

DATA I/O CORP
Form 10-K
March 28, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

FORM 10-K

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

For the fiscal year ended **December 31, 2011**

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

(State or other jurisdiction of incorporation)

91-0864123

(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
Common Stock (No Par Value)

Name of each exchange on which registered
Nasdaq Capital Market

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

None

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

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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.

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

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

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

by non-affiliates on the registrant as of June 30, 2011:

\$50,968,410

Shares of Common Stock, no par value, outstanding as of March 12, 2012:

8,510,897

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its May 10, 2012 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, 2011

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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") is the global market leader for advanced programming and intellectual property management solutions used in the manufacturing of flash and flash-based intelligent devices. Data I/O designs, manufactures and sells programming systems for electronic device manufacturers, specifically targeting high growth areas such as high-volume users of flash memory 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's mission is to deliver high-value systems, software 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 management, secure content management and process control 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.

Data I/O was incorporated in the State of Washington in 1969 and its business was founded in 1972.

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 protect 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. The trends of increasing device densities and customers increasing their software content file sizes, combined with the increasing numbers of intelligent devices such as smartphones and tablets, are driving demand for our solutions.

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, our 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.

Our products are positioned and viewed as the “gold standard” for advanced programming equipment and intellectual property management solutions. Our new RoadRunner3 with Factory Integration Software received the Circuits Assembly NPI Award in February of 2012, and a year ago our FlashCORE III programming technology resulted in industry awards including:

- SMT Vision Award
- Circuits Assembly NPI Award
- EMAsia Innovation Award
- Global SMT Technology Award

Data I/O’s programming solutions include a broad range of products, systems, modules and accessories, grouped into two general categories: automated programming systems and manual programming systems. We provide two main categories of automated programming systems: off-line and in-line. Data I/O’s common programming platform, FlashCORE™, and Data I/O’s universal job setup tool, Tasklink™ for Windows®, are available in each family of our automated programming systems and FlashPAK™. 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 products have both an upfront solution sale and recurring revenue elements. Adapters are a consumable item and software and maintenance are typically under annual subscription contracts.

2011 Sales Percentage Breakdown by Type		
Sales Type	Percent of Total Sales	Drivers
Equipment Sales	61%	Capacity, Process improvement, Technology
Adapter Sales	27%	Capacity utilization, New customer products
Software and Maintenance Sales	12%	Installed base, Added capabilities
Total	100%	

The table below presents Data I/O’s main products and the key features that benefit our customers:

Products	Key Features	Customer Benefits
RoadRunner and RoadRunner3 Series:	<ul style="list-style-type: none"> • Just-in-time in-line programming 	<ul style="list-style-type: none"> • Dramatic reduction in inventory carrying and rework costs
In-line, (Automated)	<ul style="list-style-type: none"> • Direct integration with placement machine supporting SIPLACE, Fuji NXT, Panasonic, Assembleon, Universal and MYDATA Parallel Programming 	<ul style="list-style-type: none"> • “Zero” footprint • Rapid return on investment (“ROI”) realized in a matter of months

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|---|---|--|
| PS Series: Off-line
Medium/High Volume, High
Mix

(Automated) | <ul style="list-style-type: none">• Factory Integration Software• List Selling Price (“List”) of \$79,900 to \$127,100• Fast program and verify speeds of less than 0.19 sec/ Mbit• Up to 48 programming sites• Supports multiple media types• Factory Integration Software• List of \$185,000 to \$560,000• Fast changeover times• Self-learning “plug-and-play” operation• Language-independent graphic user interface• FLXHD supports 40 duplication sites• List of \$50,000 to \$119,880 | <ul style="list-style-type: none">• Integration with factory systems• 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• 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)	<ul style="list-style-type: none"> • Scalability • Network control via Ethernet • Stand-alone operation or PC compatible • Parallel programming • List of \$9,500 	<ul style="list-style-type: none"> • 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)	<ul style="list-style-type: none"> • Breadth of device coverage • List of \$1,118 to \$32,400 	<ul style="list-style-type: none"> • Universal programmer

Customers

Data I/O sells our solutions to customers worldwide, many of whom are world-class manufacturers of electronic devices used in a broad range of industries, as described in the following table:

	Customer Types				Programming Centers
	Wireless & Consumer Electronics	OEMs Automotive Electronics	Industrial & Process Control Electronics	EMS Contract Manufacturers	
Notable end customers	LG, Motorola, RIM, Sony, HTC, Microsoft	TRW, Lear, Delphi, Bosch, Blaupunkt, Continental,	Allen-Bradley, Square D, ABB, Trane, Grundig, Danfoss, Philips	Pegatron, Flextronics, Celestica, Elcoteq, Jabil, Wistron, Foxconn	Arrow, Avnet, BTV, MSC, HTV, CPS
Business drivers	GPS, Digital Rights Management, security, flash media, video, 3G/4G networks, applications, features & functionality of converged devices	Johnson Controls Safety, navigation and infotainment devices, drive-by-wire	Higher functionality driven by increasing electronic content	Acquisition of OEM factories, production contract wins	