

## Data I/O Corporation

Nasdaq: DAIO

Investor Update  
November, 2010

Fred Hume  
President & CEO



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## Safe Harbor Statement



Statements in this presentation 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.

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## Investment Highlights



- Generates high gross margins
- Scalable business model leverages low cost infrastructure with significant room for expansion
- Operating and net income have rebounded sharply with the economic recovery
- Generated positive cash flow throughout the economic downturn
- Solid, clean balance sheet
  - \$17.6M in cash
  - No long-term debt

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## Who We Are

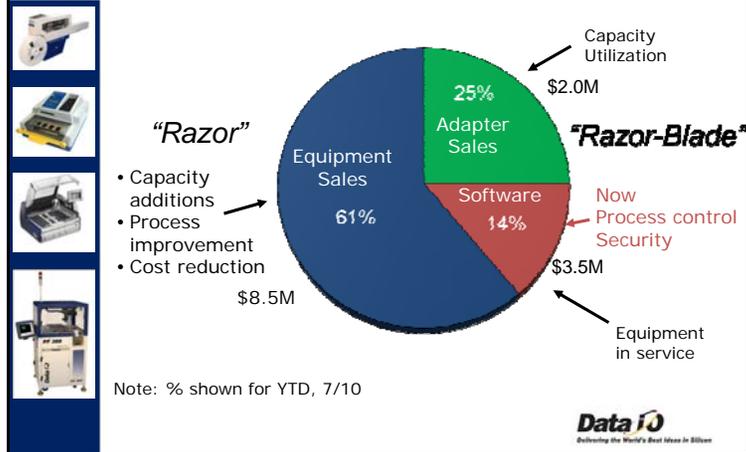
DAIO supplies programming equipment to electronics manufacturers



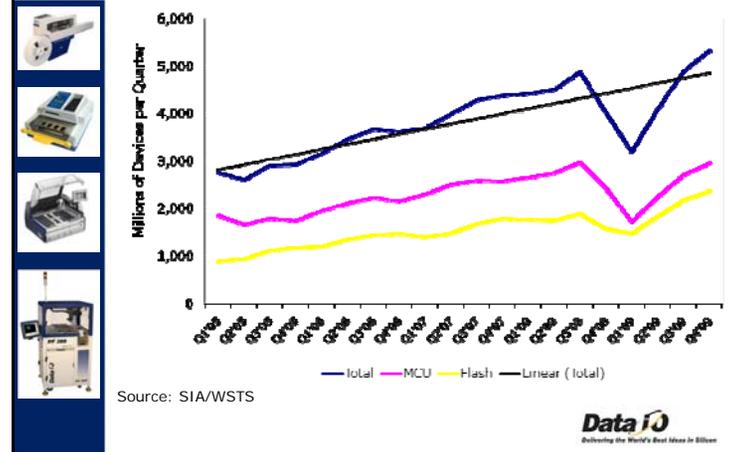
1. Customer has a product to build.
2. The product has programmable devices.
3. They have software that needs to be placed inside the devices.
4. The software gets programmed into the devices using programming equipment.
5. The programmed devices get placed in the end product and together with the programmed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

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## Market Drivers



## Shipments of Microcontrollers & Flash Memory Drive Demand for Capacity



## Business Outlook 2010 - 2015

- Growth in Consumer & Wireless
  - Connected devices: Tablets, eReaders, Audio/Video/Game Players
  - DTV, HDTV, 3DTV, Digital home
  - Smartphones & converged devices (data vs. voice, social media, mobile video)
- Growth in Automotive
  - Entertainment & navigation
  - Accelerated penetration of programmable semiconductor devices
- Growth in Industrial & Control

## World-Class Manufacturers Choose Data I/O

Automotive	Consumer & Wireless	Industrial Automation
Continental DELPHI LEAR TRW BOSCH HARMAN/BECKER VALEO ALPS ALPINE	RIM Microsoft Sony Ericsson LG NOKIA Kyocera SONY SANYO HTC SPANSTON	Honeywell MOOG Schindler Rexroth INSTRON Miele GILBARCO VEEDER-ROOT RAIN-BIRD omega.com
SANMINA-SC PEGATRON AVNET	FLEXTRONICS Elmitch	FOXCONN SOLECTRON

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## Expanding Universe of Programming Needs

The diagram illustrates the expanding universe of programming needs across several sectors:

- Wireless Speakers**: Represented by a speaker and a smartphone.
- BLU-RAY Players**: Represented by a Blu-ray player and a remote control.
- SmartPhones**: Represented by a smartphone.
- Consumer Electronics**: Represented by a television and a laptop.
- Industrial Control**: Represented by a car engine.
- Automotive Electronics**: Represented by a car with various electronic components labeled.
- eBooks**: Represented by a hand holding a tablet displaying an eBook.
- Programmed Chip**: A central focus, showing a microchip with binary code (0s and 1s) and the word 'Flash' on it.

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## End Customers Are in Growth Markets

- **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>)

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## The Recovery in Consumer Electronics Spending Continues

Year	Spending (\$ in Billions)
2007	~\$169.5
2008	~\$181.5
2009	~\$170.5
2010	~\$175.5
2011	~\$181.5

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Source: Consumer Electronics Association – July 2010

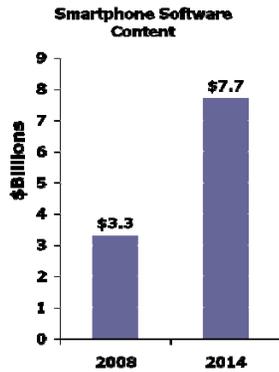
## 41% Annual Growth Projected for Cell Phone Memory Content Through 2015

Year	Units (Millions)	Memory (GB)
2008	~1200	~1.0
2009	~1100	~2.0
2010	~1200	~3.0
2011	~1300	~4.0
2012	~1400	~5.0
2013	~1500	~7.0
2014	~1600	~9.0
2015	~1700	~11.0

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Source: Web-Foot Research

## Software Content Drives Capacity

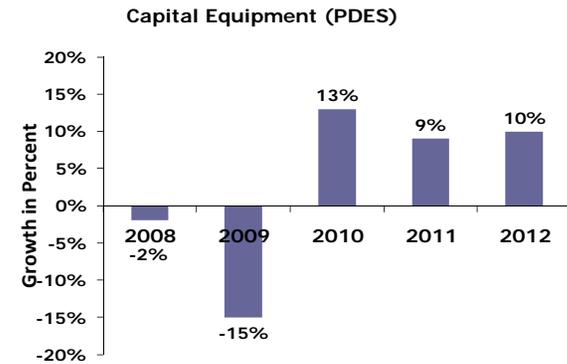


- The larger data files require more programming time
- Data I/O's new FlashCore III is the solution for these large data files
- The data file is the key intellectual property in the Smartphone
- Data I/O's security and process control software prevents unauthorized copying and malware

Source: iSuppli



## The Outlook for Capital Spending Is Favorable



Henderson Forecast Summary Sept. 2010



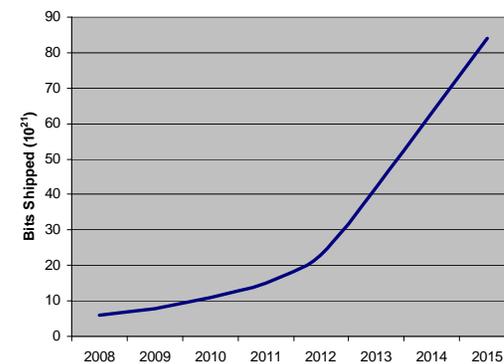
## Competition in the Marketplace



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



## Flash Memory Will Enter an Explosive Growth Phase



Source: Web-Foot Research

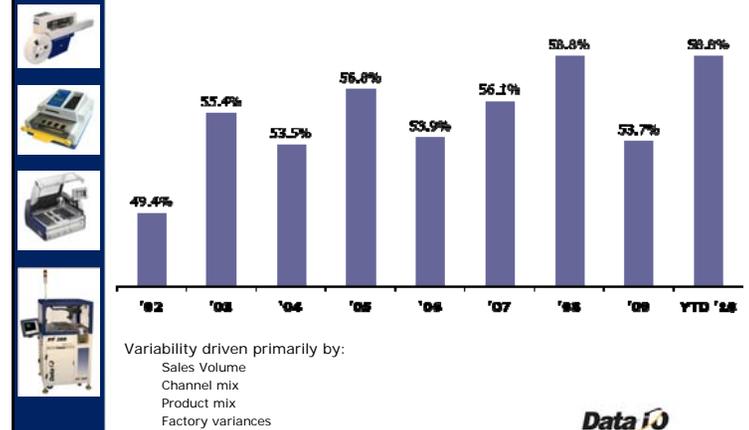


## Summary of Growth Drivers

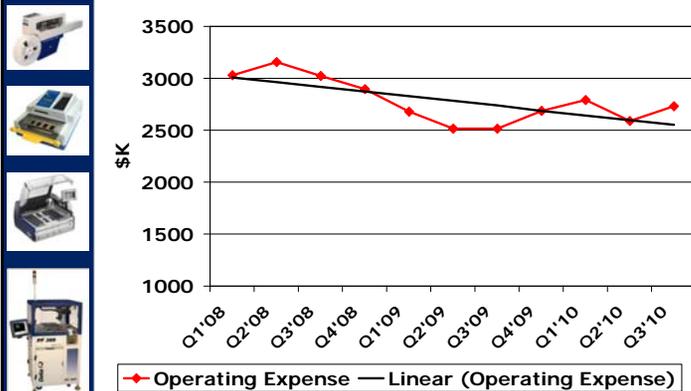
- Customers' capacity additions to support growth in programmable ICs (units & bits)
- Customers' process improvements
- Customers' cost reduction programs
- Customers' new projects with new technology
- Our new products and solutions
- More effective marketing targeting alternative solutions
- A stronger sales organization with more channels
- The addition of high-value security and process control software to meet market demand



## Gross Margin Trend



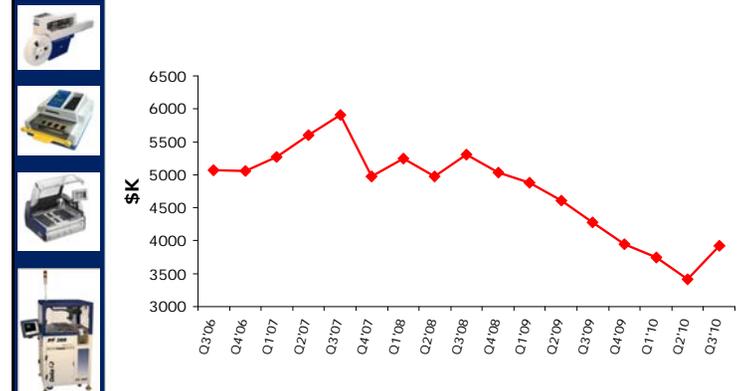
## Operating Expense Trend



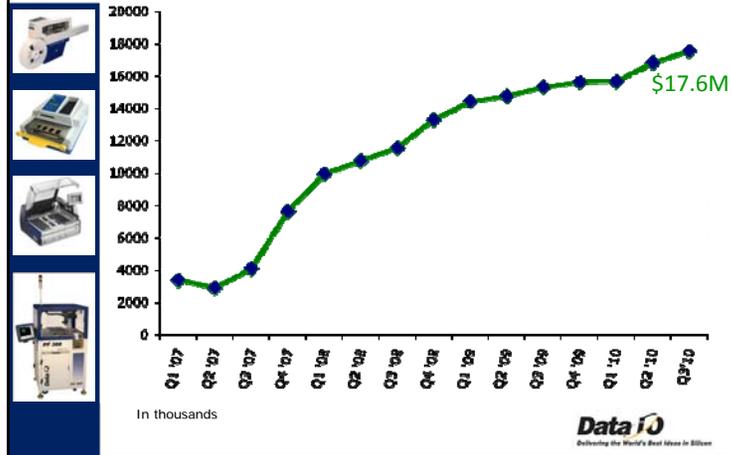
Note: excludes incentive compensation



## Inventory



## Cash Provides Resource to Drive Growth



## Five-Quarter Balance Sheet Highlights

	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10
Cash & Securities	\$15.3	\$15.6	\$15.7	\$16.8	\$17.6
Acct. Receivable	3.5	3.1	4.7	4.6	5.5
Inventory	4.3	3.9	3.7	3.4	3.9
Fixed Assets	1.7	1.8	1.7	1.5	1.3
Other	0.4	0.7	0.5	0.5	0.2
<b>Total Assets</b>	<b>\$25.2</b>	<b>\$25.1</b>	<b>\$26.3</b>	<b>\$26.8</b>	<b>\$28.7</b>
Current liabilities	3.1	3.0	3.2	3.4	3.6
Deferred revenue	1.6	1.5	1.8	1.4	1.9
LT debt & liabilities	0.1	0.1	0.1	0.1	0.0
Equity	20.4	20.5	21.2	21.9	23.2

(\$ in millions)

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## Q3'10 vs. Q3'09 Income Statement

(in thousands, except share data)	For the Quarter End Sep 30,					
	2010		2009	B/(W)		
<b>Total Net Sales</b>	<b>6,605</b>	100.0%	<b>5,317</b>	100.0%	<b>1,288</b>	24.2%
<b>Cost Of Goods Sold</b>	<b>2,781</b>	42.1%	<b>2,327</b>	43.8%	<b>(454)</b>	-19.5%
<b>Gross Margin</b>	<b>3,824</b>	57.9%	<b>2,990</b>	56.2%	<b>834</b>	27.9%
<b>Operating Expenses:</b>						
Engineering	957	14.5%	1,055	19.8%	98	9.3%
SG&A & Other	1,902	28.8%	1,588	29.9%	(314)	-19.8%
<b>Total Operating Expenses</b>	<b>2,859</b>	43.3%	<b>2,643</b>	49.7%	<b>(216)</b>	-8.2%
<b>Operating Income</b>	<b>965</b>	14.6%	<b>347</b>	6.5%	<b>618</b>	178.1%
<b>Total Non-Operating Income / (Expense)</b>	<b>(34)</b>	-0.5%	<b>79</b>	1.5%	<b>(114)</b>	-144.3%
<b>Income Taxes</b>	<b>98</b>	1.5%	<b>96</b>	1.8%	<b>(2)</b>	-2.1%
<b>Net Income/(Loss)</b>	<b>833</b>	12.6%	<b>330</b>	6.2%	<b>503</b>	152.4%
Basic EPS	\$0.09		\$0.04			
Diluted EPS	\$0.09		\$0.04			
Basic Weighted Ave Shares	9,018		8,933			

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## Business Model

	2008	2009	Q3 2010	"Target" Model
<b>Cost of Goods</b>	41.2%	46.3%	42.1%	40%
<b>Gross Margin</b>	58.8%	53.7%	57.8%	60%
<b>R&amp;D</b>	16.2%	22.3%	14.5%	15%
<b>SG&amp;A</b>	29.4%	34.8%	28.9%	30%
<b>Operating Margin</b>	13.2%	-3.4%	14.6%	15%
<b>Net Income</b>	18.6%	-4.4%	12.6%	

Operating Margin excludes restructure, gains, other

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## Summary



- 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