

# SHAREHOLDERS' BRIEFING

May 17, 2011

Fred Hume, President & CEO

Joel Hatlen, Vice President & CFO

# Agenda

- ▣ Business meeting
- ▣ Report on Operations

# Business meeting

- ▣ Requirements: notice and quorum
- ▣ Matters requiring shareholder approval
- ▣ Voting
- ▣ Introductions
- ▣ Adjournment

# NOTICE AND QUORUM

Notice has been given as required by  
law and a quorum is present

# Shareholder approval

- ▣ Election of Directors for May 2011 – May 2012
- ▣ Amend and restate the Data I/O Corporation 2000 Stock Compensation Incentive Plan (the “2000 Plan”) and to increase the number of shares reserved for issuance under the 2000 Plan by an additional 300,000 shares of common stock
- ▣ Ratification of appointment of Grant Thornton as independent auditors

# Board of Directors

- ▣ Douglas W. Brown
- ▣ Paul A. Gary, Ph.D.
- ▣ Frederick R. Hume
- ▣ Steven M. Quist
- ▣ William R. Walker

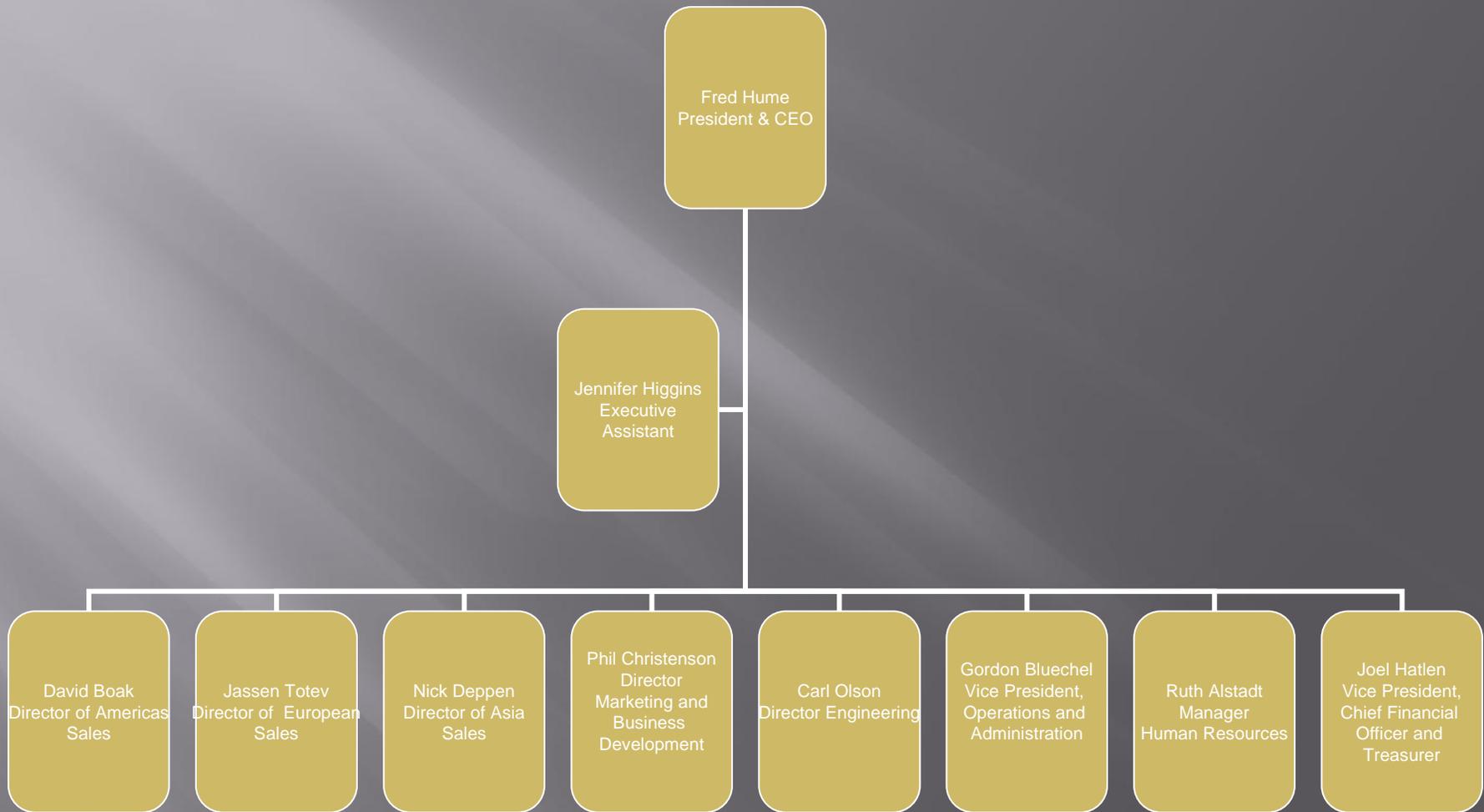
# Shareholder Approval

- ▣ Finalize balloting now

# Introductions

- ▣ Tom Cooper, BNY Mellon Shareowner Services
- ▣ Management team

# Data I/O's Management Team



## Election results

- ▣ Doug Brown, Paul Gary, Fred Hume, Steve Quist and Bill Walker are elected
- ▣ Ratification of the amendment to Data I/O Corporation's 2000 Stock Compensation Incentive Plan
- ▣ The appointment of Grant Thornton to be the company's auditors is ratified

# Adjournment

- ▣ The annual business meeting of shareholders is adjourned

# 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.”

# Outline

- ▣ Introduction to Data I/O
- ▣ 2010 and Q1 2011 accomplishments, highlights and financial results
- ▣ Data I/O's plan for growth
- ▣ Summary

## 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
- Considers every electronics manufacturer (OEM, ODM, EMS) a potential customer
- Sells solutions globally and used by manufacturers in 32 countries



# 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	95 employees with 16 in Germany and 24 in China, veteran management team averaging 21 years of relevant industry experience
Financial Overview	FY 2010 Revenue: \$26.4M; Gross Margin: 58.1%; Adjusted EBITDA - \$4.4M; Recurring revenue - ~40%
Structure	Founded in 1972; publicly traded NASDAQ: DAIO

# DAIO's world-class customers

## Automotive



## Consumer & Wireless



## Industrial

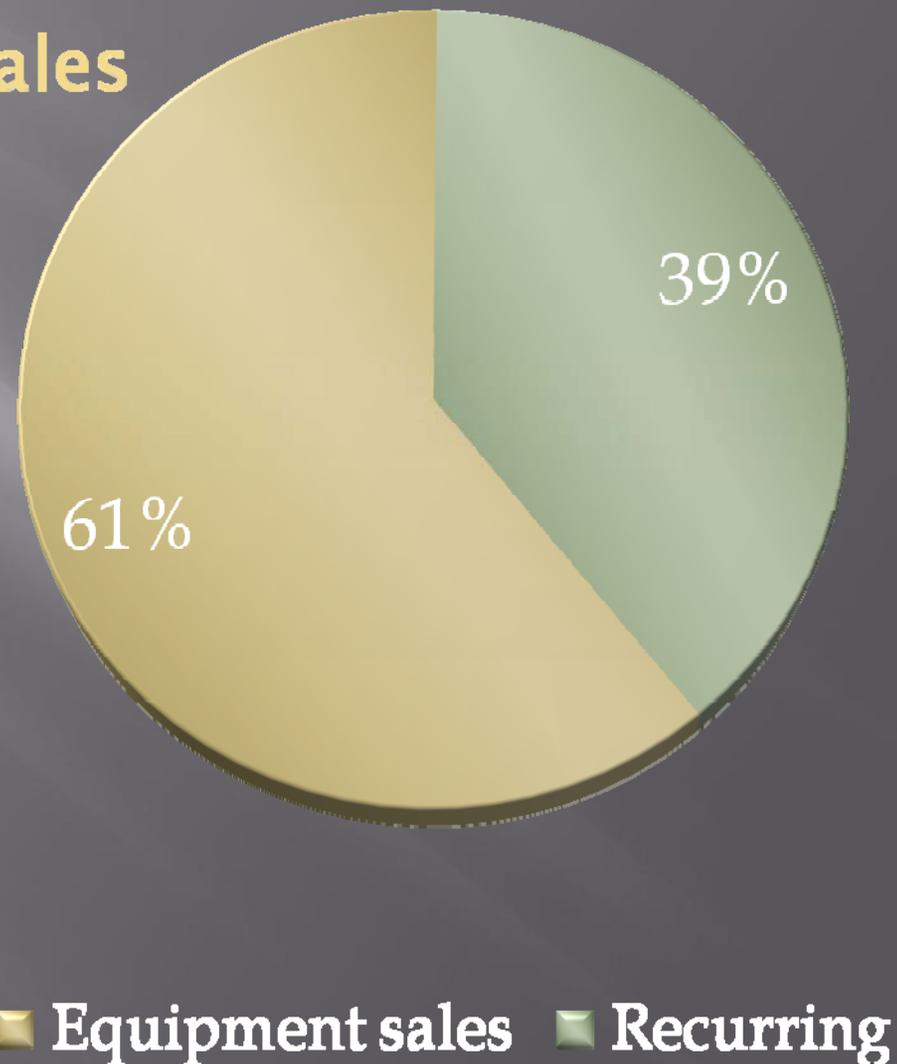


# DAIO serves growth markets

Markets	Growth Drivers
Wireless	Smartphone growth is accelerating: 79%, IDC May 2011 Android handsets will top 180M in 2011 and 400M by 2014 – Sony Ericsson CTO, May 2011
Consumer	Tablet and eReaders will consume large quantities of Flash HTC, RIM, Nokia, Toshiba, Huawei, Samsung, and Motorola join Apple in the markets (PCs have not been a market for DAIO)
Automotive	Semiconductor content in automobiles is growing 27% annually – Databeans, 2010 Electronics is becoming the key element of differentiation
Industrial	Competitive advantage has shifted from hardware to software programmed into silicon Software content driving the growth

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

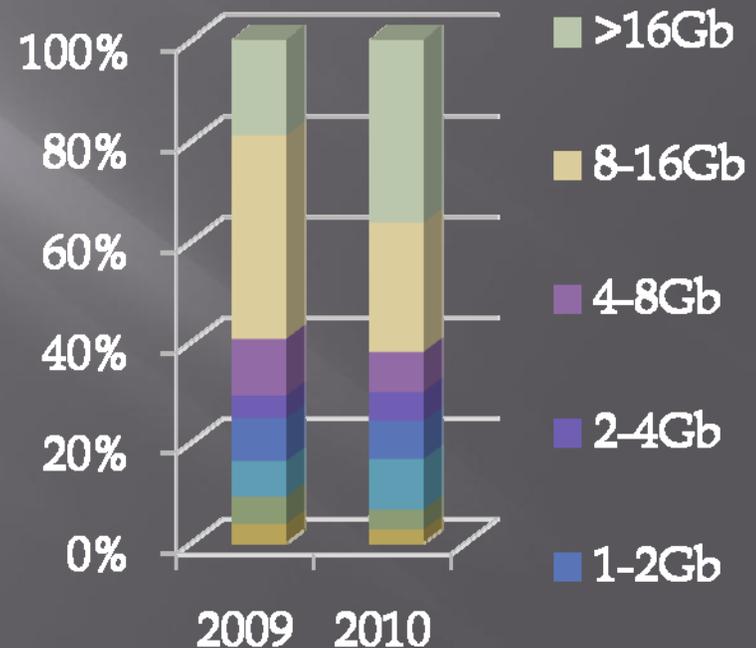
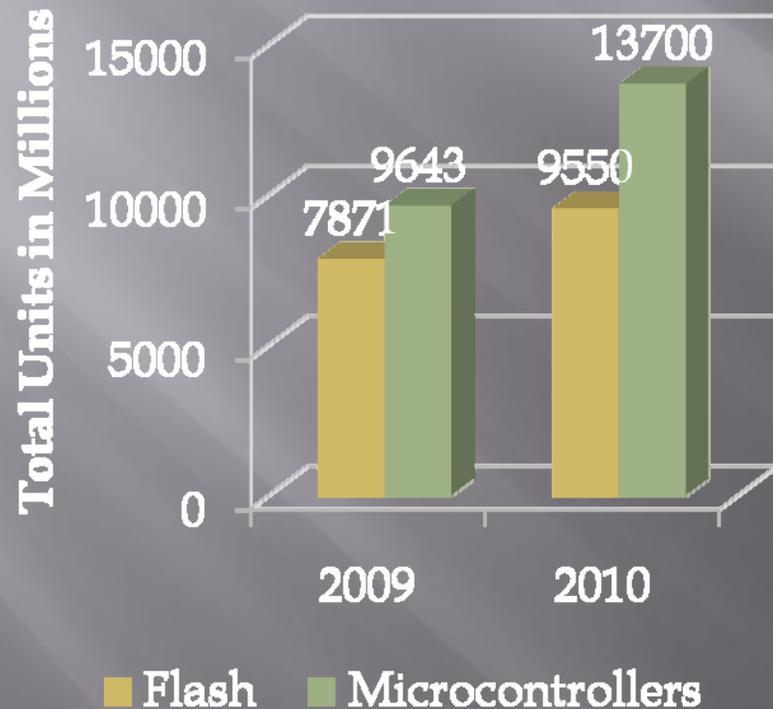
- Adapters, ~25% of sales, are a source of competitive advantage
- Software & update contracts, ~15% of sales, are sold on an annual subscription basis



# DAIO serves a growing market

DEVICES UP 33% IN 2010

FLASH DENSITY UP 60%



Source: SIA (WSTS)

# Outline

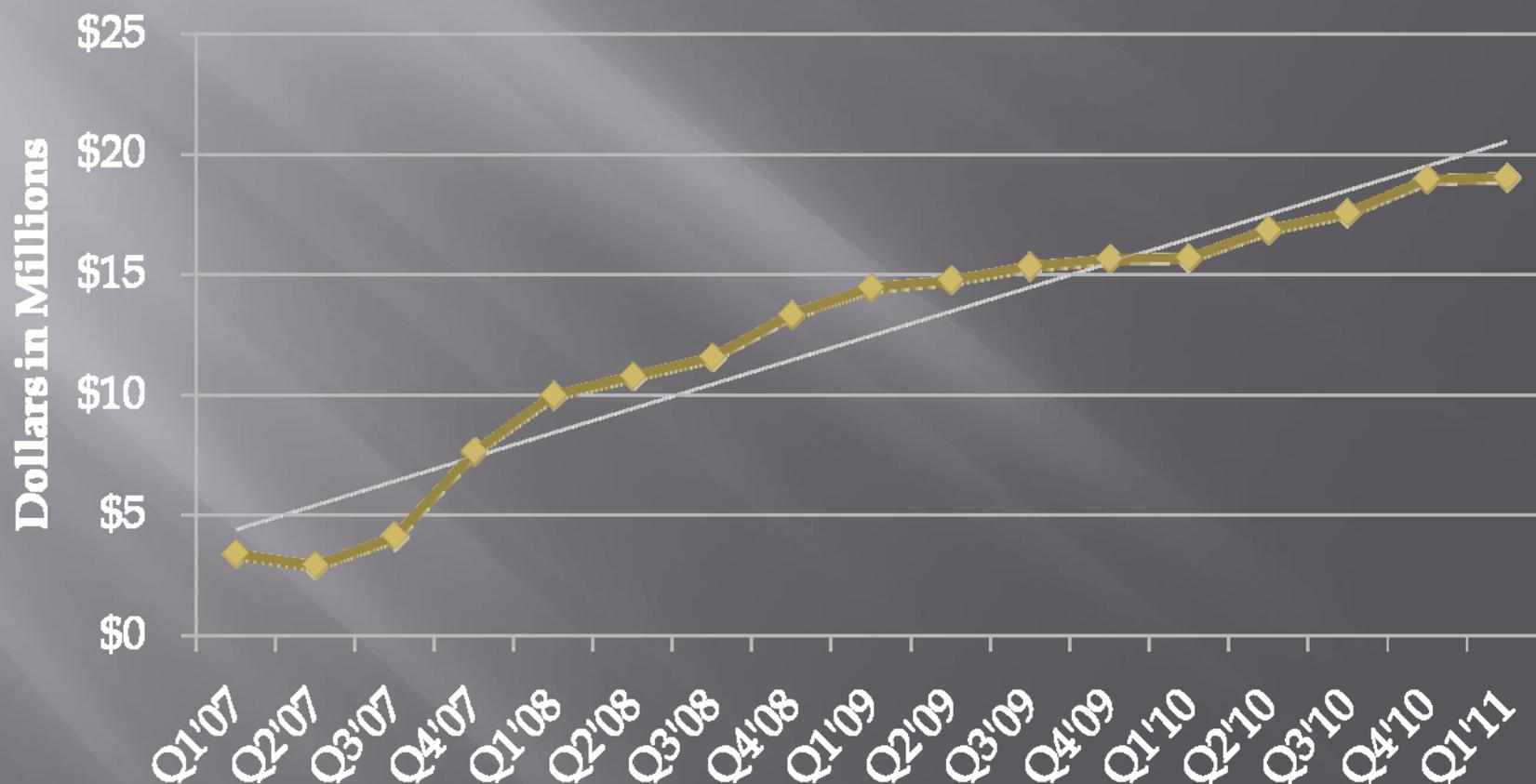
- ▣ Introduction to Data I/O
- ▣ 2010 and Q1 2011 accomplishments, highlights and financial results

# Accomplishments and highlights

- ▣ Significant success with new products – FlashCore III, RoadRunner versions for Panasonic, and Siemens
- ▣ Started product development in China
  - Designed for the unique Chinese market
  - Developed and produced in China
- ▣ Winning major accounts – HTC, Pegatron, new RIM projects, Johnson Controls, Delphi, Kinect, Nook
- ▣ New business initiatives are generating revenue
- ▣ Industry awards – AWB Manufacturer of the Year, NPI Award, SMT Vision Award, EMAsia Award
- ▣ Outstanding personnel additions
- ▣ Financial performance

# DAIO's cash is growing ~53% annually

## Cash & Equivalents



# Strengthening financial position

	March 31, 2011	December 31, 2010	March 31, 2010
Cash and equivalents	\$19,024	\$18,942	\$15,684
Accounts receivable	\$5,527	\$4,975	\$4,727
Inventories	\$3,541	\$3,570	\$3,745
Other current assets	\$400	\$528	\$341
<b>Total current assets</b>	<b>\$28,492</b>	<b>\$28,015</b>	<b>\$24,497</b>
<b>Total assets</b>	<b>\$29,777</b>	<b>\$29,424</b>	<b>\$26,336</b>
Current liabilities	\$4,765	\$5,412	\$5,041
Long-term payables	\$217	\$47	\$96
<b>Total liabilities</b>	<b>\$4,982</b>	<b>\$5,459</b>	<b>\$5,137</b>
Preferred & common stock	\$22,271	\$22,172	\$21,848
Accumulated earnings	\$1,432	\$900	\$(1,403)
Comprehensive income	\$1,092	\$893	\$754
<b>Total Shareholders Equity</b>	<b>\$24,795</b>	<b>\$23,965</b>	<b>\$21,199</b>

# Fiscal year 2010 results

	December 31, 2010	% of Sales	December 31, 2009	% of Sales	Year over Year
Sales	\$26,396		\$18,549		42%
Gross Margin	\$15,344	58%	\$9,961	54%	54%
R&D	\$4,159	16%	\$4,128	22%	1%
OPEX	\$11,831	45%	\$10,784	58%	10%
Operating Income	\$3,513	13%	\$(824)	-4%	N/A
Net Income	\$3,012	11%	\$(811)	-4%	N/A
Earnings per Share	33¢		(9)¢		

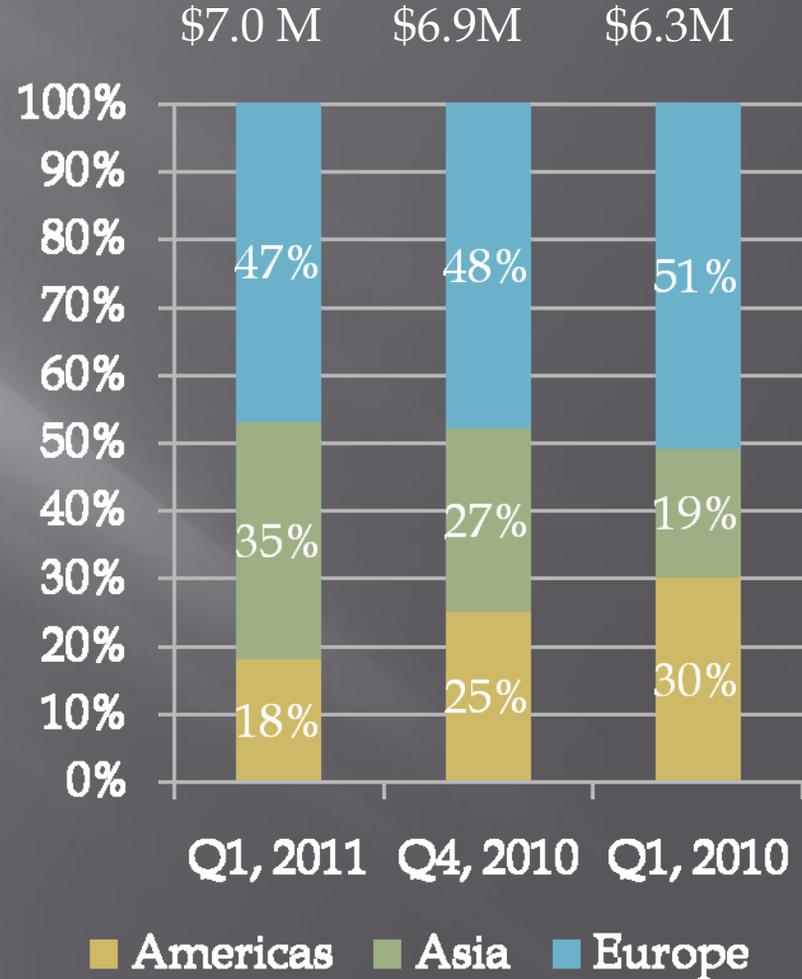
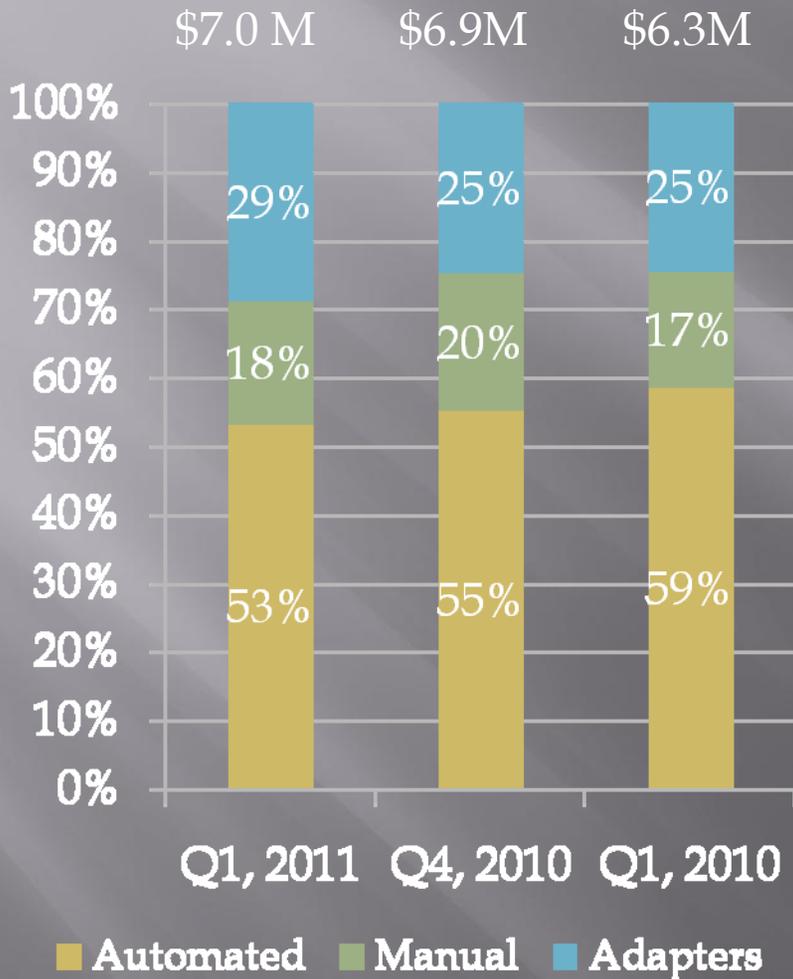
# First quarter 2011 results compared to first quarter 2010

	March 31, 2011	% of Sales	March 31, 2010	% of Sales	Year over Year
Sales	\$7,043		\$6,252		13%
Gross Margin	\$4,164	59%	\$3,753	60%	11%
R&D	\$1,352	19%	\$950	15%	42%
OPEX	\$3,524	50%	\$2,888	46%	22%
Operating Income	\$640	9%	\$868	14%	-26%
Net Income	\$532	8%	\$709	11%	-25%
Earnings per Share	6¢		8¢		

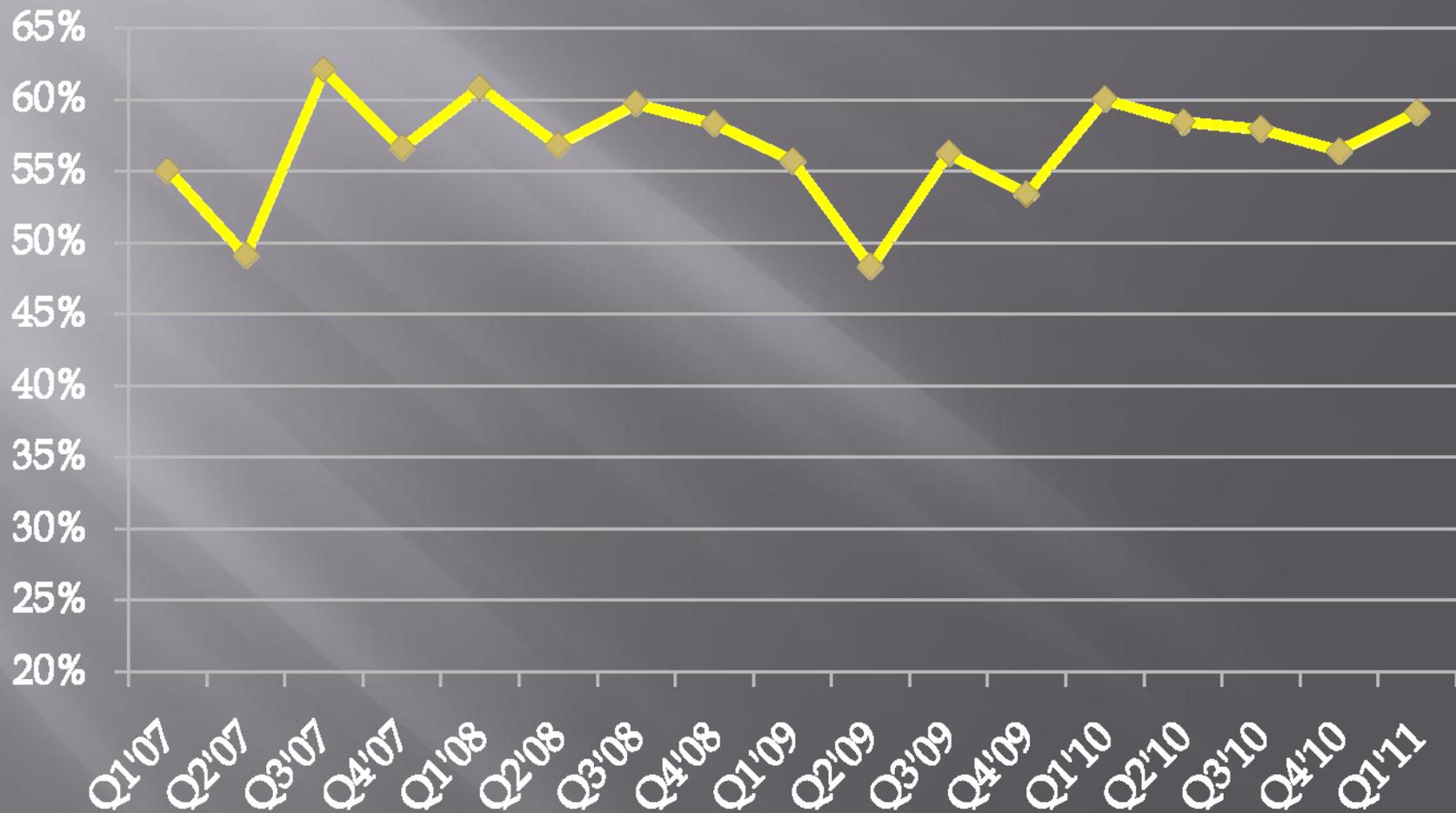
# First quarter 2011 results compared to fourth quarter 2010

	March 31, 2011	% of Sales	December 31, 2010	% of Sales	Quarter over Quarter
Sales	\$7,043		\$6,948		1%
Gross Margin	\$4,164	59%	\$3,917	56%	6%
R&D	\$1,352	19%	\$1,291	19%	5%
OPEX	\$3,524	50%	\$3,251	47%	8%
Operating Income	\$640	9%	\$666	10%	-4%
Net Income	\$532	8%	\$611	9%	-13%
Earnings per Share	6¢		7¢		

# Regional and product line sales trends

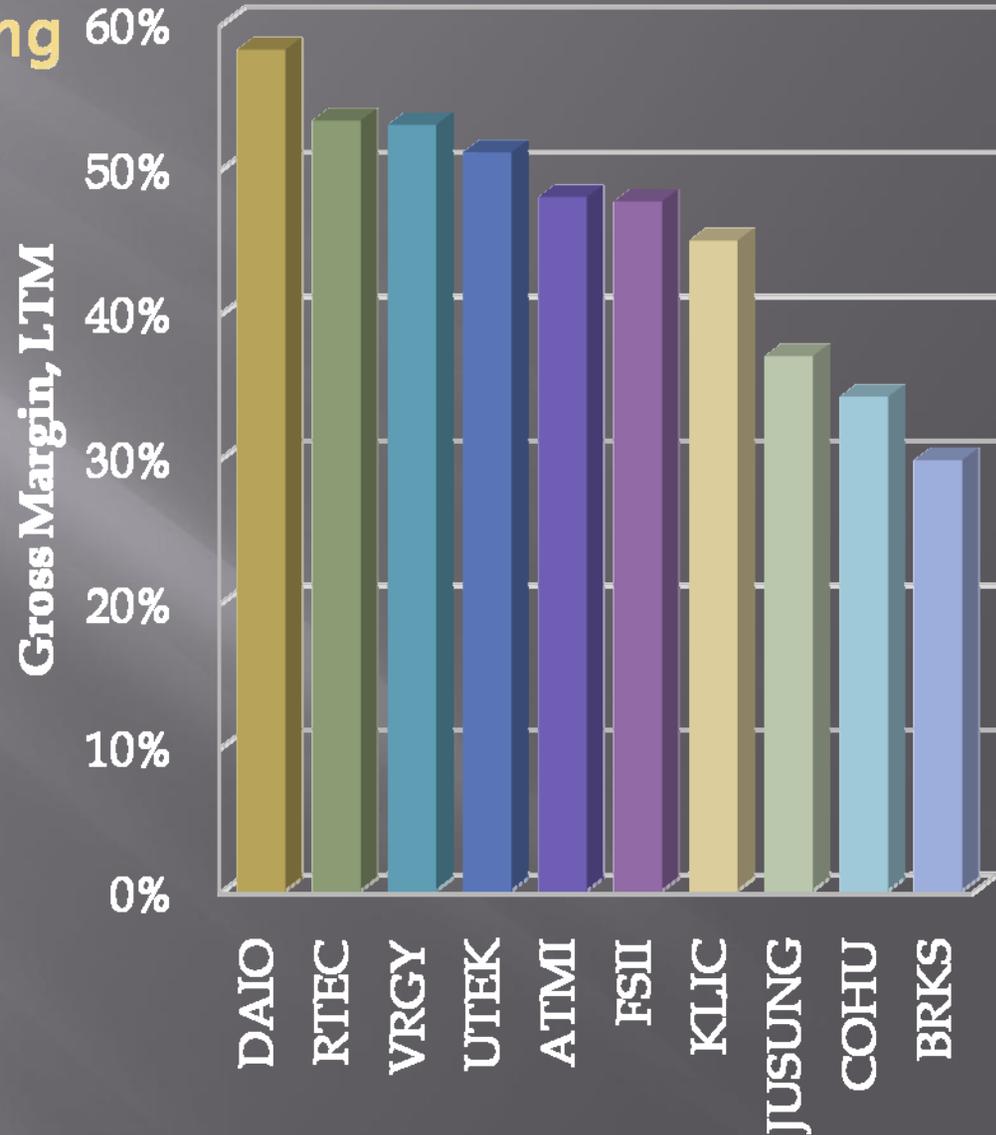


# Gross margin trend

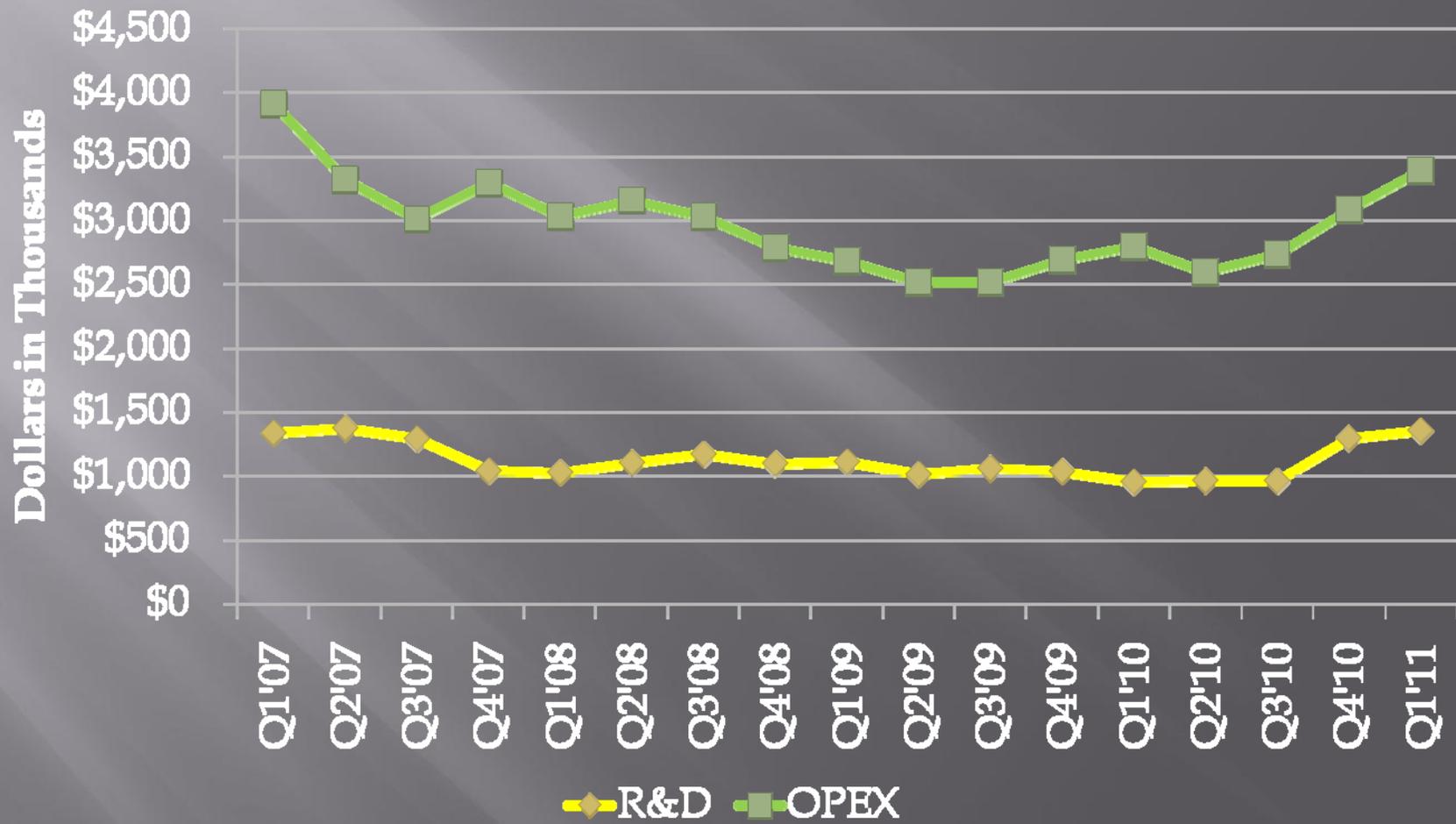


## DAIO's industry-leading gross margins

- Adoption of lean principles for production
- Strategic use of outsourcing
  - ✓ Adapters manufactured in China
  - ✓ Low-level assemblies sourced locally
- Increasing percentage of revenue comes from high-margin software



# Expense trend



# DAIO invests to drive growth

	Q2'10	Q3'10	Q4'10	Q1'11
Existing Programming Business	\$881	\$793	\$849	\$855
Expanded Programming Business	\$44	\$136	\$327	\$402
New Business	\$29	\$28	\$118	\$126
Total Investment	\$960	\$957	\$1294	\$1382
Increment over ~\$1M per quarter run rate	\$0	\$0	\$294	\$382
Equivalent EPS on 9M shares outstanding			3¢	4¢

Expense increases include short-term contractors and consultants

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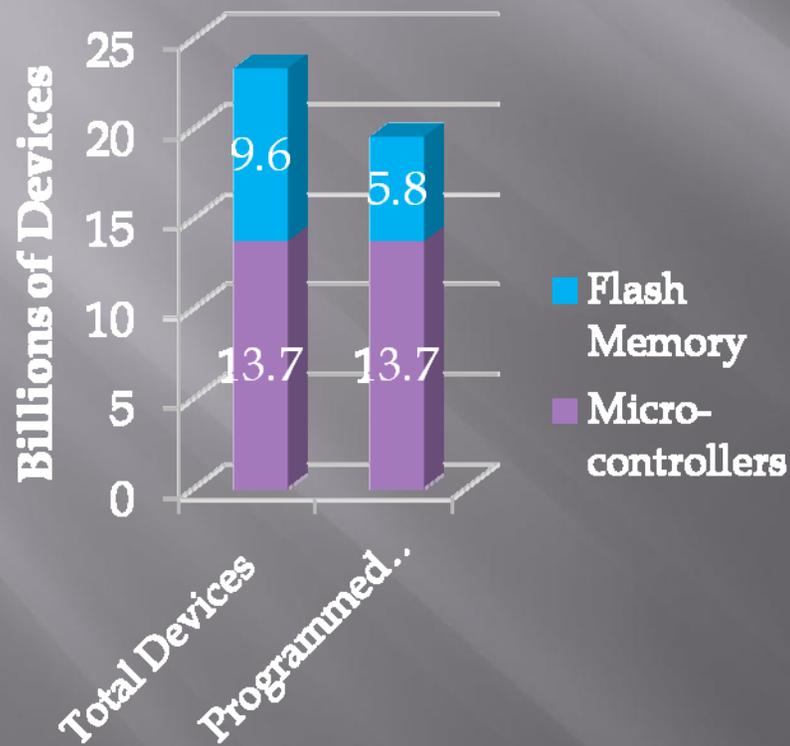
# DAIO expands its business portfolio

	Existing Programming Business	Expanded Programming Business	New Business
Product Offerings	New before-placement programming products New adapter technology	New software product New programming solution	New software product* New instrumentation & programming products
Target Customer Profile	Test engineers Process engineers	Test engineers Process engineers Production and Quality managers	Development engineers (original DAIO customers)
Target Industries	Wireless Automotive Consumer Industrial	Wireless Automotive Consumer Industrial	Existing plus Mil/Aero Medical

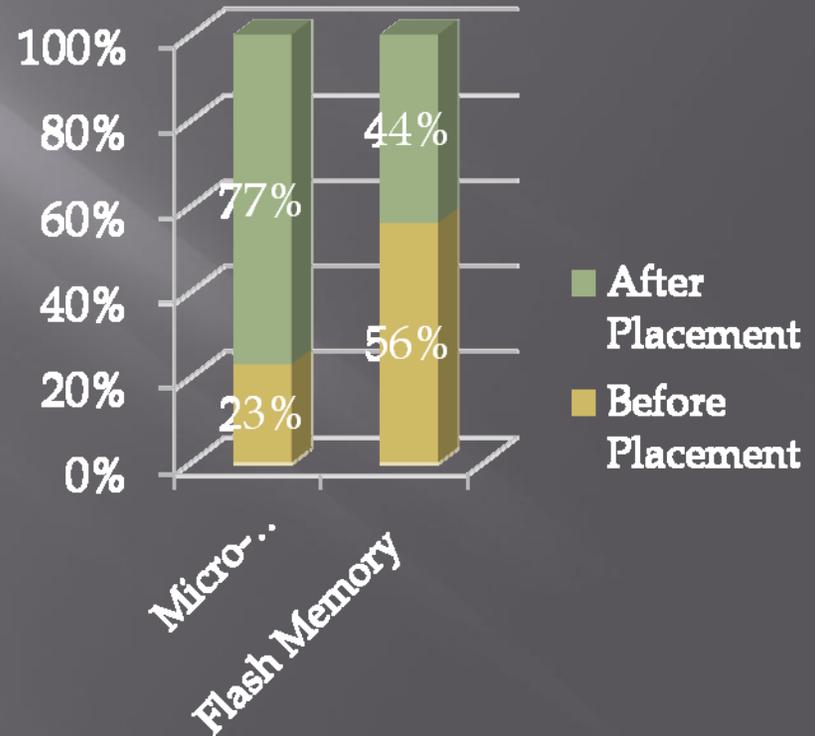
\*Core software product acquired in April 2011

# Flash Memory and Microcontrollers

## PROGRAMMED UNITS

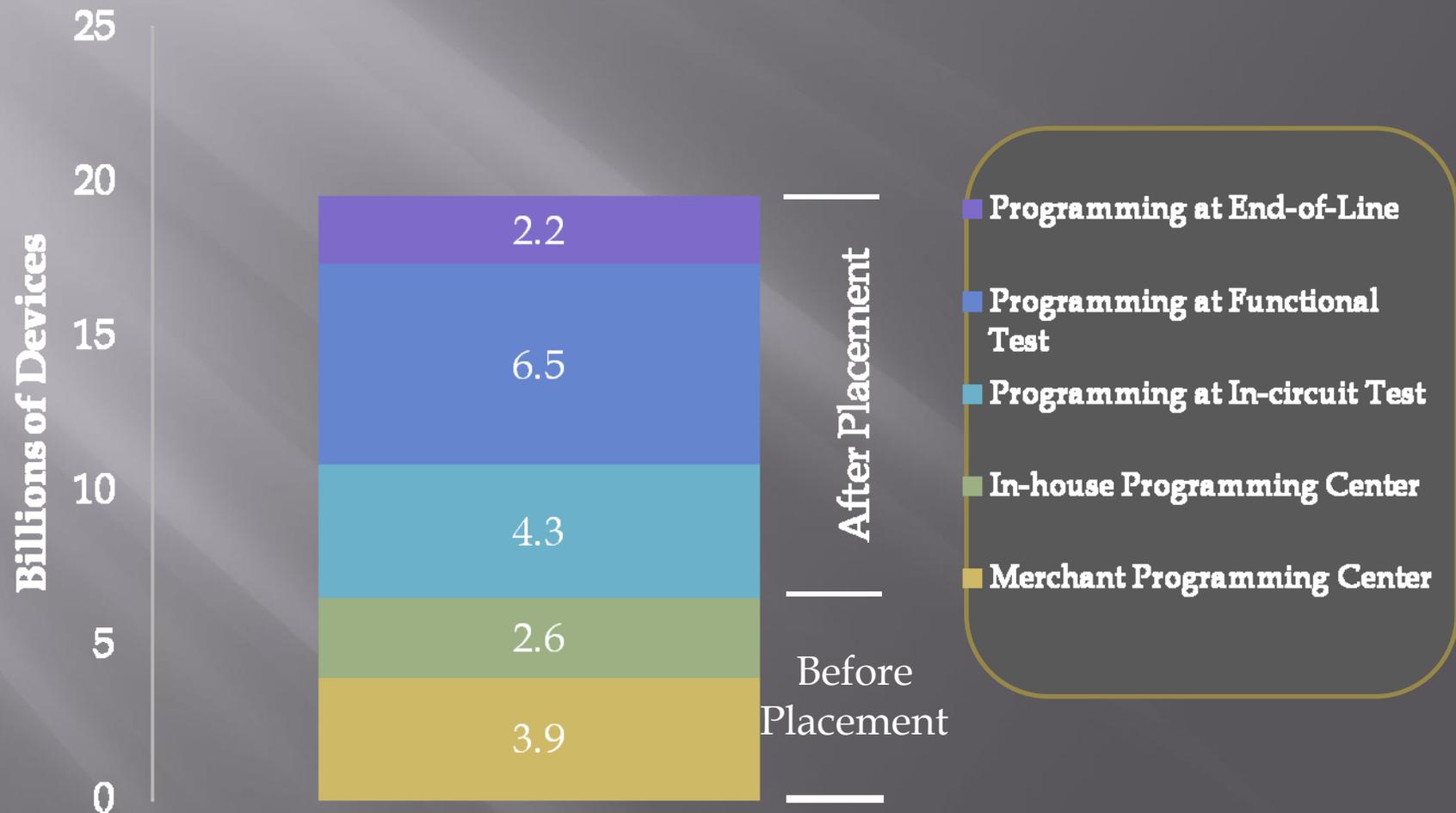


## PROGRAMMING METHOD



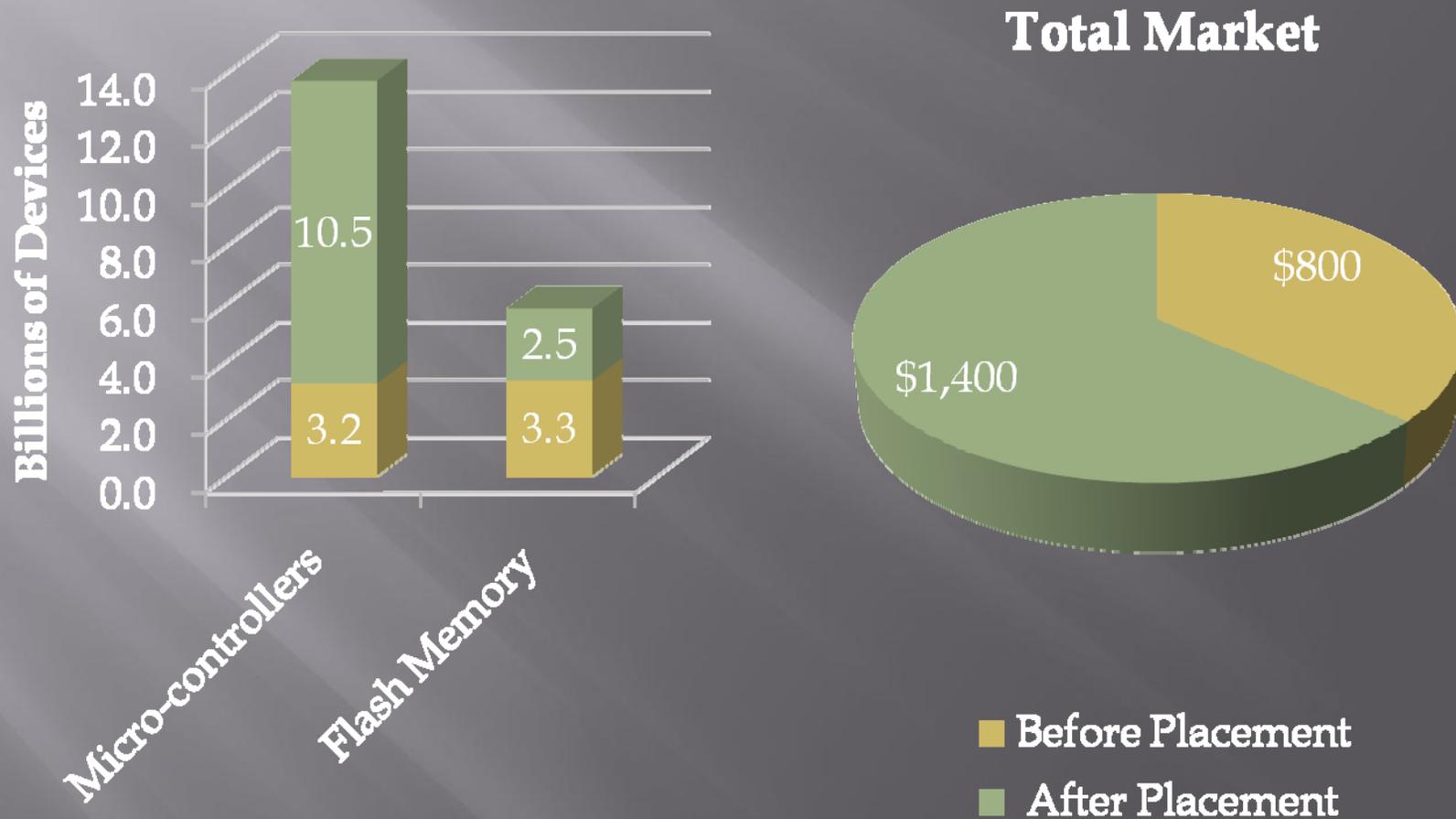
Source: SIA (WSTS) and management estimates

# Programming is performed in a variety of ways



Source: SIA and management estimates

# Programming is a \$2.4B\* market

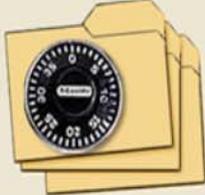


\*Based on an equivalent value of 10¢ per Micro and 15¢ per Flash

# Market dynamics are favorable to DAIO and its market position

- ▣ Increasing file sizes (and corresponding device densities) are increasing the percentage of microcontrollers programmed before-placement – means more demand for DAIO equipment
- ▣ Increasing demands for quality and process control are making manual programming less acceptable – means more demand for DAIO's automated equipment
- ▣ The industry is in a capital equipment replacement cycle – means continued demand for DAIO's equipment

# Strengthening our leadership

Level	Representative Products	Leading Today	Innovating for Tomorrow
New Business		Software for Intellectual property protection and security	Trusted silicon Software definable solutions
Expanded Business		In-line programming Software for programming process control	After-placement programming and test Software for process integration
Existing Business		Production programming Prototype design Engineering first-article qualification	High-density NAND Embedded Flash media Microcontrollers Low-cost programming

# DAIO's strategic software acquisition

Software used by engineers to design electronic systems that facilitates reuse and retargeting of system software to new silicon

**New  
Business**

The software is a core element of new products for new business and will become a new offering from DAIO

**Expanded  
Business**

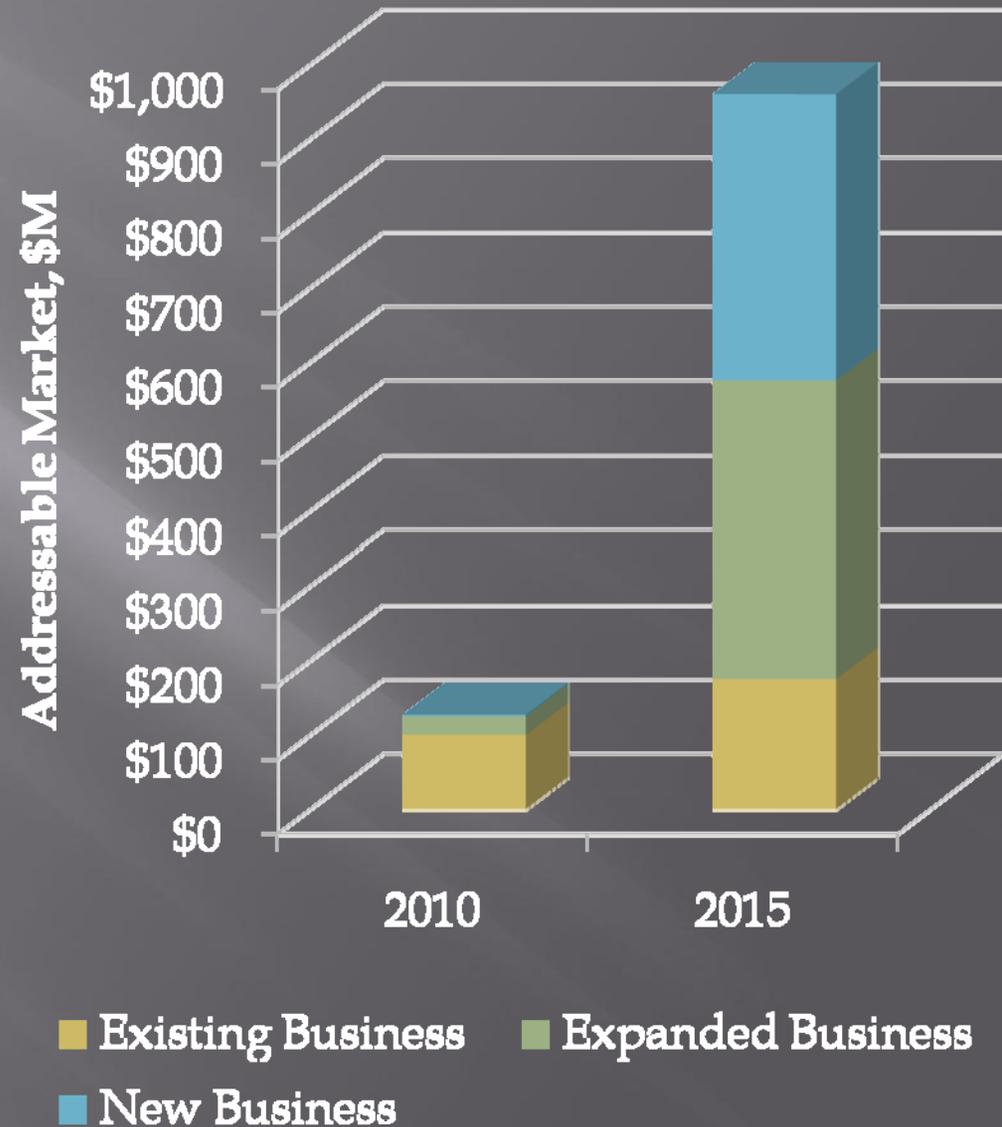
The software is a core element of new products for the expanded business

**Existing  
Business**

Will be used in the development of new products in the existing business and reduce the cost of on-going support

## DAIO's new initiatives expand the addressable market

- Growth in the existing business is driven by high-density embedded NAND Flash
- Growth in the expanded business is driven by after placement programming and test
- Growth in new businesses is driven by expansion into adjacent markets that builds from DAIO's core strengths



# Summary

- ▣ DAIO is the global leader in advanced programming and IP management solutions
- ▣ DAIO's customers are world-class electronics manufacturers
- ▣ DAIO's markets (Smartphones, Tablets, Consumer, Automotive electronics) are driving rapid growth in programming
- ▣ DAIO has a proven track record of delivering superior financial performance
- ▣ DAIO's new business initiatives position the firm to deliver sustained growth for several years