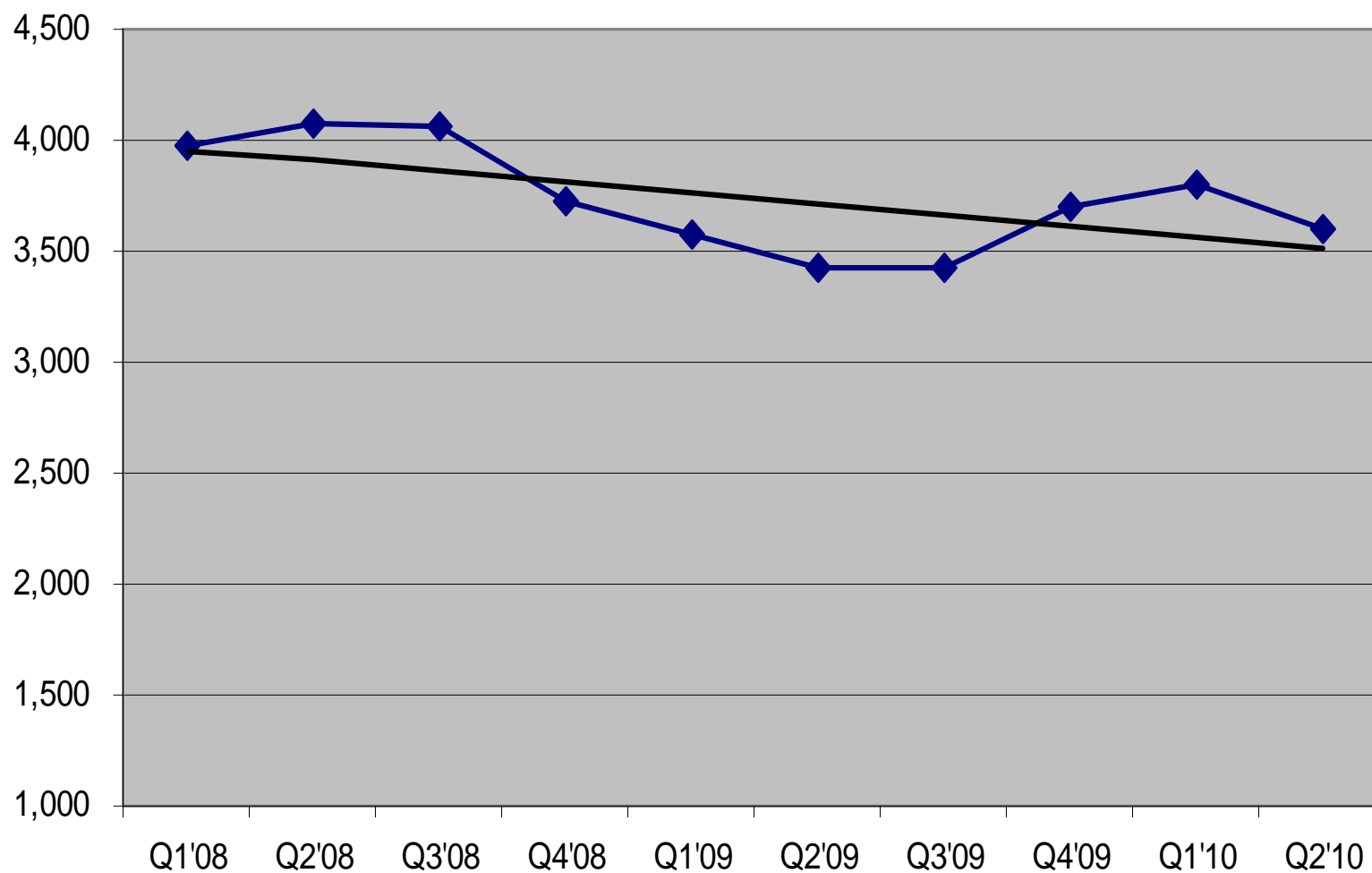
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- We have high gross margins and low fixed expenses
- We generated positive cash flow throughout the downturn
- We have a clean balance sheet - >\$16M in cash and no long-term debt, and a sound business model
- The operating income has rebounded sharply with the economic recovery
- Our share price and average daily volume has yet to recover to pre-downturn levels

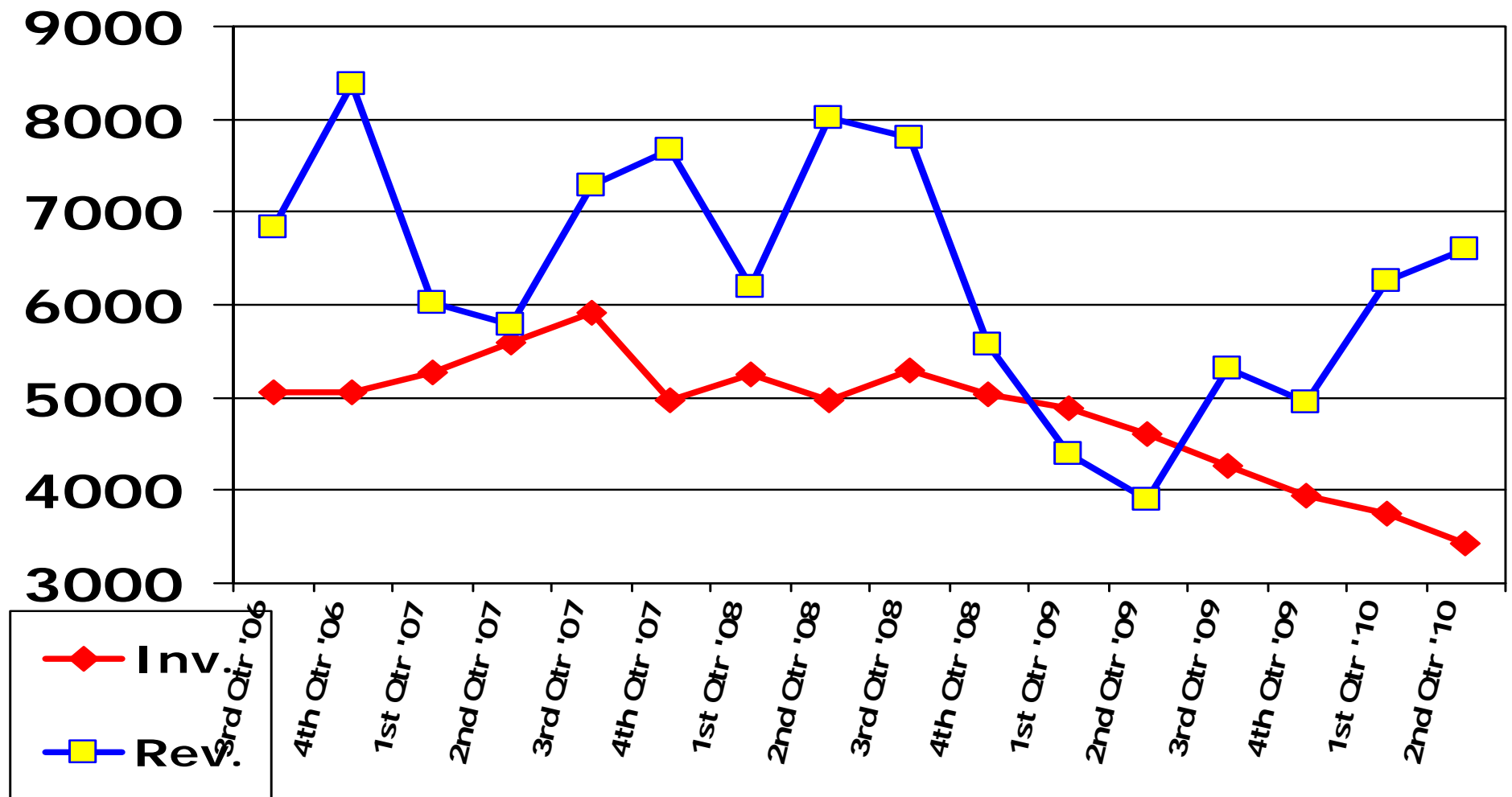
# Gross Margin Trend



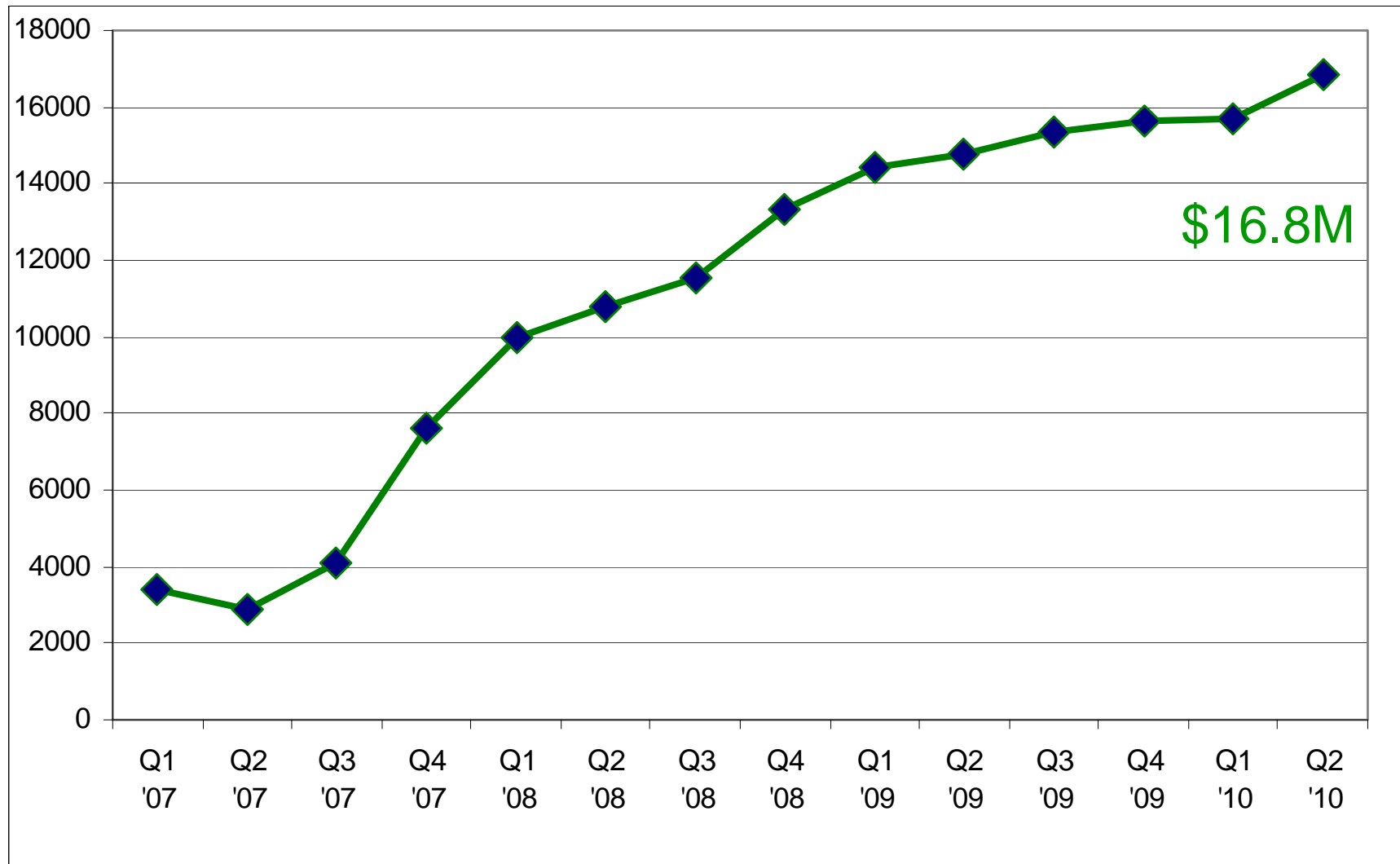
# Overall operating expense trend



# Inventory



# Cash provides the resource to drive growth





# 5 quarter Q2'10 Balance Sheet Highlights

(in millions)

	<u>Q2'09</u>	<u>Q3'09</u>	<u>Q4'09</u>	<u>Q1'10</u>	<u>Q2'10</u>
Cash & Securities	\$14.8	\$15.3	\$15.6	\$15.7	\$16.8
Acct. Receivable	2.5	3.5	3.1	4.7	4.6
Inventory	4.6	4.3	3.9	3.7	3.4
Fixed Assets	1.9	1.7	1.8	1.7	1.5
Other	0.4	0.4	0.7	0.5	0.5
<u>Total Assets</u>	<u>\$24.2</u>	<u>\$25.2</u>	<u>\$25.1</u>	<u>\$26.3</u>	<u>\$26.8</u>
Current liabilities	2.9	3.1	3.0	3.2	3.4
Deferred revenue	1.3	1.6	1.5	1.8	1.4
LT debt & liabilities	0.2	0.1	0.1	0.1	0.1
Equity	19.8	20.4	20.5	21.2	21.9

# Income statement, Q2'10 vs. Q2'09

<i>For the Quarter Ending Jun 30, 2010</i>						
(in thousands, except share data)	2010		2009		B/(W)	
<b>Total Net Sales</b>	<b>6,592</b>	100.0%	<b>3,892</b>	100.0%	<b>2,699</b>	69.3%
<b>Cost Of Goods Sold</b>	<b>2,741</b>	41.6%	<b>2,011</b>	51.7%	<b>(731)</b>	-36.3%
<b>Gross Margin</b>	<b>3,850</b>	58.4%	<b>1,882</b>	48.3%	<b>1,968</b>	104.6%
<b>Operating Expenses:</b>						
<b>Engineering</b>	960	14.6%	1,008	25.9%	48	4.7%
<b>SG&amp;A</b>	1,631	24.7%	1,506	38.7%	(125)	-8.3%
<b>Bonus</b>	245	3.7%	0	0.0%	(245)	
<b>Gain/(Loss) on Sale</b>	0	0.0%	0	0.0%	(0)	
<b>Restructure Expenses</b>	0	0.0%	158	4.1%	158	100.0%
<b>Total Operating Expenses</b>	<b>2,836</b>	43.0%	<b>2,672</b>	68.6%	<b>(164)</b>	-6.2%
<b>Operating Income</b>	<b>1,014</b>	15.4%	<b>(790)</b>	-20.3%	<b>1,804</b>	228.3%
<b>Total Non-Operating Expense</b>	<b>(110)</b>	-1.7%	<b>115</b>	2.9%	<b>(226)</b>	-196.8%
<b>Income Taxes</b>	45	0.7%	8	0.2%	(38)	-499.2%
<b>Net Income/(Loss)</b>	<b>859</b>	13.0%	<b>(683)</b>	-17.5%	<b>1,542</b>	
<b>Basic EPS</b>	\$0.10		(\$0.08)			
<b>Diluted EPS</b>	\$0.09		(\$0.08)			

# Business model

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	<u>2008</u>	<u>2009</u>	<u>Q2</u> <u>2010</u>	<u>“Target”</u> <u>Model</u>
<b>Cost of Goods</b>	41.2%	46.3%	41.6%	40%
<b>Gross Margin</b>	58.8%	53.7%	58.4%	60%
<b>R&amp;D</b>	16.2%	22.3%	14.6%	15%
<b>SG&amp;A</b>	29.4%	34.8%	28.4%	30%
<b>Operating Margin</b>	13.2%	-3.4%	15.4%	15%
<b>Net Income</b>	18.6%	-4.4%	13.0%	

Operating Margin excludes restructure, gains, other

# Summary

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- The electronics industry is in a strong recovery phase – overall momentum continues to build
- The wireless industry continues its growth, particularly Smartphones
- The automotive sector has sprung back to life; programming center purchases have restarted
- Our award-winning and industry-leading FlashCore III technology is shipping in all product platforms: PS, FLX, RoadRunner, and FlashPak
- The new sales channels added during the downturn are creating new customers and contributing to strong sales funnels
- The company's software focus has resulted in incremental high-margin business
- Data I/O's lower cost business model is delivering excellent earnings growth as revenue grows