DATA I/O CORP
Form 10-K
March 31, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

(X)
For the fiscal year ended **December 31, 2009**

or

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number. **0-10394**

DATA I/O CORPORATION
(Exact name of registrant as specified in its charter)

Washington	91-0864123
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

6464 185th Ave NE, Suite 101, Redmond, Washington, 98052
(425) 881-6444
(Address, including zip code, of registrant s principle executive offices and telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Common Stock (No Par Value)	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ___ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10 K. Yes ___ No X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer __ Accelerated filer __ Non-accelerated filer __ Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X

Aggregate market value of voting and non-voting common equity held

by non-affiliates of the registrant as of June 30, 2009:

$25,412,102

Shares of Common Stock, no par value, outstanding as of March 12, 2010:

8,959,294

Documents incorporated by reference

Portions of the registrant s Proxy Statement relating to its May 11, 2010 Annual Meeting of Shareholders are incorporated into Part III of this Annual Report on Form 10-K.

DATA I/O CORPORATION

FORM 10-K
For the Fiscal Year Ended December 31, 2009

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PART I

Item 1. Business

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on current expectations, estimates and projections about Data I/O ® Corporation s industry, management s beliefs and certain assumptions made by management. See Management s Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements.

General

Data I/O Corporation (Data I/O) designs, manufactures, and sells programming systems for electronic device manufacturers, specifically targeting high growth areas such as flash and microcontrollers. Virtually every electronic product today incorporates one or more programmable semiconductor devices that contain data and operating instructions essential for the proper operation of the product. Data I/O was incorporated in the State of Washington in 1969 and its business was founded in 1972.

Data I/O s mission is to deliver high-value systems and services to the rapidly expanding programmable semiconductor market by providing a software-rich programming platform for content delivery. These programmable solutions are used in devices such as smart phones, MP3 players, gaming systems and automobile electronics. These solutions, some of which include intellectual property protection, secure content management and flash media duplication capabilities, enable Data I/O to address the demanding requirements for the electronic device market, where applications and intellectual property protection are essential to our customer s success. Data I/O s largest customers are heavy users of programmable semiconductor devices and include original equipment manufacturers (OEMs) in wireless and consumer electronics and automotive electronics, and their electronic manufacturing service (EMS) contract manufacturers.

Business Restructuring. The business shift to focusing on manufacturing and automation, the geographic shifts in high volume electronics manufacturing, and the economic volatility we have experienced have resulted in ongoing restructuring efforts.

During 2006 and 2007, the restructuring activities included actions to improve our operating results and the effectiveness of our sales and marketing organization and sales channels. Restructuring charges were $725,000 in

2007 and $191,000 in 2006.

As a result of the business downturn we were experiencing in the fourth quarter of 2008 and the uncertain business outlook, we took additional actions to reduce expenses, resulting in a restructuring charge, primarily related to severance, of $542,000 for the year 2008. During the first quarter of 2009, restructure activities resulted in net additional charges of $22,000, representing severance and costs associated with terminating vehicle leases. During the second quarter, we consolidated our operations into a smaller portion of our leased space, resulting in a lease abandonment restructure charge of $208,000, partially offset by reductions in previously accrued personnel, automobile lease and legal restructuring costs. During the third quarter we had additional charges of $23,000 in severance-related costs. At December 31, 2009, $158,000 remains accrued and is expected to be paid out during 2010 and 2011. Of that amount, $58,000 in lease abandonment period amounts are accrued as other long-term liabilities and will be fully paid out by July 2011.

Industry Background

Data I/O enables companies to improve productivity and reduce costs by providing device programming solutions that allow our customers to take intellectual property (large design and data files) and program it into memory, microcontroller and logic devices quickly and cost-effectively. Data I/O also provides services related to hardware support, system installation and repair, and device programming. Companies that design and manufacture products ranging from cell phones to automobiles, that utilize programmable electronic devices, purchase these solutions from us.

Our automated programming systems integrate both programming and handling functions into a single product solution. Quality conscious customers, particularly those in the field of high-volume manufacturing and programming, continue to drive this portion of our business.

Traditionally, programming market opportunity focused on the number of semiconductor devices to be programmed, but because of the rapid increase in the density of devices, the focus is shifting to the number of bits per device to be programmed as described in the following table:

Market Characteristics	Data I/O s Traditional Market Model	Data I/O s New Market Model
Primary driver of demand	Number of semiconductor devices	Number of bits per device
Primary measure of performance	Devices programmed per hour	Bits programmed per hour
Primary device type	Microcontrollers: ~60% of devices	NAND Flash: ~71% of content
DAIO business focus	Device programming	Content programming and management
Demand growth	~12% growth in devices	~90% growth in content

Products

In order to accommodate the expanding variety and quantities of programmable devices being manufactured today, Data I/O offers multiple solutions for the numerous types of device mix and volume usage by our customers in the various market segments and applications. We work closely with leading manufacturers of programmable devices to develop our products to meet the requirements of a particular device.

Data I/O s line of programming systems includes a broad range of products, systems, modules, and accessories, grouped into two general categories: automated programming solutions and manual programming systems. We provide two main categories of automated programming systems: off-line and in-line. Data I/O s automated programming systems and FlashPAK share a common programming platform, FlashCORE and Data I/O s universal job setup tool, Tasklink®. In addition, we provide device support and service on all of our products. Device support is a critical aspect of our business and consists of writing software algorithms for devices and developing socket adapters to hold and connect to the device for programming.

Data I/O s key product and the customer benefits/key features Data I/O believes are important are described in the following table:

Products	Key Features	Customer Benefits
RoadRunner Series: In-line, (Automated)	• Just-in-time in-line programming • Direct integration with placement machine supporting Siemens, Fuji, Panasonic, Assembleon, Universal and	• Dramatic reduction in inventory carrying and rework costs • Zero footprint • Rapid return on investment (ROI) realized in a matter of months

	MYDATA • Parallel programming • Average Selling Price (ASP) of $79,900 to $119,400	
PS Series: Off-line Medium/High Volume, High Mix (Automated)	• Fast program and verify speeds of less than 0.19 sec/ Mbit • Up to 48 programming sites • Supports multiple media types • ASP of $185,000 to $560,000	• High throughput for high density Flash programming • High flexibility with respect to I/O options (tube, tray, tape), marking/labeling, and vision for coplanarity inspection
FLX500: Off-line, Moderate Volume (Automated)	• Fast changeover times • Self-learning plug-and-play operation • Language-independent graphic user interface • ASP of $99,900 to $119,880	• Affordable automation • Modular, easy to configure • Intuitive, easy to use graphical user interface • Small footprint

Products	Key Features	Customer Benefits
FlashPAK II/III: Off-line, Low Mix, Low Volume (Non-Automated)	• Scalability • Network control via Ethernet • Stand-alone operation or PC compatible • Parallel programming • ASP of $9,500	• Validate designs before moving down the firmware supply chain • Unmatched ease of use in manual production systems
Sprint/Unifamily: Off-line, Low Volume, and Engineering (Non-Automated)	• Breadth of device coverage • ASP of $1,118 to $32,400	• Universal programmer

Customers

Data I/O sells our products to customers worldwide in a broad range of industries, as described in the following table:

	Customer Types				
	OEMs			EMS	Programming
	Wireless & Consumer Electronics	**Automotive Electronics**	**Industrial & Process Control Electronics**	**Contract Manufacturers**	**Centers**
Notable end customers	LG, Motorola, RIM, Sony, HTC, Microsoft, Vestel	TRW, Lear, Delphi, Bosch, Blaupunkt, Continental, Siemens VDO	Allen-Bradley, Square D, ABB, Trane, Grundig, Danfoss, Philips	Flextronics, Celestica, Elcoteq, Jabil, Wistron, Foxconn	Arrow, Avnet, BTW, MSC, HTV, CPS
Programmable devices used	5 billion NOR & NAND flash devices annually; 5 billion microcontrollers	5 billion microcontrollers annually; use of flash growing	2 billion microcontrollers	Same as OEMs they serve	Same as OEMs they serve and lines they distribute
Business drivers	GPS, Digital Rights Management, security, flash media, video, 3G/4G networks, features & functionality of converged devices	Safety, navigation and infotainment devices, drive-by-wire	Higher functionality driven by increasing electronic content	Acquisition of OEM factories, production contract wins	Value-added services, logistics

Programming equipment drivers	Rollout of new products that incorporate higher functionality, more memory, and new technology, e.g. eSD, eMMC	Process improvement and simplification, new product rollouts and quality control	Process improvement and simplification as well as new product rollouts	New contracts from OEMs, programming solutions specified by OEMs	Capacity utilization of their installed base of equipment
	Customer Types				
		OEMs		**EMS**	**Programming**
	Wireless & Consumer Electronics	**Automotive Electronics**	**Industrial & Process Control Electronics**	**Contract Manufacturers**	**Centers**
Buying criteria	Throughput, technical capability to support evolving technology, global support, intellectual property protection, robust algorithms	Quality, reliability, configuration control, traceability, global support, intellectual property protection	Quality, reliability, configuration control, traceability	Lowest equipment procurement cost, global support	