

Data I/O Corporation

Nasdaq: DAIO

Investor Update
March, 2011

Joel Hatlen
Treasurer & CFO



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.

Overview



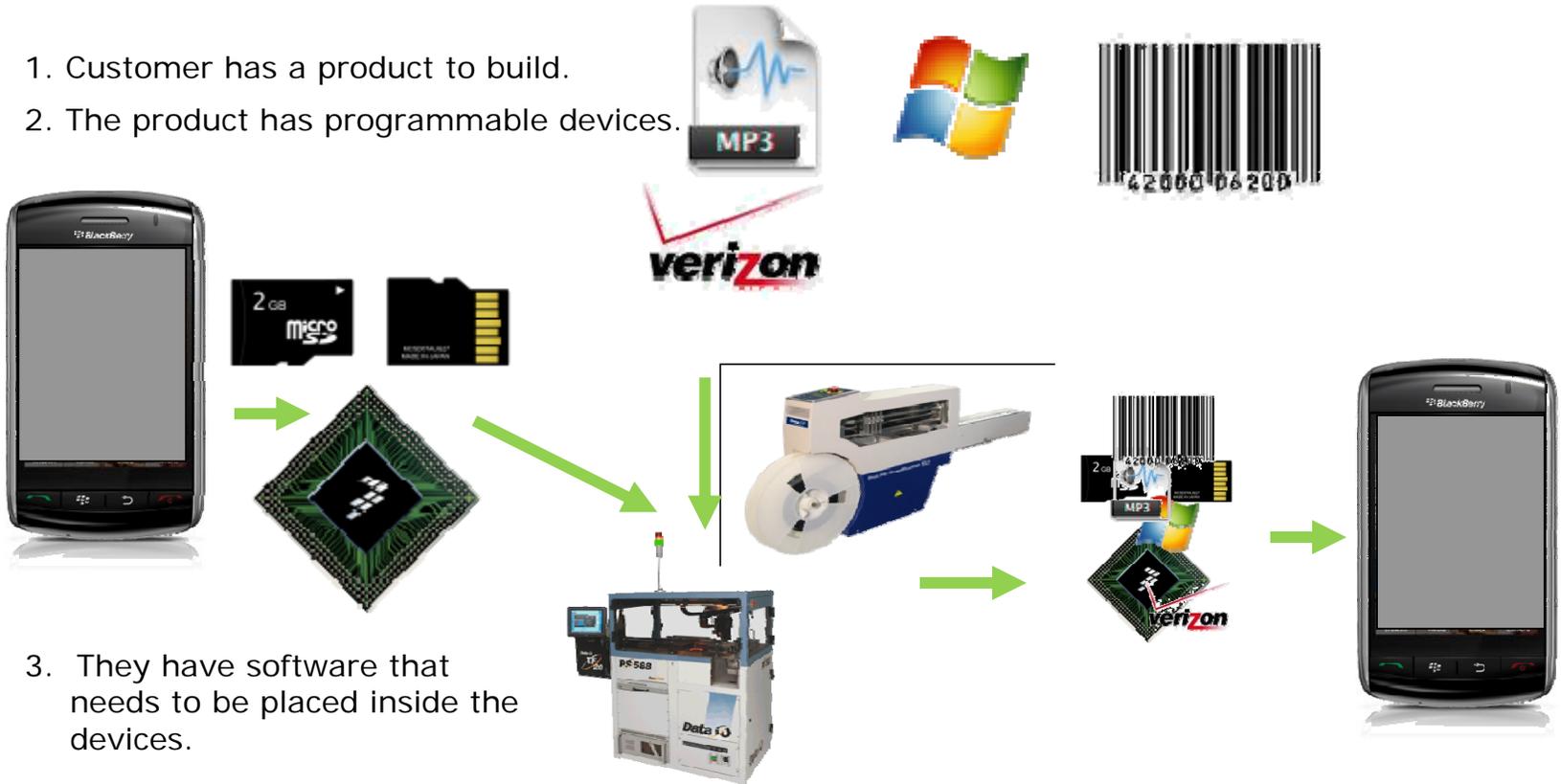
- DAIO is the global market leader for advanced programming and IP management solutions used in the manufacturing of flash-based intelligent devices
- DAIO's customer are world class manufacturers of consumer electronics, automotive, wireless, and industrial automation equipment
- DAIO's end markets are undergoing a massive explosion in demand for more memory that must be programmed
- DAIO has a proven track record of strong financial performance and a sound business model
- DAIO is publicly traded on the NASDAQ stock exchange

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.

Key facts



- Core focus
 - Provides capital equipment for loading software into flash memory and microcontrollers
 - Provides advanced solutions for managing security of IP and process control
- Key markets
 - Wireless devices
 - Consumer electronics
 - Automotive electronics
 - Industrial electronics and appliances
- Global presence
 - Headquartered in Redmond, WA, offices in Munich and Shanghai
 - Thirty-two distributors and representatives around the world
- Personnel
 - Veteran management team averaging 25 years of industry experience
 - Total employment of ninety-three

Investment Highlights



- Revenue up 42% in 2010
- Generates high gross margin, 58% in 2010



- Income has rebounded sharply with operating income of 13.3% in 2010



- Generates very positive cash flow, adjusted EBITDA of \$6.6M in 2010

- **Solid, clean balance sheet**

- \$18.9M in cash
- No long-term debt

- **Scalable business model leverages low cost infrastructure with significant room for expansion**

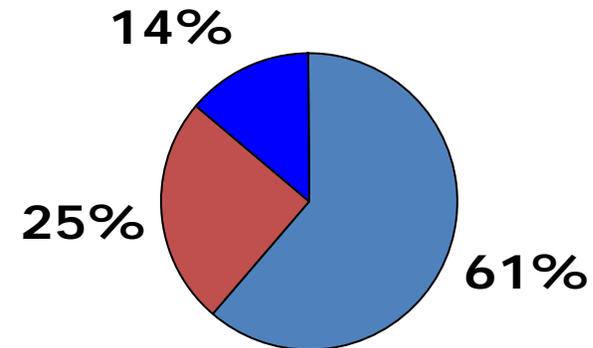


Strong recurring revenue/consumables model



- Recurring revenue consists of adapters and subscription-based software
- Adapters are consumables and unique to DAIO
- Recurring revenue is repeatable, dependable and transparent

Recurring revenue ~40%



■ Equipment Sales ■ Adapter Sales
■ Software Sales

World-Class Manufacturers Choose Data I/O



Automotive



Consumer & Wireless



Industrial Automation



Expanding Universe of Programming Needs



Wireless Speakers

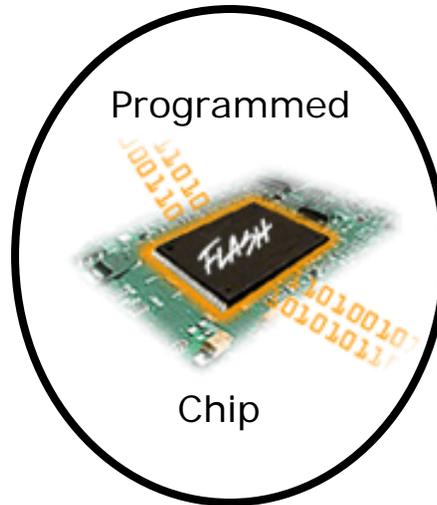


Consumer Electronics

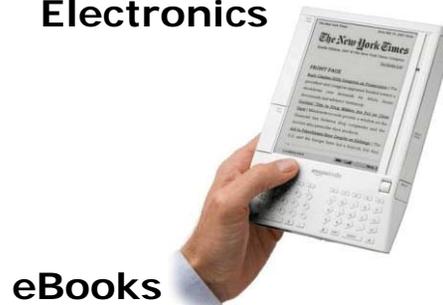
BLU-RAY Players



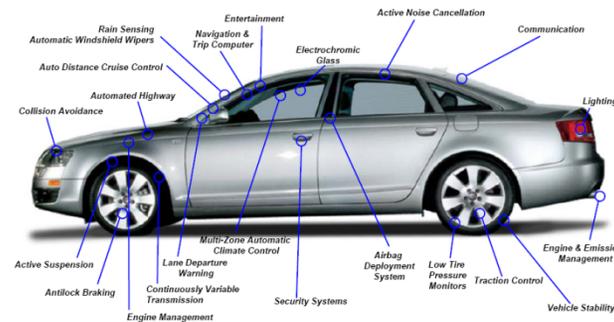
SmartPhones



Industrial Control

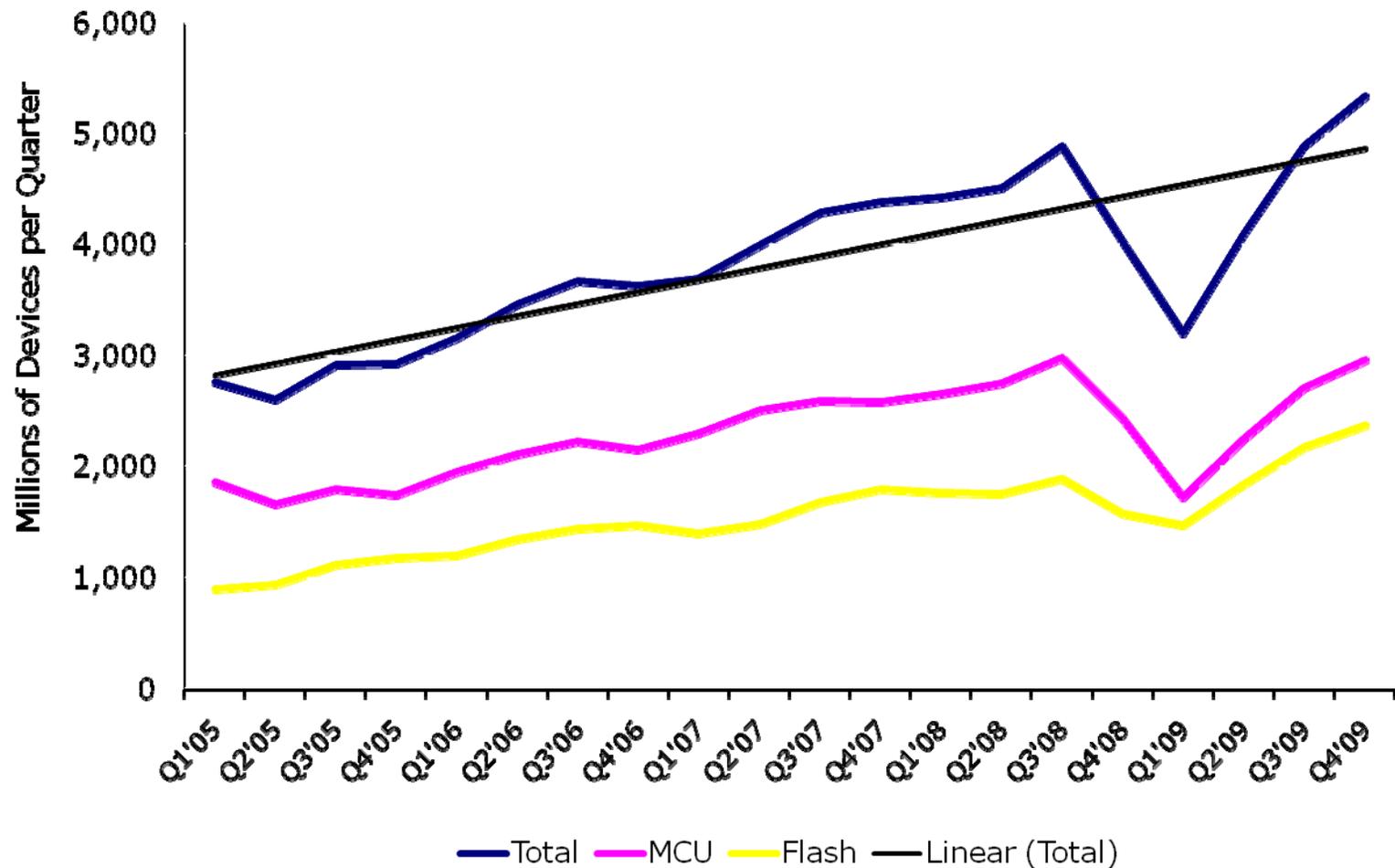


eBooks



Automotive Electronics

Shipments of Microcontrollers & Flash Memory Drive Demand for Capacity



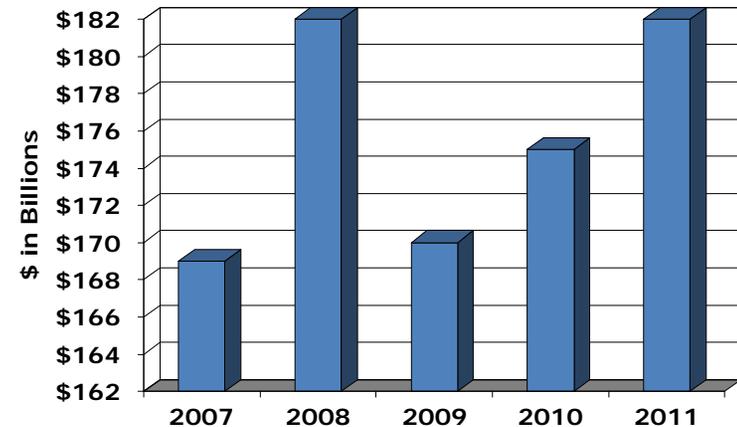
Source: SIA/WSTS: will be updated in May 2011 when 2010 data become available

DAIO is poised for aggressive growth

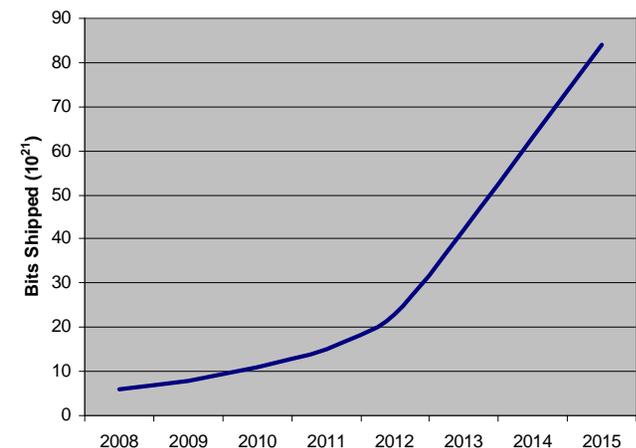


- DAIO's markets are growing and demand for programming solutions is increasing in end markets
- Global electronics spending is tilted toward Flash-based devices that require programming
- File size and device densities are growing rapidly increasing the demand for DAIO's solutions
- Demands for security, IP protection, and process control drives demand for DAIO's proprietary software

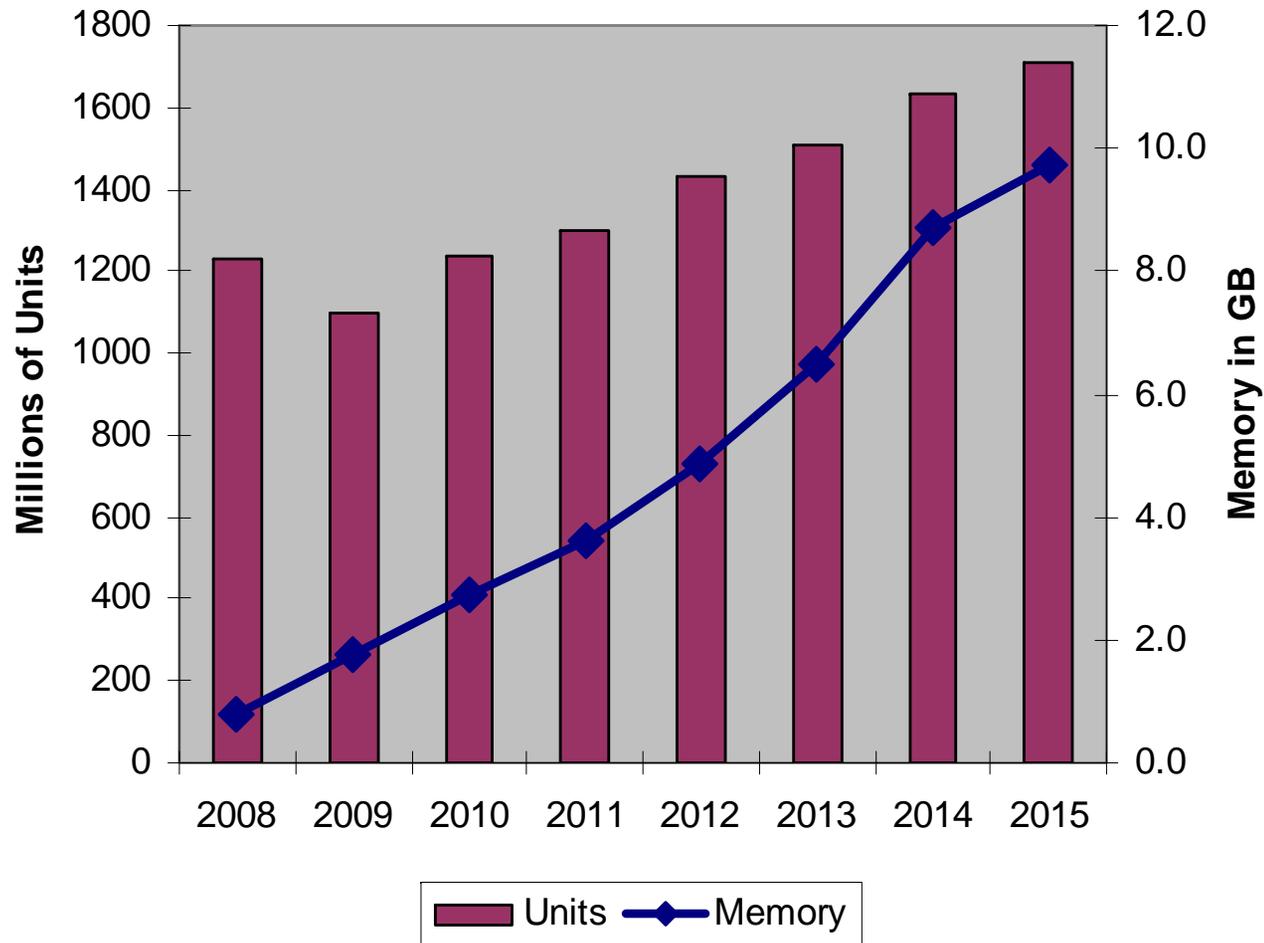
Consumer electronics spending has rebounded



Flash memory is entering explosive growth phase



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



Source: Web-Foot Research

End Customers Are in Growth Markets

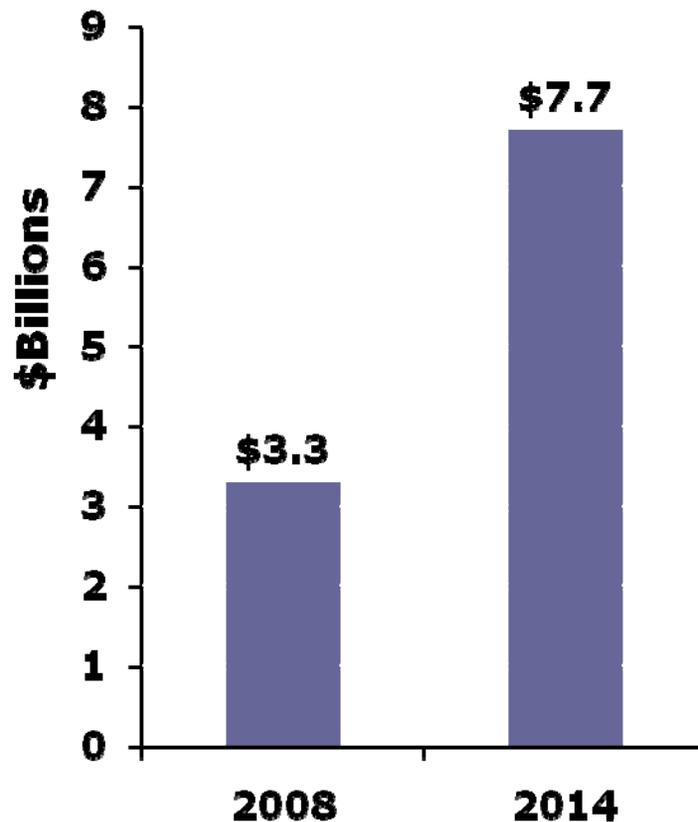


- **Smartphones growing >55% in 2010** (IDC, Sept. 7th)
- **Tablet computers will consume large quantities of Flash memory**
 - A host of iPad competitors from HTC, RIM, Nokia, Toshiba, Huawei, Samsung, and others, have been or will be introduced this year
- **Semiconductor content in automobiles growing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

Software Content Drives Capacity



Smartphone Software Content



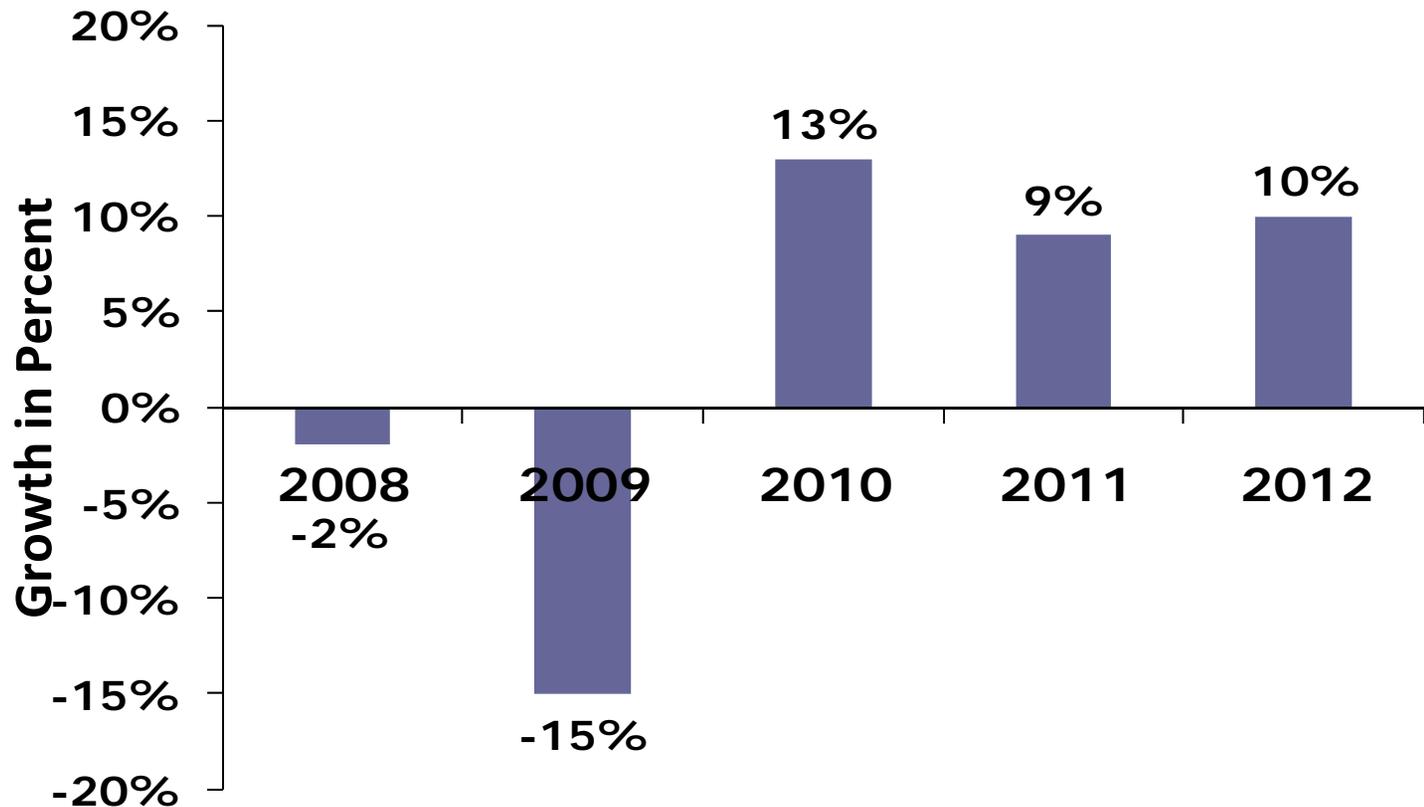
- The larger data files require more programming time
- Data I/O's new FlashCore III is the solution for these large data files
- The data file is the key intellectual property in the Smartphone
- Data I/O's security and process control software prevents unauthorized copying and malware

Source: iSuppli

The Outlook for Capital Spending Is Favorable



Capital Equipment (PDES)



Henderson Forecast Summary Sept. 2010

Competition in the Marketplace



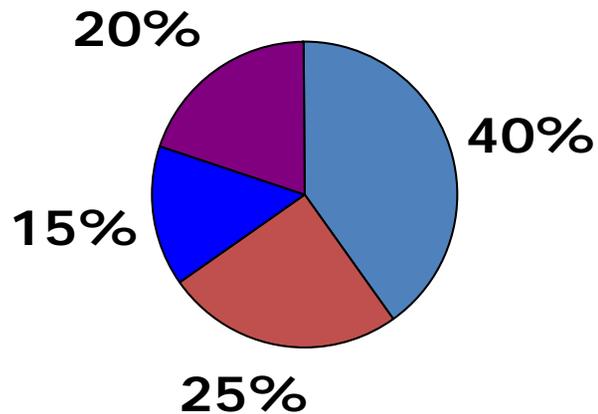
Type	Share	Strengths	Weaknesses
Programming centers	~25%	Convenience, fixed cost per part (programming centers are also DAIO customers)	More expensive than DIY, turnaround time increases inventory, loss of control over production and IP
After-placement programming	~37%	Low hardware cost, no inventory 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
<i>Data I/O</i>	~19%	<i>Manufacturers control IP</i>	<i>Capital investment required</i>

Summary of Growth Drivers

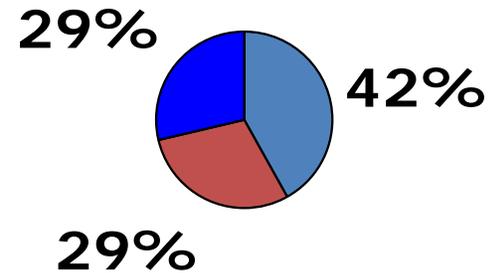


- Customers' capacity additions to support growth in programmable ICs (units & bits)
- Customers' process improvements
- Customers' cost reduction programs
- Customers' new projects with new technology
- Our new products and solutions
- More effective marketing targeting alternative solutions
- A stronger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

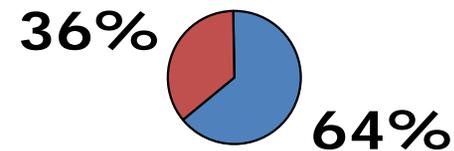
2010 customer demographics



- Wireless & Consumer
- Automotive
- Industrial
- Other

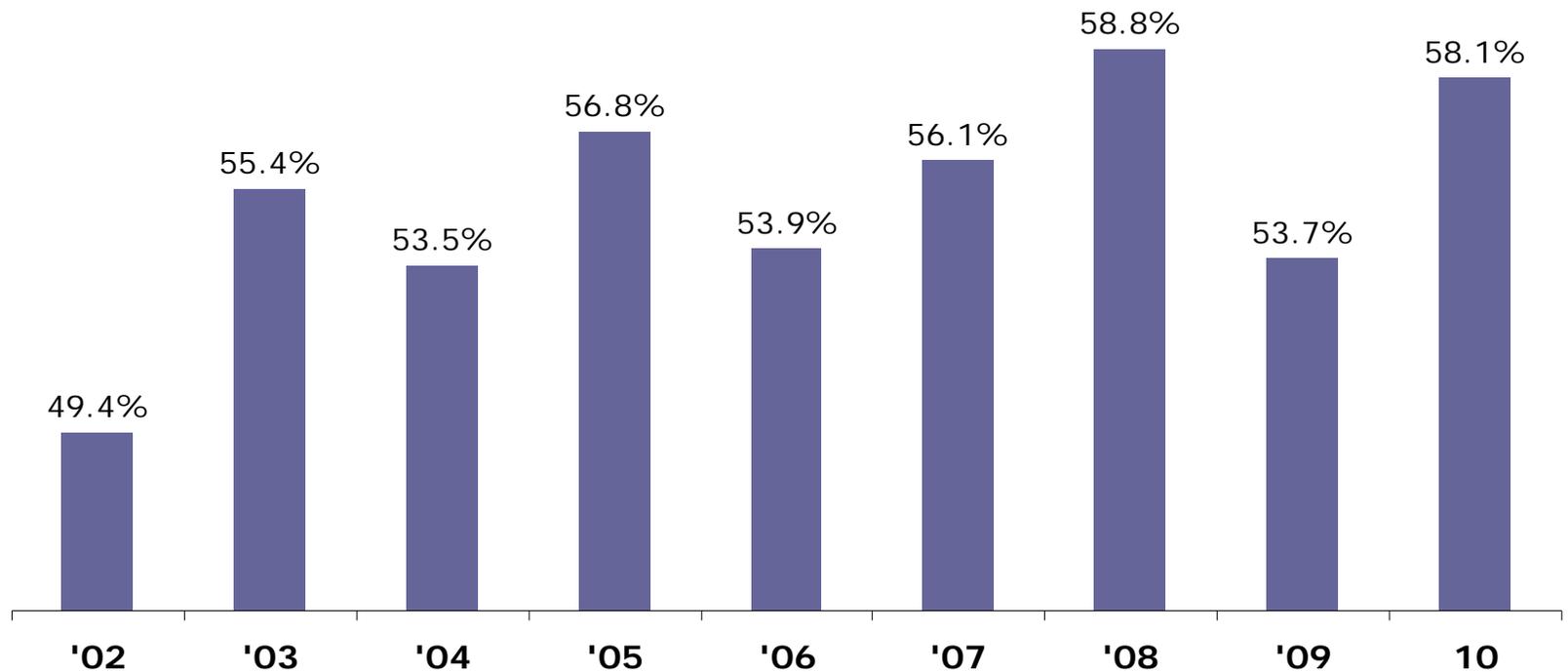


- Europe
- Asia
- Americas



- Automated product lines
- Non-automated product lines

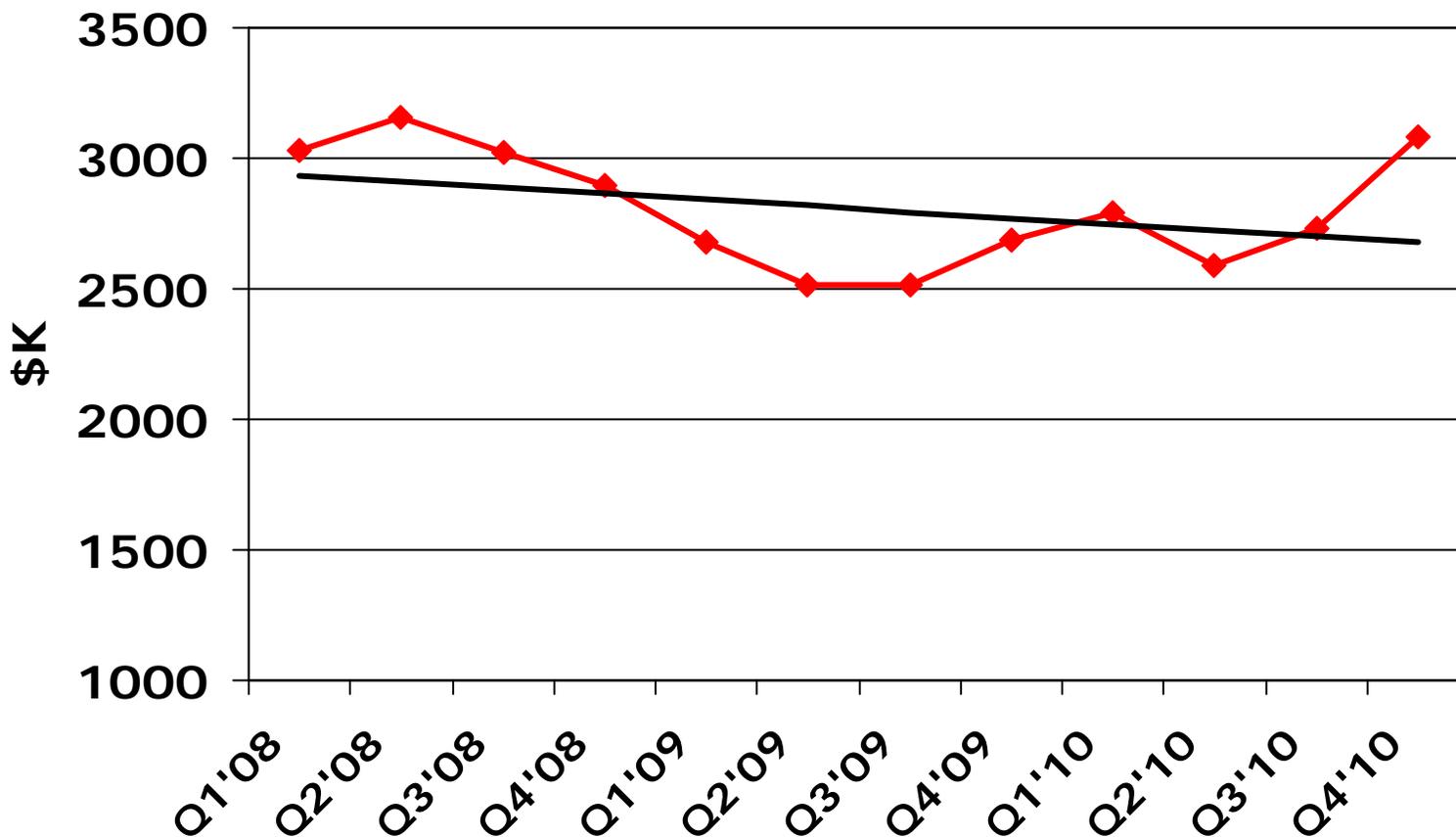
Gross Margin Trend



Variability driven primarily by:

- Sales Volume
- Channel mix
- Product mix
- Factory variances

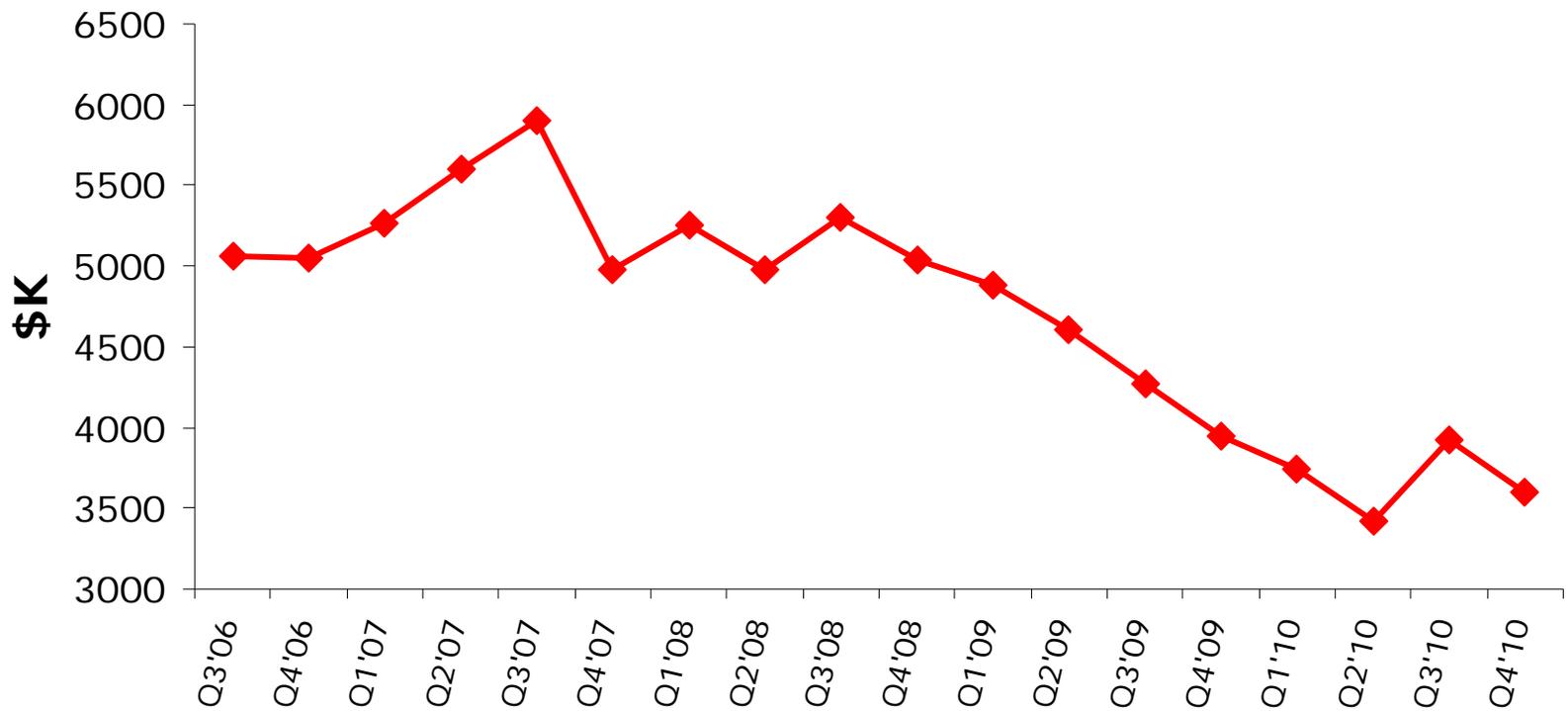
Operating Expense Trend



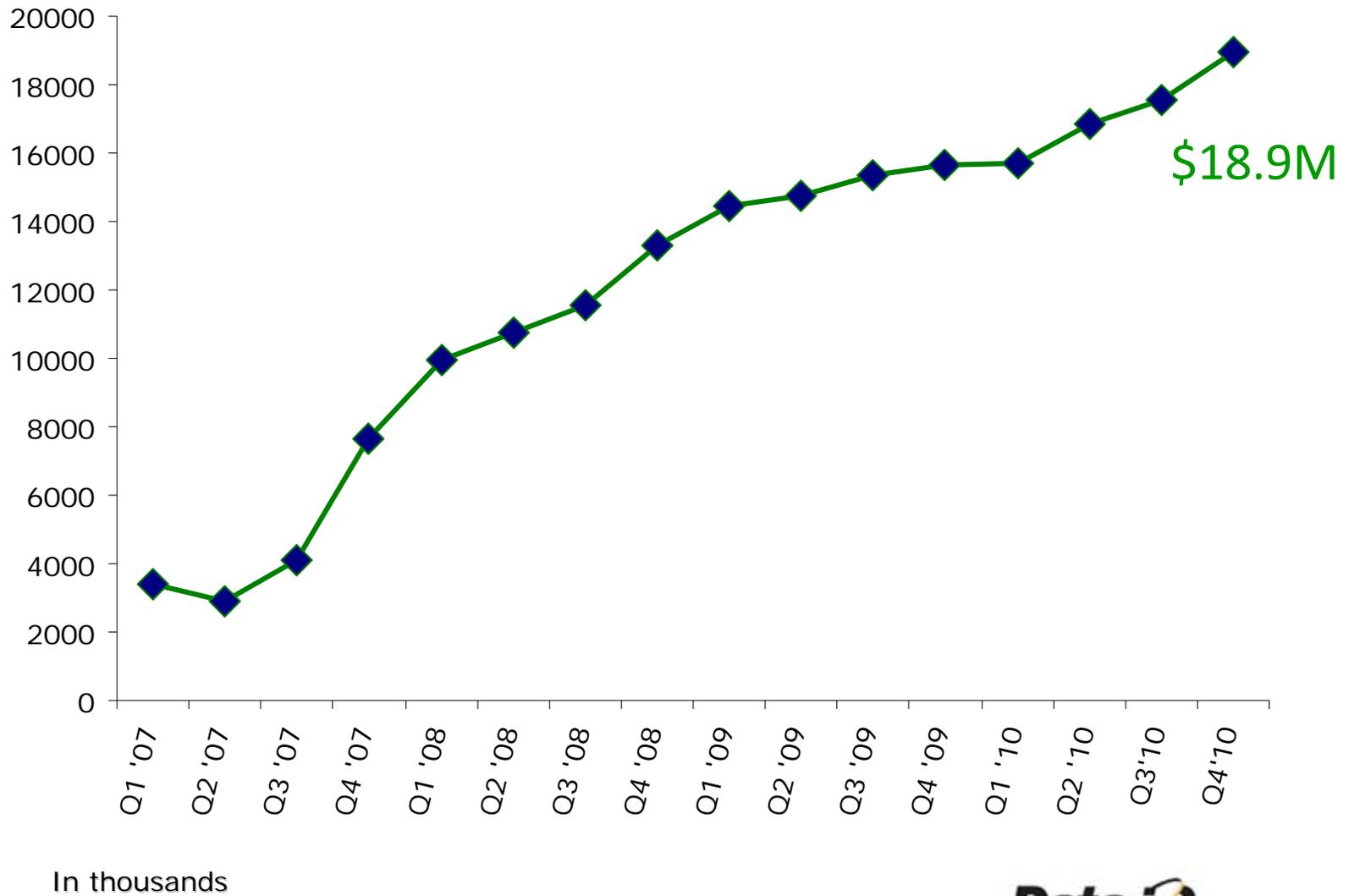
◆ Operating Expense — Linear (Operating Expense)

Note: Q4'10 includes contract engineers
excludes incentive compensation

Inventory



Cash Provides Resource to Drive Growth



In thousands

Five-Quarter Balance Sheet Highlights



	<u>Q4'09</u>	<u>Q1'10</u>	<u>Q2'10</u>	<u>Q3'10</u>	<u>Q4'10</u>
Cash & Securities	\$15.6	\$15.7	\$16.8	\$17.6	\$18.9
Acct. Receivable	3.1	4.7	4.6	5.5	5.0
Inventory	3.9	3.7	3.4	3.9	3.6
Fixed Assets	1.8	1.7	1.5	1.3	1.3
Other	0.7	0.5	0.5	0.2	0.6
<u>Total Assets</u>	<u>\$25.1</u>	<u>\$26.3</u>	<u>\$26.8</u>	<u>\$28.7</u>	<u>\$29.4</u>
Current liabilities	3.0	3.2	3.4	3.6	3.8
Deferred revenue	1.5	1.8	1.4	1.9	1.6
LT debt & liabilities	0.1	0.1	0.1	0.0	0.0
Equity	20.5	21.2	21.9	23.2	24.0

(\$ in millions)

Q3'10 vs. Q3'09 Income Statement



(in thousands, except share data)	<i>For the Quarter End</i> Dec 31					
	2010		2009		B/(W)	
Total Net Sales	6,947	100.0%	4,956	100.0%	1,991	40.2%
Cost Of Goods Sold	3,030	43.6%	2,310	46.6%	(720)	-31.2%
Gross Margin	3,917	56.4%	2,646	53.4%	1,271	48.0%
Operating Expenses:						
Engineering	1,292	18.6%	1,032	20.8%	(260)	-25.2%
SG&A & Other	1,959	28.2%	1,708	34.5%	(251)	-14.7%
Total Operating Expenses	3,251	46.8%	2,740	55.3%	(511)	-18.6%
Operating Income	666	9.6%	(94)	-1.9%	760	808.5%
Total Non-Operating Income / (Expense)	(26)	-0.4%	63	1.3%	(90)	-142.9%
Income Taxes	29	0.4%	(36)	-0.7%	(65)	-180.6%
Net Income/(Loss)	611	8.8%	5	0.1%	606	12120.0%
Basic EPS	\$0.07		\$0.00			
Diluted EPS	\$0.07		\$0.00			
Basic Weighted Ave Shares	9,159		8,983			

Business Model



	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>"Target"</u> <u>Model</u>
Cost of Goods	41.2%	46.3%	41.9%	40%
Gross Margin	58.8%	53.7%	58.1%	60%
R&D	16.2%	22.3%	15.8%	15%
SG&A	29.4%	34.8%	26.5%	30%
Operating Margin	13.2%	-3.4%	13.3%	15%
Net Income	18.6%	-4.4%	11.4%	

Operating Margin excludes restructure, gains, other
 2008 net includes extraordinary income of \$2M

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