



# DATA I/O CORPORATION

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March, 2012

Fred Hume, President and CEO

Joel Hatlen, Vice President and CFO

# Safe Harbor

“The matters that we discuss today will include forward-looking statements that involve risks factors that could cause Data I/O Corporation’s results to differ materially from management’s current expectations. We encourage you to review the Safe Harbor statement contained in the earnings release as well as our most recent SEC filings for a complete description. Additionally, those forward-looking statements are made as of today, and we take no obligation to update them as a result of developments occurring after this call.”

# Key facts and figures

Core Focus Areas	Flash Memory and Microcontroller programming for electronics manufacturing
Key Markets	Wireless, Automotive, Consumer, and Industrial Electronics
Presence	Global, HQ in Redmond, WA with facilities in Germany and China
Personnel	101 employees with 17 in Germany and 26 in China, veteran management team averaging 21 years of relevant industry experience
Financial Overview	FY 2011 Revenue: \$26.7M; Gross Margin: 57.1%; EBITDA - \$2.4M; Recurring revenue - ~40%; Cash: \$18.1M, no debt
Structure	Founded in 1972; publicly traded NASDAQ: DAIO

## DAIO – The leader in programming solutions for intelligent devices

- Provides advanced programming solutions, process control software and IP management technology used in the production of:
  - Smartphones
  - Tablets
  - eBooks
  - Wireless devices
  - Automotive electronics
- Every electronics manufacturer is a potential customer
- DAIO sells its programming solutions globally; used by manufacturers in 32 countries



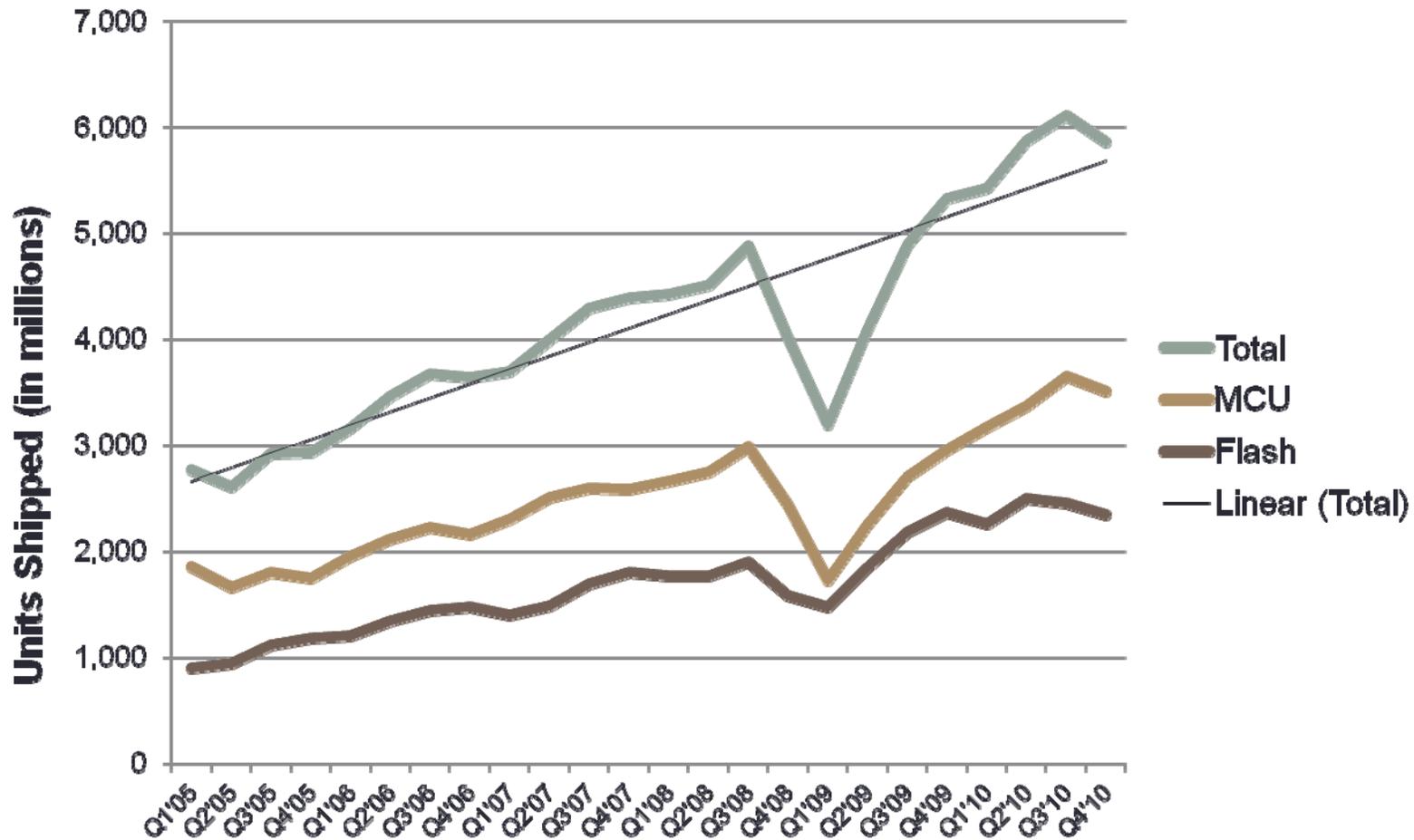
# DAIO's world-class customers

Automotive	Consumer & Wireless	Industrial
           	             	             
  	   	 

# Key markets drive the growth

Markets	Growth Drivers
Wireless	Smartphone growth is accelerating driven by Apple and Android handsets
Consumer	Tablet computers and eReaders provided by Apple, HTC, RIM, Nokia, Toshiba, Huawei, Amazon, Samsung, and Motorola consume large quantities of Flash
Automotive	Electronics is becoming the key element of differentiation. Semiconductor content in automobiles continues to grow at double-digit rates
Industrial	Competitive advantage has shifted from hardware to software programmed into silicon Software content driving the growth

# Shipments of programmable devices have been growing at ~15% per year



Source: SIA Bluebook

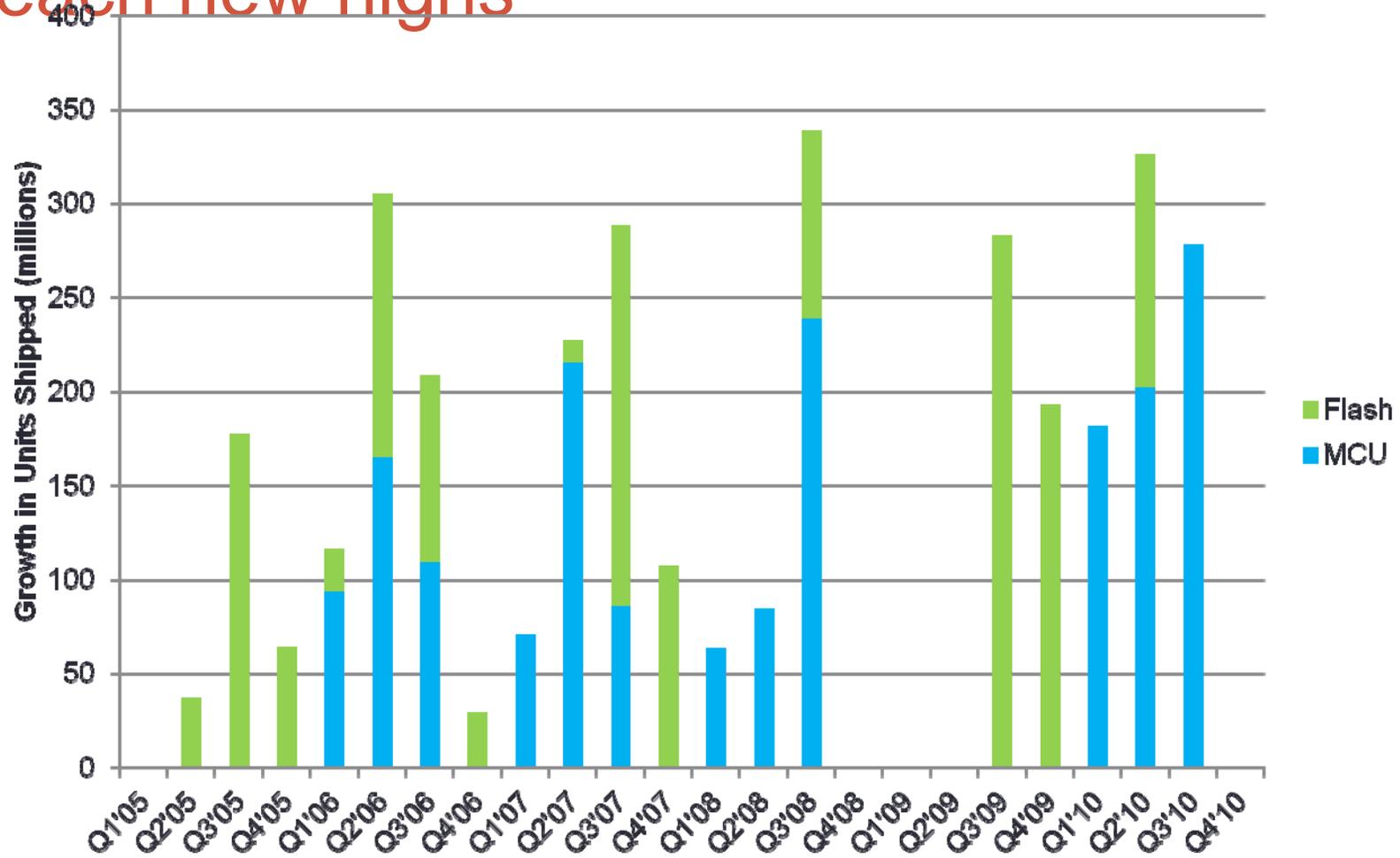
# Data I/O's Programming Solutions

Product		Key Features/Benefits	Price Range
ProLine RoadRunner		<ul style="list-style-type: none"> <li>▪ Just-in-time, automated in-line programming of four devices</li> <li>▪ Seamless integration from tape to the pick up point of the placement machine</li> <li>▪ Integration with placement machines supporting Siplace, Fuji, Panasonic, Assembleon, Universal and MyData</li> </ul>	\$62,000 to \$119,000
PS Series	PS388 	<ul style="list-style-type: none"> <li>▪ Automated, off-line programming solution for small/medium batch sizes</li> <li>▪ Addresses high throughput demands for extremely large file sizes</li> </ul>	\$139,000 to \$350,000
	PS588 	<ul style="list-style-type: none"> <li>▪ Automated off-line programming system with “pick and place”, marking and media transfer sub-systems</li> <li>▪ Ideal system for programming devices of any density in medium/large batches in high volume/high mix applications</li> </ul>	\$183,000 to \$616,000
FLX		<ul style="list-style-type: none"> <li>▪ Compact, automated off-line programming system for memory and microcontroller applications</li> <li>▪ Simple, self-learning “plug-and-play” operation</li> <li>▪ Lower overall cost for automation relative to manual gang programming solutions</li> </ul>	\$50,000 to \$119,000
FLXHD		<ul style="list-style-type: none"> <li>• Automated system for duplicating embedded Flash media (eMMC)</li> <li>• Simple, self-learning operation</li> <li>• Forty duplication sites in a compact benchtop footprint</li> </ul>	
FlashPAK III		<ul style="list-style-type: none"> <li>▪ Networked manual programming systems that support the latest high-density flash memory, NAND flash, microcontroller and EEPROM devices at maximum programming speeds and highest quality</li> <li>▪ Ideal for first article builds and NPI applications, easy transfer to automated programming systems when ready</li> </ul>	\$8,000 to \$11,000

# Three primary drivers of the demand for programming equipment

- Capacity
  - Capacity-driven demand is lumpy and difficult to predict and depends on the phase of the business cycle
  - Programming centers purchase based on capacity demands
- Quality and process improvement
  - Investments in quality and process improvement reduce scrap and rework, prevent costly product recalls, and improve customer satisfaction
  - DAIO has increased its focus on providing solutions for quality and process improvement to lessen the effects of seasonality and cyclicity of end markets
  - Many companies invest in quality and process improvement independent of the business cycle
- Technology
  - New devices such as eMMC require new programming solutions
  - Many more device technologies are on the horizon

# Demand for additional programming capacity grows when device shipments reach new highs



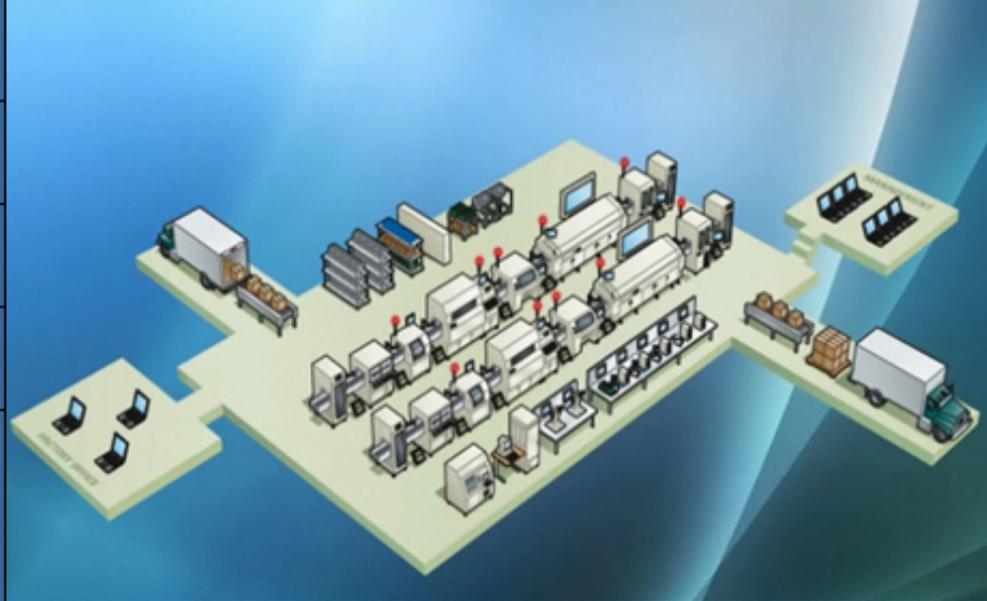
Source: SIA Bluebooks, 2005 – 2010; not yet available for 2011

# RoadRunner3 and FIS software are aimed at quality and process improvement

- RoadRunner3 In-Line Programming for *lean production*\*
  - Introduced on August 1<sup>st</sup>
  - Offers higher speed and greater flexibility than previous versions
  - Proprietary solution targeted at the needs of existing RoadRunner customers as well as new account
  - RoadRunner is a “sticky” solution – customers that adopt it stick with it and expand its use
- Factory Integration Software
  - RoadRunner version introduced on August 1<sup>st</sup>, PS-388 & PS-588 version introduced on November 15<sup>th</sup>
  - Automates job selection and data file download from factory computers (Manufacturing Execution Software)
  - Controls the programming process
    - Ensures traceability
    - Automatically tracks yield

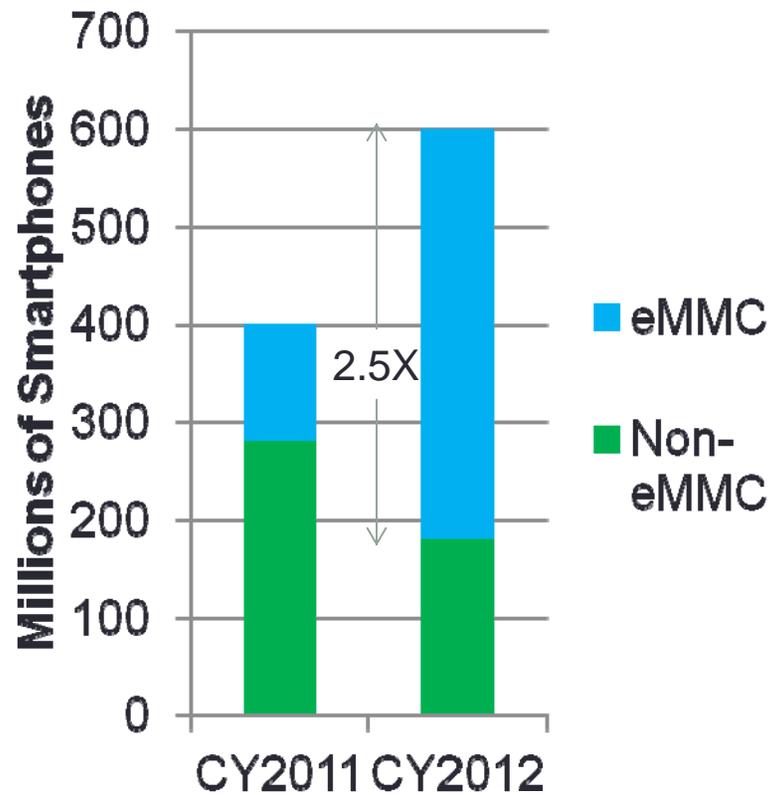
\* *RoadRunner3 with FIS won the 2012 NPI award at APEX*

# RoadRunner3 Ensures Quality Product Builds Through Factory Integration

One RoadRunner3	Multiple SMT's	Factory Integration IP Management					Quality Products
		DATA CONTROL	DATA REMOTE	DATA TRACK	DATA PROCESS	DATA SAFE	
	FUJI						AUTOMOTIVE
	SIPLACE						WIRELESS
	PANASONIC						CONSUMER
	MYDATA						INDUSTRIAL
	OTHER SMT						MEDICAL
						EMS	

# The new FLXHD targets eMMC

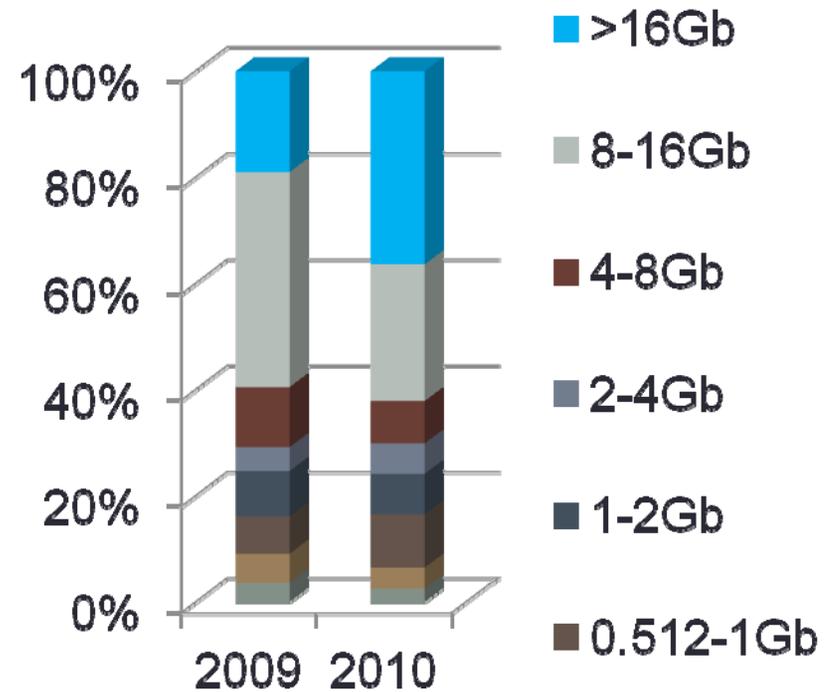
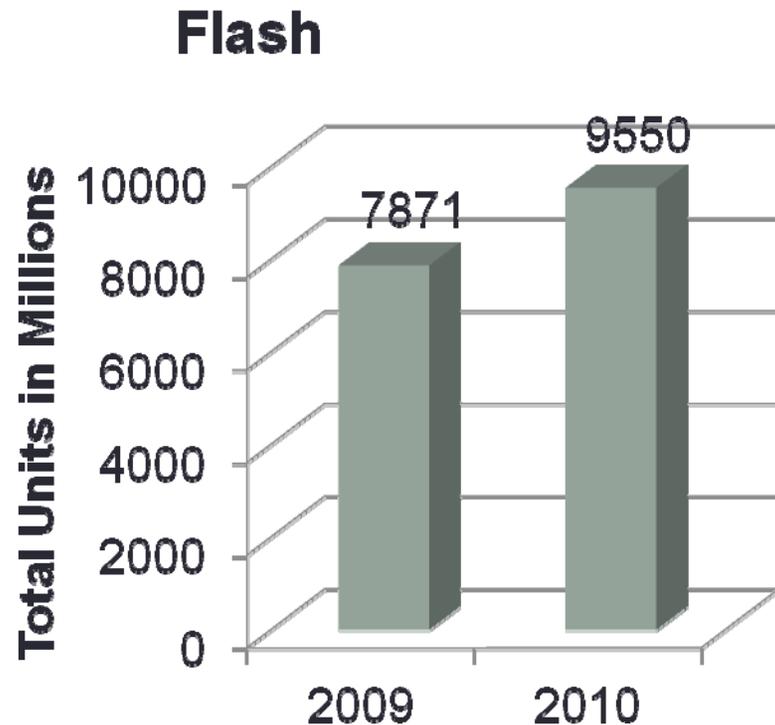
eMMC usage in Smartphones  
expected to be up 2.5 times in 2012



# High-density Flash is growing rapidly to support applications such as navigation

Devices up 21% in 2010

High-density Flash up 60%



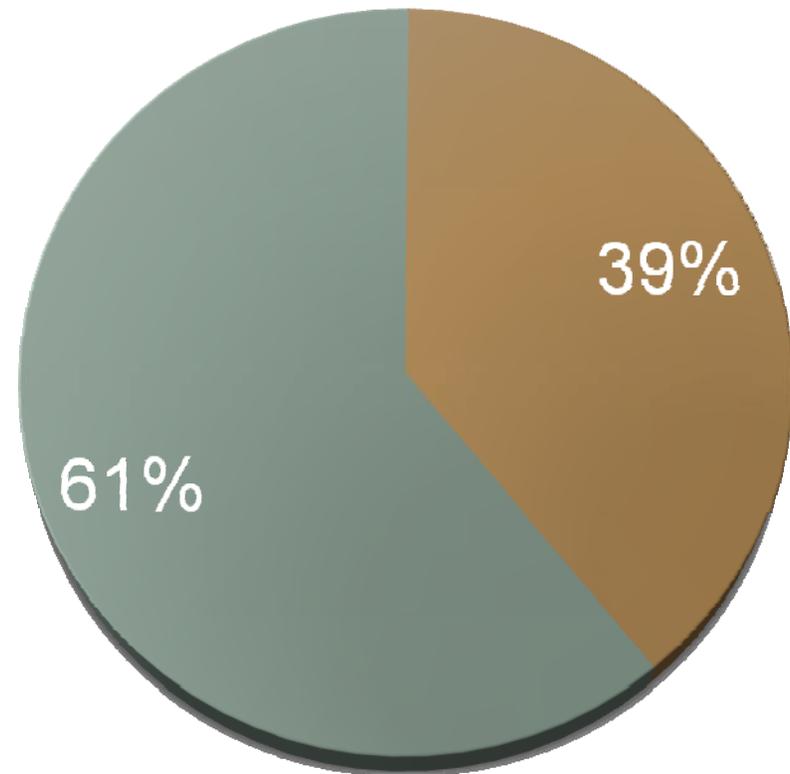
Source: SIA (WSTS)

# The Competitive Landscape

	Process Step	Technology Providers	Advantages/Disadvantages
After Placement Programming	End of Line Solutions	Home Grown Solutions	<ul style="list-style-type: none"> <li>• Best for custom configuring of products just before they ship to customers</li> </ul>
	Programming at Functional Test	Agilent, Teradyne, LTX Credence, Aeroflex, Advantest, JOT Automation, JTAG, Corelis	<ul style="list-style-type: none"> <li>• The most frequently used method for Microcontroller device programming, particularly in the automotive industry</li> <li>• Best in low to mid-volume manufacturing</li> </ul>
	Programming at In-Circuit Test	Agilent, Teradyne, Yokogawa, Checksum, Qualectron, Circuit Check	<ul style="list-style-type: none"> <li>• Increasing density poses significant challenges</li> <li>• Sophisticated programming can create large through-put obstacles for manufacturers</li> </ul>
Pre-Placement Programming	OEM, ODM, EMS	Data I/O	<ul style="list-style-type: none"> <li>• Dedicated products sold to OEMs, EMSs and third party programming centers</li> <li>• Automated pre-placement technology offers best solution for complex programming of Flash</li> </ul>
	Merchant Programming Centers	>30 Competitors	<ul style="list-style-type: none"> <li>• Data I/O is the largest competitor in this segment</li> <li>• Data I/O is the only major provider to offer a best-in-class in-line product</li> </ul>

## DAIO's recurring revenue is ~40% of sales

- **Adapters**, ~25% of sales, are a source of competitive advantage
- **Software & update contracts**, ~15% of sales, are sold on an annual subscription basis
- New initiatives including the **Factory Integration Software (FIS)** and **Azido** software will increase software revenue and improve gross margins



■ Equipment sales ■ Recurring

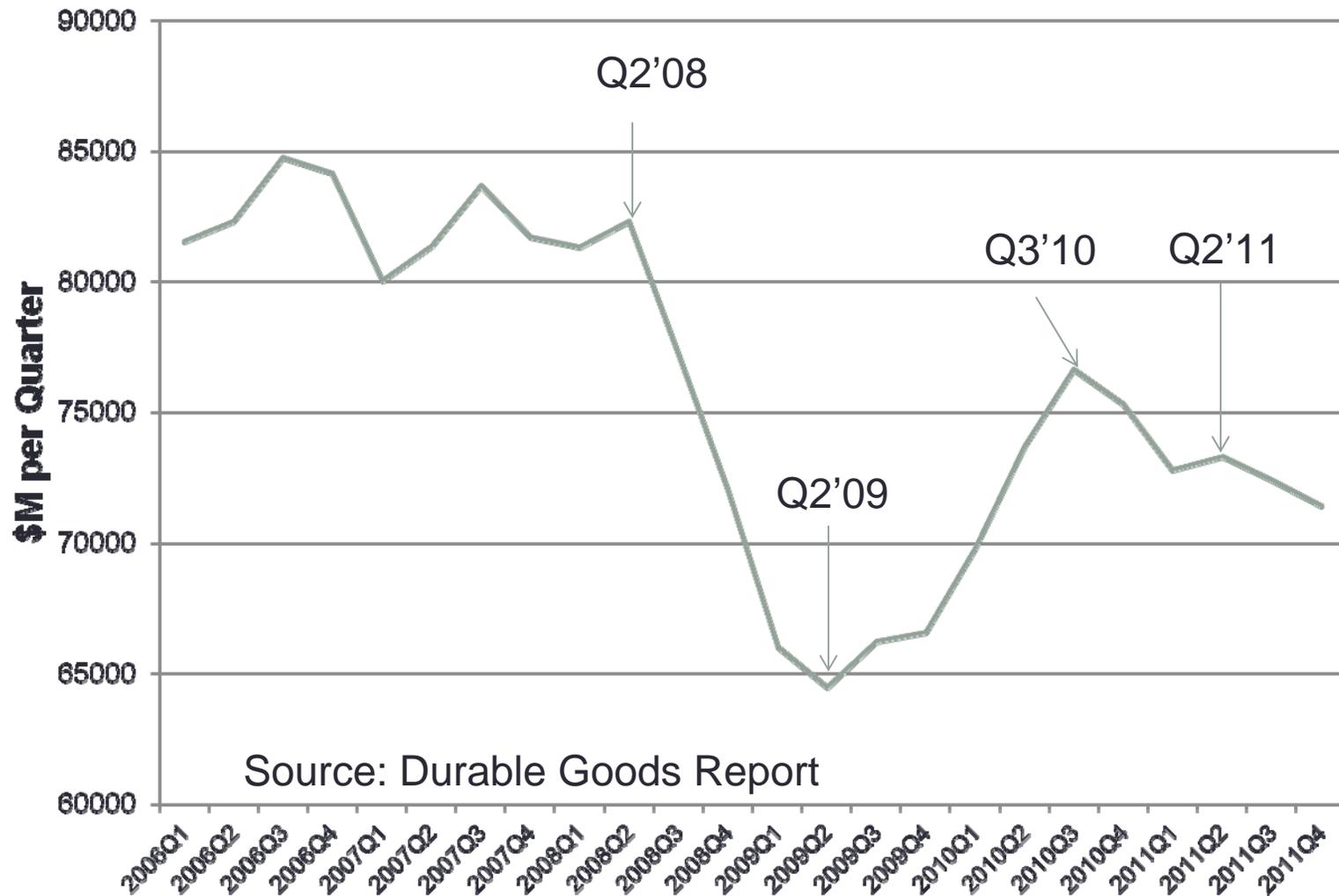
## Data I/O's fourth quarter orders reflected the global weakness in electronics production

By Category	Q1'11	Q2'11	Q3'11	Q4'11
<b>Automated equipment &amp; services</b>	\$2.9M	\$3.7M	\$4.4M	<b>\$2.7M</b>
<b>Manual equipment &amp; services</b>	\$1.2M	\$1.6M	\$0.9M	<b>\$1.1M</b>
<b>Consumables (Adapters)</b>	\$2.0M	\$1.9M	\$1.8M	<b>\$1.4M</b>
Total	\$6.1M	\$7.2M	\$7.1M	<b>\$5.1M</b>

By Region	Q1'11	Q2'11	Q3'11	Q4'11
<b>Asia</b>	\$2.2M	\$2.8M	\$2.4M	<b>\$1.8M</b>
<b>Americas</b>	\$1.1M	\$1.6M	\$2.2M	<b>\$1.1M</b>
<b>Europe</b>	\$2.8M	\$2.8M	\$2.5M	<b>\$2.3M</b>
Total	\$6.1M	\$7.2M	\$7.1M	<b>\$5.1M</b>

The decline in consumables reflects the falling capacity utilization throughout the year

The industry has been operating below 2008 levels (new orders – computers & electronic products)

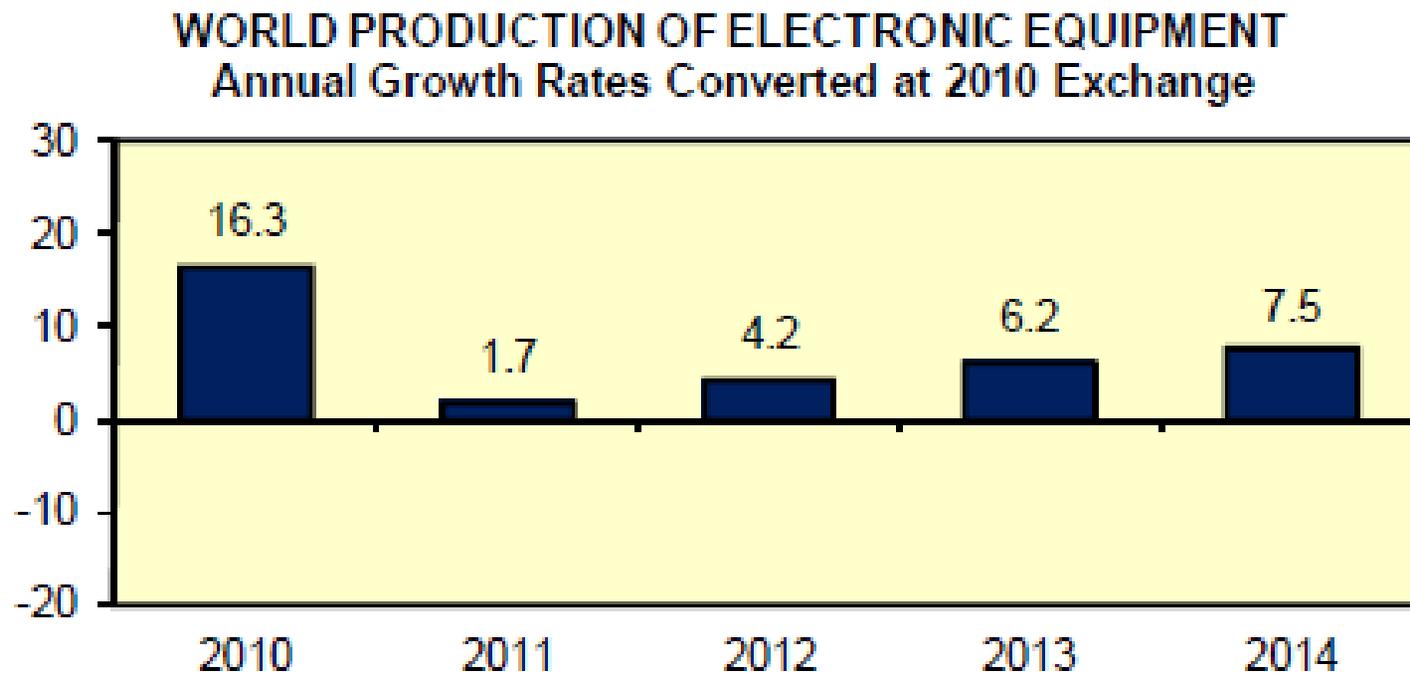


## However, the electronics industry is in the beginning of a recovery after a weak January and a weak fourth quarter

- Semiconductor industry capacity utilization hit 80% for the first time in a year
- Chipmakers say they are seeing positive market trends
- Semiconductor equipment sales will grow 18% sequentially in Q1'12 (but still down 10% from Q1'11)
- Electronics production in Q2'12 and Q3'12 expected to be sequentially up 7.5% and 8.5%, respectively
- Attendance at the APEX EXPO trade show in San Diego last month was the greatest in more than 4 years

Source: VLSI Research, March 2, 2012

# Analysts expect improving conditions in 2012



Source: Henderson Electronic Market Forecasts, March 2012

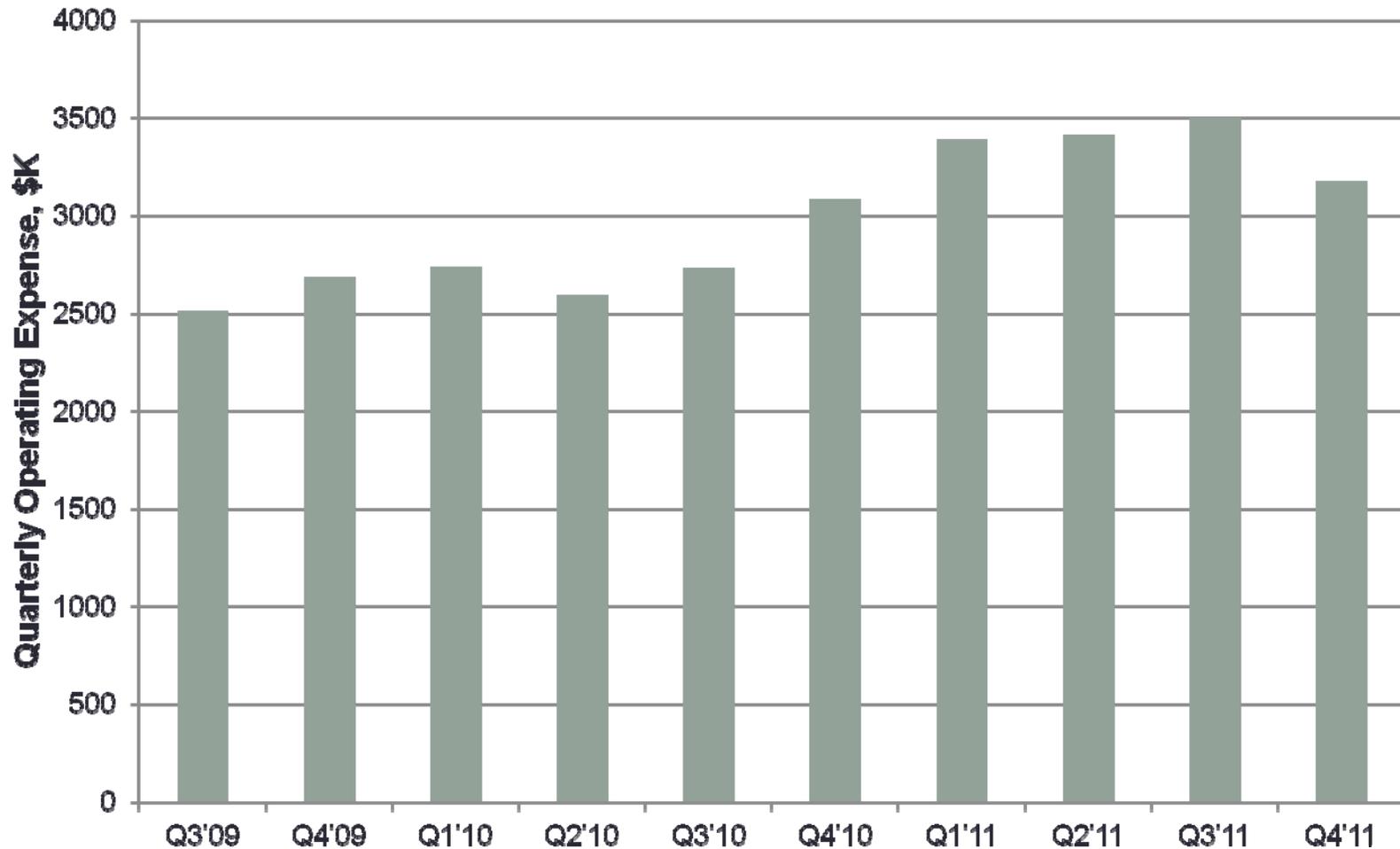
## Data I/O's strong financial position

	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Cash and equivalents	\$18,942	\$19,024	\$16,990	\$18,380	<b>\$18,120</b>
Accounts receivable	\$4,975	\$5,527	\$5,336	\$4,775	<b>\$4,351</b>
Inventories	\$3,570	\$3,541	\$3,926	\$3,798	<b>\$3,964</b>
Other current assets	\$528	\$400	\$475	\$456	<b>\$543</b>
<b>Total current assets</b>	\$28,015	\$28,492	\$26,727	\$27,409	<b>\$26,978</b>
<b>Total assets</b>	\$29,424	\$29,777	\$31,113	\$31,612	<b>\$31,345</b>
Current liabilities	\$5,412	\$4,765	\$4,395	\$4,755	<b>\$4,623</b>
Long-term payables	\$47	\$217	\$280	\$305	<b>\$253</b>
<b>Total liabilities</b>	\$5,459	\$4,982	\$4,675	\$5,060	<b>\$4,876</b>
Common stock	\$22,172	\$22,271	\$23,387	\$23,534	<b>\$23,414</b>
Retained earnings	\$1,793	\$2,524	\$3,051	\$3,018	<b>\$3,055</b>
<b>Total Shareholders Equity</b>	\$23,965	\$24,795	\$26,438	\$26,552	<b>\$26,469</b>

## Fourth quarter 2011 results

	Q1'11	Q2'11	Q3'11	Q4'11	% of Sales
Sales	\$7,043	\$6,849	\$7,051	<b>\$5,723</b>	<b>100%</b>
Gross Margin	\$4,164	\$4,008	\$3,943	<b>\$3,119</b>	<b>55%</b>
R&D	\$1,352	\$1,275	\$1,482	<b>\$1,361</b>	<b>24%</b>
OPEX	\$3,524	\$3,491	\$3,583	<b>\$3,176</b>	<b>56%</b>
Operating Income	\$640	\$517	\$360	<b>-\$57</b>	<b>-1%</b>
Net Income	\$532	\$398	\$130	<b>\$3</b>	<b>0%</b>
Earnings per Share	6¢	4¢	1¢	<b>0¢</b>	

Operating expenses peaked in the third quarter and trends downward with lowered R&D expense



## Operating expense decline was driven by:

- Reduction in contract labor associated with the release of the RoadRunner3 and Factory Integration Software
- Completion of TM Capital engagement
- Completion of a development contract with an academic institution in China
- Completion of contract expenses associated with web site development
- Reduction in consulting expenses associated with other development initiatives

# Data I/O continues to build its leadership position in the market

Strengthening the existing business	Expanding the existing business	Sowing seeds for the future
Introduction of “superboost” for FlashCore III, Q1’11	Introduction of the RoadRunner 3, Q3’11	Acquisition of Azido software technology, Q2’11
Implementation of Agile software development methods and automated testing, Q2’11	Introduction of the Factory Integration Software (FIS) for RR3, Q3’11	Participation in NSF’s Center for High Performance Reconfigurable Computing Q3’11
Expansion of our center of competence in China, Q2’11	Introduction of the FIS for the PS family, Q4’11	Development of next generation algorithm architecture, TBA
Effective replacement of sales and service personnel and expansion in So. America, Q1-Q4’11	Introduction of the FLXHD for Flash Media Duplication (eMMC), Q1’12	Development of next generation programming architecture, TBA

## DAIO's share repurchase program

- The company has repurchased \$3M of company stock since Q4'11
- The plan is expected to result in share repurchases of a total of \$6M of company stock
- Repurchases are implemented through a 10b5-1 plan administered by Needham & Co.
- Purchases are possible throughout the quarter – no blackout periods
- Purchases from executives and directors are not permitted

## Other matters

- Mr. Ken Myer, former executive with IBM, Active Voice, and executive director of the Washington Technology Industry Association has been elected to the board of directors and will chair the governance and nominations committee.
- Korn Ferry, the well-known global executive search firm has been retained in a search for a new CEO. Fred Hume will continue to serve as CEO and director until a replacement has been found or at the end of the year.

# Summary

- Data I/O's markets (Smartphones, Tablets, Consumer, and Automotive electronics) continue to drive new demand for programming capacity
- Data I/O serves the global electronics firms that are driving the growth (Samsung excepted)
- The new RoadRunner3 and its Factory Integration Software are world-class solutions to satisfy this demand in electronics manufacturing
- The FLXHD will strengthen Data I/O's position in the fastest growing technology for Smartphones and other mobile devices
- Data I/O's business initiatives in the existing, expanded and new markets position the firm to deliver sustained growth for several years