

I-O DATA

The 31st term Annual Report

From July 1, 2005 to June 30, 2006



I-O DATA DEVICE, INC.



Greetings to Our Shareholders

First, I would like to thank you for your special support to I-O DATA DEVICE, INC. I am pleased to have this opportunity to offer our shareholders my greetings and a few words.

We will report the outline of our sales for the 31st term (July 1, 2005 to June 30, 2006). We request your continued support, guidance, and encouragement as before.

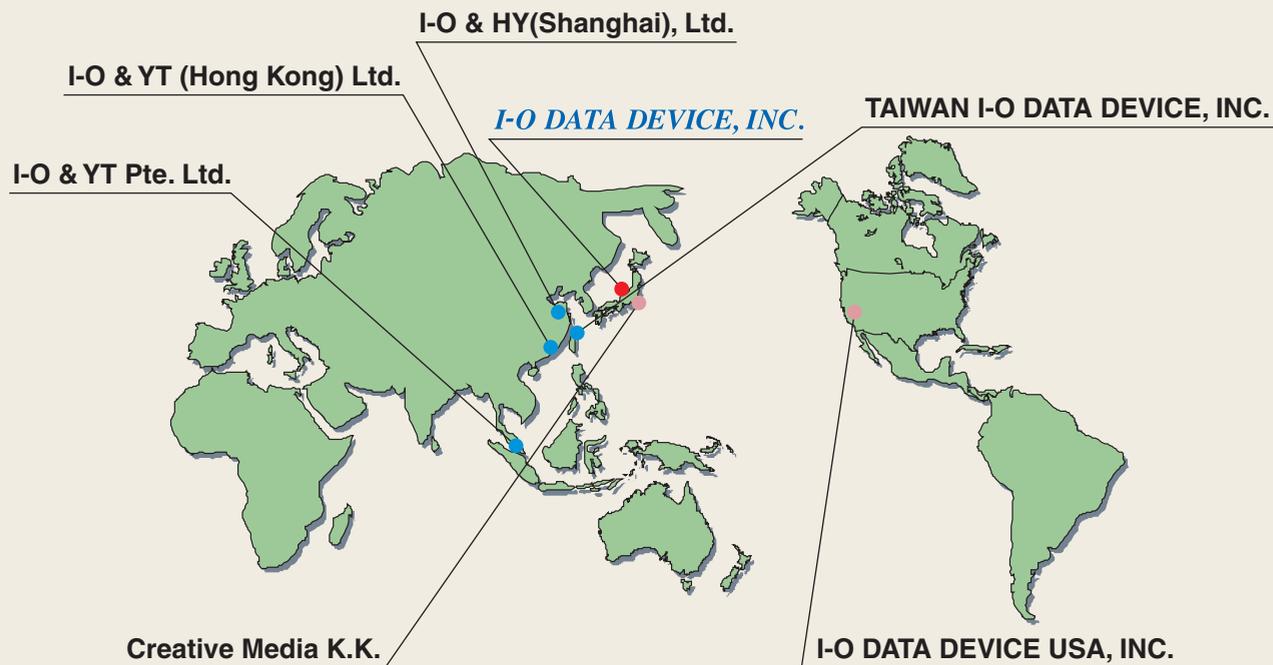
A handwritten signature in black ink that reads "Akio Hosono".

Akio Hosono, President
September 2006

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Status of Corporate Group



	Names	Capital stock	Percentage of shares held by I-O DATA DEVICE, INC.
Subsidiaries	TAIWAN I-O DATA DEVICE, INC.	NT\$50,000,000	100.00%
	I-O & HY(Shanghai), Ltd.	US\$200,000	50.00%
	I-O & YT(Hong Kong) Ltd.	HK\$2,550,000	See Note
	I-O & YT Pte. Ltd.	S\$1,200,000	49.50%
Affiliates	I-O DATA DEVICE USA, INC.	US\$500,000	50.00%
	Creative Media K.K.	¥499,000,000	30.00%

Note:TAIWAN I-O DATA DEVICE, INC. holds a 50% share and the remaining 50% belongs to I-O & YT Pte. Ltd.

The Outline of Sales

In the current consolidated fiscal year, the Japanese economy had a steady, strong showing toward a self-sustaining recovery. This was due to revitalization of the economy mainly led by the favorable performance of export-related industries, even though the economy faced price hikes in oil and materials in the beginning of the current term. As is shown by the announcement during the current term that the quantitative easing policy by the Bank of Japan, intended to break out of the deflationary spiral, is to be removed, private capital investment and consumer spending steadily increased owing to the upturn in employment and income on the back of a full-scale recovery in corporate earnings, despite some anticipated risks of economic stagnation represented by hikes in interest rates.

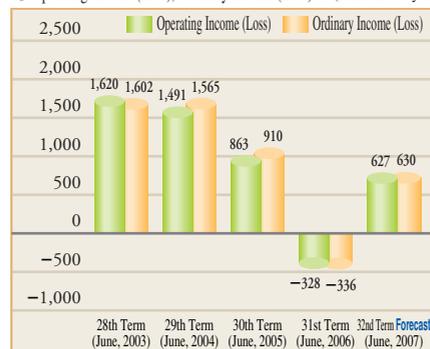
In the personal computer industry, customer demand steadily grew on the back of increasing private capital investment and consumer spending as described above, despite the termination of the IT investment-promoting tax system and other concerns. Partly due to the World Cup soccer finals, however, consumer spending increased for home electric appliances in the latter half of the term, and the downward price trend was accelerated by commoditization of personal computers. This trend led to a decrease in the shipment of personal computers. According to JEITA (Japan Electronics and Information Technology Industries Association), at the end of July 2006, domestic shipments of personal computers from July 2005 to June 2006 increased by about 3.5% in volume (units) from the previous term. However, it decreased by about 5% in amount. As this trend shows, the average unit price dropped by about 11,000 yen on a year-on-year basis owing to intensified market competition. In the personal computer industry, the scenario of breaking out of the deflationary spiral seems to be a topic very distant from the real world, while interest rates started to rise amid the concern for inflation.

Under such circumstances, we focused on enhancement of price competitiveness in the market for our products, based on the lessons and reflections from the previous interim term that ended in an unfavorable balance and by establishment of the new organization to control and manage general procurement comprehensively in the latter half of the term.

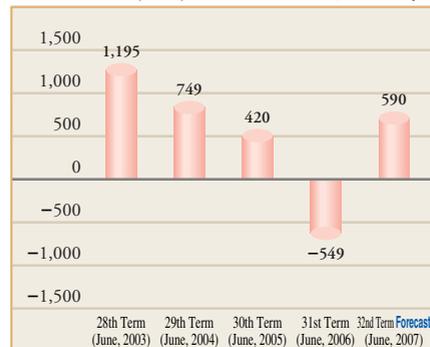
● Net Sales (Millions of yen)



● Operating Income (Loss), Ordinary Income (Loss) (Millions of yen)



● Net Income (Loss) (Millions of yen)



As a result of our efforts, sales increased by about 3% on a year-on-year basis owing to the favorable performance of our HDD products, mainly at 250 GB, as well as corporate demand for our 15-inch liquid crystal displays and personal demand for the 17–19-inch displays. The demand for large displays is growing these days. However, we could not retain a sufficient level of gross profit because of the price hikes for materials and the sharp foreign exchange rate fluctuations since the beginning of the current term, as we announced the revision of earnings forecast as of November 28, 2005. Aside from the long-term price decline, we have been enduring fierce price competition throughout the term. Some of our major products were sold below the breakeven point, which had a significant impact on our income. In the latter half of the term, we started several internal projects to improve profits, which ended up at a deficit for ordinary income and net income, as the outcome of such projects was a slight but not remarkable recovery in earnings.

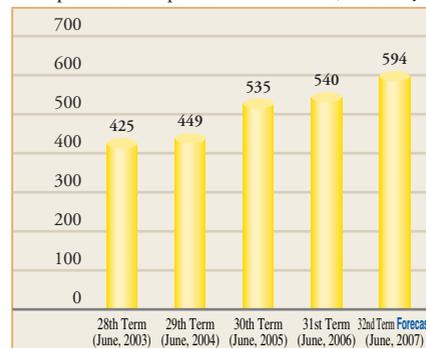
Consequently, sales for the consolidated fiscal year amounted to 70,087 million yen (up 2.9% on a year-on-year basis). Operating loss, ordinary loss, and net loss were 328 million yen (against the operating profit of 863 million yen of the previous term), 336 million yen (against the ordinary profit of 910 million yen of the previous term), and 549 million yen (against the net profit of 420 million yen of the previous term), respectively.

Going forward, although the long-term price hikes for oil and the rise of long-term interest rates are predicted to have no small effect on corporate earnings, the economy has been recovering steadily and consumer spending has returned to the prior level sustained by favorable employment conditions. Such trends, coupled with the rise of the consumer price index, seem to indicate an end to the deflationary spiral. Under such circumstances, we are determined to recover the losses for this consolidated fiscal year early and to retake a share of the existing market in preparation for the next term. We will make strenuous efforts to establish the position of digital information home appliances by marketing our original products, in addition to general products such as memory, storage equipment, liquid crystal displays, and other existing products, in order to survive the fierce competition from emerging markets through our intensified sales strategies and enhancement of service quality. Also, we intend to establish the brand and to expand the sales channel of AVEL products, which are steadily gaining a high profile.

● Capital Investments (Millions of yen)



● Depreciation Expense (Millions of yen)



● Research and Development Costs (Millions of yen)

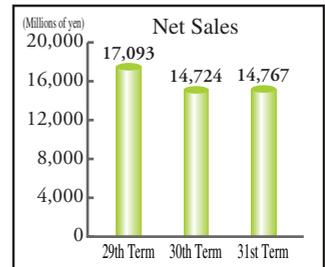


Outline of Sales by Division

Extension Memory Board Division

The demand for extension memory boards of personal computers continues to show an upward trend, as shipments increased by 11.3% on a year-on-year basis. In the market, personal computers with additional functions for watching TV and recording pictures are becoming more popular and available at lower prices. Furthermore, memory is becoming more commonly available as the average price dropped by about 18% on a year-on-year basis. Hence, the demand for extension memory boards is expected to grow further, since customers who purchase new personal computers tend to establish more convenient operating environments by adding memory. The major memory capacity was 512 MB during the current term, and this trend is expected to continue for a while. The major memory card capacity of digital cameras was 256 MB

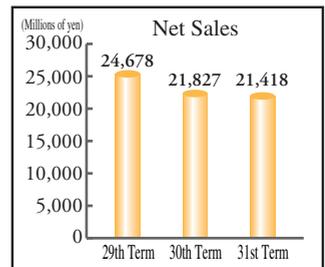
in the beginning of the term and 512 MB at end of year. As for mini SD cards for camera cell phones, demand grew mainly for 128 MB. While sales of USB flash memory increased by about 20% in amount and 50% in volume from the previous term when the market was undersupplied, the unit price dropped overall. The unit price of 512 MB, one of our major products in the USB flash memory lineup, dropped by about 30%. As a result, sales of the Extension Memory Board Division increased by 0.3% on a year-on-year basis.



Storage Division

The sales of our HDD products increased by about 15% in amount and about 40% in volume on a year-on-year basis, mainly due to the growth in sales of 250 GB external HDD. The market of MO products tended to scale down. We expanded the market share to 42.9% from 36.8% in the previous term to maintain sales under such conditions. However, sales decreased by about 30% in amount and about 17% in volume. Sales of our DVD products increased by about 25% in volume, despite the slow season before high-capacity next-generation products such as Blu-ray Disc drives, which we have already launched, become widespread. And yet, the unit

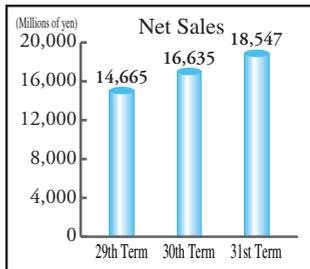
price dropped by nearly 30%, and sales decreased by about 15%. As a result, sales of the Storage Division decreased by 1.9% on a year-on-year basis.



Liquid Crystal Division

We made a full-scale entry into the market for digital home appliances in the wake of launching the 32-inch liquid crystal display in November 2005. Our hot-selling products to corporate are 15-inch liquid crystal displays and consumer demand tend to be larger to 17-inch and 19-inch. Moreover the sales were increased by about 30% in volume on a year-on-year

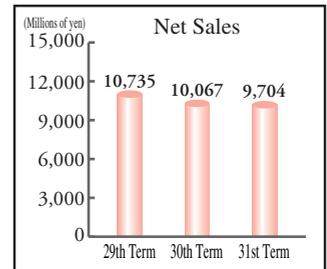
basis. As a result, sales of the Liquid Crystal Division increased by 11.5% on a year-on-year basis.



Peripheral Division

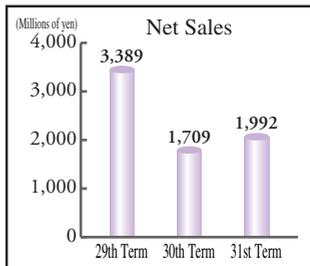
Sales of our AVEl products, represented by LinkPlayer and Rec-POT, grew at a sluggish pace both in amount and volume due to the matter of timing and delay in development. Although the Giga LANDISK series LAN-access HDD products, mainly for 300 GB, produced a favorable outcome in sales of the network peripheral category, we did not see a significant gain in sales of

other products. As a result, sales of the Peripheral Division decreased by 3.6% on a year-on-year basis.



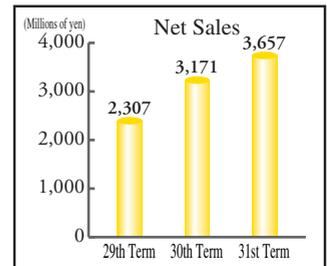
Custom Order Product Division

Sales of the Custom Order Product Division increased by 16.5% on a year-on-year basis, owing to the favorable outcome in sales of portable HDD and DVD products as OEM products.

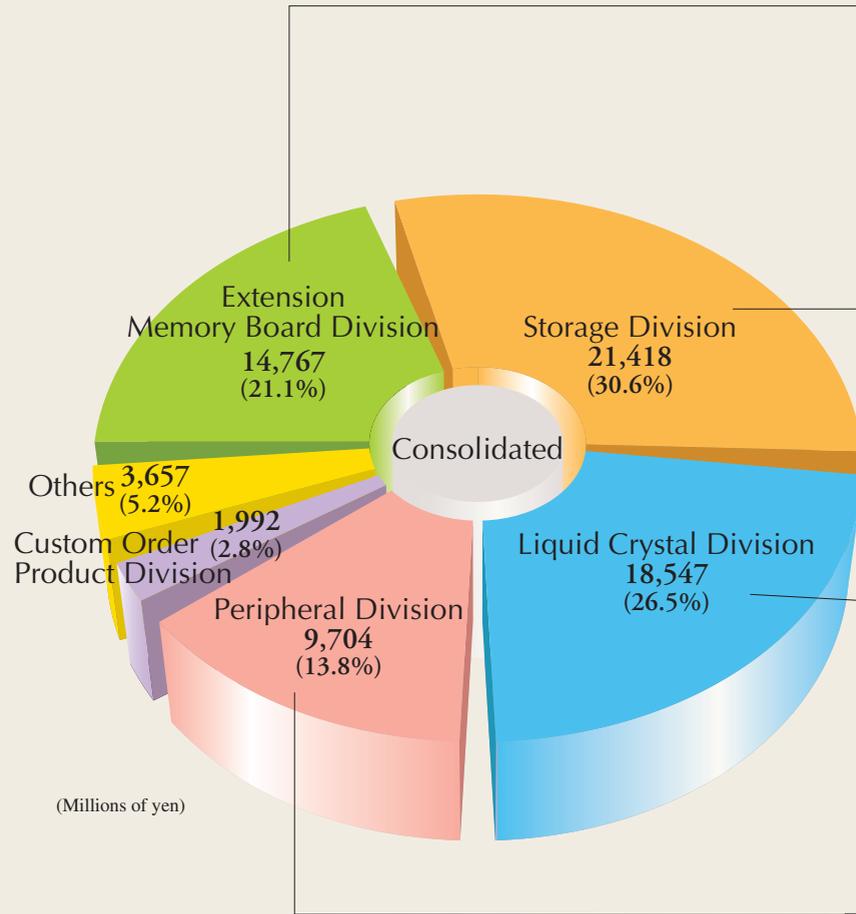


Others

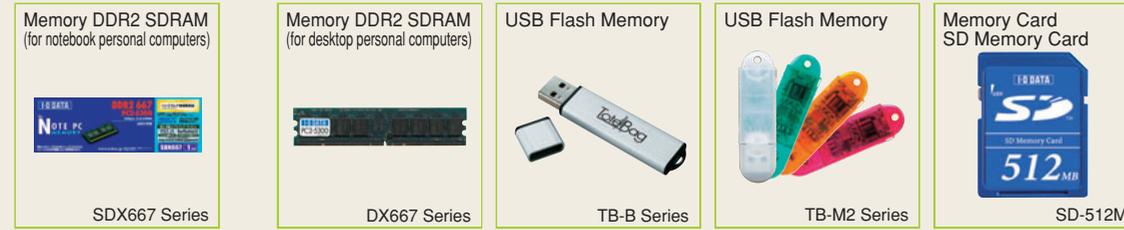
Sales of the Others increased by 15.3% on a year-on-year basis, as the products were in good demand.



Sales by Division



Extension Memory Board Division



Storage Division



Liquid Crystal Division



Peripheral Division



Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

Item	Amount
	31st Term (As of June 30, 2006)
ASSETS	
Current Assets	
Cash and bank deposits	3,913
Notes and accounts receivable-trade	14,643
Inventories	6,431
Other	1,226
Less: Allowance for doubtful accounts	(3)
Total Current Assets	26,211
Fixed Assets	
Tangible fixed assets	
Buildings and structures	1,522
Land	3,204
Other	360
Total tangible fixed assets	5,087
Intangible fixed assets	
Investments and others	2,250
Total Fixed Assets	7,910
Total Assets	34,121

Item	Amount
	31st Term (As of June 30, 2006)
LIABILITIES	
Current Liabilities	
Notes and accounts payable-trade	8,372
Short-term borrowings	3,000
Accrued income taxes	139
Other	1,281
Total Current Liabilities	12,792
Long-term Liabilities	
Reserve for retirement benefits	152
Reserve for directors' retirement allowances	136
Other	390
Total Long-term Liabilities	679
Total Liabilities	13,472
NET ASSETS	
Shareholders' equity	19,769
Common stock	3,588
Capital surplus	4,308
Retained earnings	12,165
Treasury stock-at cost	(293)
Net unrealized gain, foreign currency translation adjustments etc.	641
Net unrealized gain on investment securities	65
Deferred net gain on hedge	590
Cumulative currency translation adjustments	(14)
Minority interests	238
Total Net Assets	20,649
Total Liabilities and Net Assets	34,121

※Truncating the number under million yen

Notes: 1

Consolidated Statements of Income

(Millions of yen)

Item	Amount
	31st Term (Year ended June 30, 2006)
Net sales	70,087
Cost of sales	63,197
Gross profit	6,889
Selling, general and administrative expenses	7,218
Operating loss	328
Other income	276
Other expenses	284
Ordinary loss	336
Extraordinary income	5
Extraordinary loss	30
Loss before income taxes	361
Income taxes-current	105
Income taxes-deferred	61
Minority interests	20
Net loss	549

※Truncating the number under million yen

Notes:2

Consolidated Statements of Cash Flow

(Millions of yen)

Item	Amount
	31st Term (Year ended June 30, 2006)
Cash flows from operating activities	
Loss before income taxes	(361)
Depreciation and amortization	540
Increase in trade receivables	(1,094)
Decrease in inventories	1,082
Decrease in trade payable	(1,454)
Others, net	(1,027)
Net cash used in operating activities	(2,314)
Cash flows from investing activities	
Acquisition of tangible and intangible fixed assets	(380)
Acquisition of investments in securities	(157)
Others, net	42
Net cash used in investing activities	(495)
Cash flows from financing activities	
Net increase in short-term borrowings	2,979
Cash dividends paid	(190)
Revenue from receiving payment of minority shareholders	22
Net cash provided by financing activities	2,810
Effects of exchange rate changes on cash and cash equivalents	21
Net increase in cash and cash equivalents	21
Cash and cash equivalents at beginning of year	3,891
Cash and cash equivalents at end of year	3,913

※Truncating the number under million yen

Notes:3

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

(Millions of yen)

Item	Amount
	31st Term (As of June 30, 2006)
ASSETS	
Current Assets	
Cash and bank deposits	2,568
Notes and accounts receivable-trade	14,066
Inventories	5,626
Other	1,426
Less: Allowance for doubtful accounts	(105)
Total Current Assets	23,582
Fixed Assets	
Tangible fixed assets	
Buildings and structures	1,488
Land	3,204
Other	383
Total tangible fixed assets	5,077
Intangible fixed assets	570
Investments and others	2,472
Total Fixed Assets	8,120
Total Assets	31,702

Item	Amount
	31st Term (As of June 30, 2006)
LIABILITIES	
Current Liabilities	
Notes and accounts payable-trade	7,365
Short-term borrowings	3,000
Accrued income taxes	23
Other	1,223
Total Current Liabilities	11,612
Long-term Liabilities	
Reserve for retirement benefits	152
Reserve for directors' retirement allowances	136
Other	278
Total Long-term Liabilities	568
Total Liabilities	12,180
NET ASSETS	
Shareholders' equity	18,866
Common stock	3,588
Capital surplus	4,308
Retained earnings	11,262
Treasury stock-at cost	(293)
Net unrealized gain, foreign currency translation adjustments etc.	655
Net unrealized gain on investment securities	65
Deferred net gain on hedge	590
Total Net Assets	19,522
Total Liabilities and Net Assets	31,702

※Truncating the number under million yen

Notes:4

Non-Consolidated Statements of Income

(Millions of yen)

Item	Amount
	31st Term (Year ended June 30, 2006)
Net sales	68,021
Cost of sales	62,171
Gross profit	5,849
Selling, general and administrative expenses	6,515
Operating loss	665
Other income	180
Other expenses	154
Ordinary loss	639
Extraordinary loss	152
Loss before income taxes	791
Income taxes-current	10
Income taxes-deferred	9
Net loss	812

※Truncating the number under million yen

Notes:5

Notes:1 (Millions of yen)

	31st Term (As of June 30, 2006)
1. Accumulated depreciation of tangible fixed assets	3,101
2. Investments in securities with regard to affiliated companies are as follows: Investments in securities (for shares of affiliated companies)	62

Notes:2 (Millions of yen)

	31st Term (As of June 30, 2006)
1. Major expense items and amounts in selling, general and administrative expenses	
Advertising and general publicity expenses	543
Salaries, benefits and bonuses	1,997
Packing and freight charges	1,193
Research and development expense	1,168
Net loss per share (unit:yen)	37.39

Notes:3

1. Cash and cash equivalents at end of year agree with "Cash and bank deposits" stated in the consolidated balance sheets.

Notes:4 (Millions of yen)

	31st Term (As of June 30, 2006)
1. Short-term receivable due from affiliated companies	117
Short-term payable due to affiliated companies	1,525
2. Accumulated depreciation of tangible fixed assets	3,084
3. Liabilities for guarantee	930
TAIWAN I-O DATA DEVICE, INC.	
Those denominated in foreign currencies therein:	(US\$8,143 thousand)

Notes:5 (Millions of yen)

	31st Term (Year ended June 30, 2006)
1. Purchases, etc. from affiliated companies	34,139
2. Research and development costs included in selling, general and administrative expenses	1,168
3. Net loss per share (unit:yen)	55.29

Company Profile

■ Outline (As of June 30, 2006)

■ Name	I-O DATA DEVICE, INC.
■ Established	January 10, 1976
■ Capital	3,588.07 million yen
■ Employees	542 (Non-Consolidated) 588 (Consolidated)

■ Board of Directors (As of September 26, 2006)

President	Akio Hosono
Executive Director	Nobuo Ikeda
Managing Director	Takeji Shimada
Director	Hiroshi Kawada
Director	Masaaki Nakagawa
Director	Toru Nagano
Standing Statutory Auditor	Yoshio Hirabayashi
Statutory Auditor	Fumio Miyazaki
Statutory Auditor	Akira Mizutani
Statutory Auditor	Tsunehiro Kometani

Notes: All of the auditors are the outside auditors as stipulated in Article 2-16 and 335-3 of the Corporate Law.

■ Offices (As of June 30, 2006)

Headquarters and Factory	3-10 Sakurada-machi, Kanazawa, Ishikawa
Sales Headquarters in Tokyo	4-14-1 Sotokanda, Chiyoda-ku, Tokyo
Osaka Office	2-1-10 Minamisenba, Chuo-ku, Osaka, Osaka
Sapporo Office	4-1, Kitajujonishi, Kita-ku, Sapporo, Hokkaido
Sendai Office	2-2-10 Tsutsujigaoka, Miyagino-ku, Sendai, Miyagi
Yokohama Office	3-18-5 Shinyokohama, Kohoku-ku, Yokohama, Kanagawa
Nagoya Office	1-4-12 Kamimaezu, Naka-ku, Nagoya, Aichi
Hiroshima Office	7-14 Hashimoto-cho, Naka-ku, Hiroshima, Hiroshima
Fukuoka Office	1-31 Tenya-machi, Hakata-ku, Fukuoka, Fukuoka
I-O PLAZA AKIBA	4-7-1 SotoKanda, Chiyoda-ku, Tokyo

Status of Shares (As of June 30, 2006)

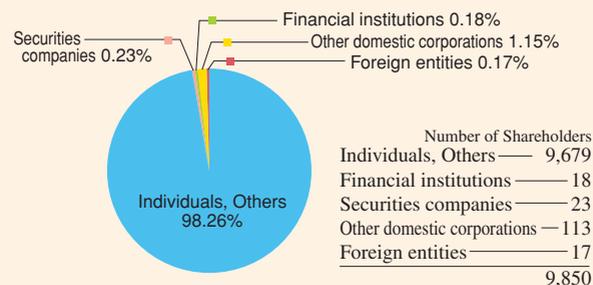
Authorized shares	41,000,000
Total number of shares outstanding	14,839,349
Number of shares per unit	100
Number of shareholders at the term-end	9,850

Ten Major Shareholders

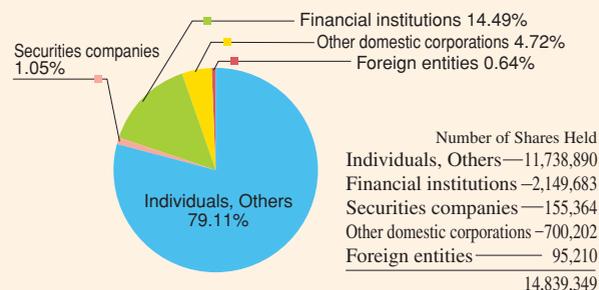
Names	Investment by these shareholders in the Company		Investment by the Company in these shareholders	
	Number of shares held	Share holding percentage	Number of shares held	Share holding percentage
Akio Hosono	4,510,811	30.40%	—	— %
Japan Trustee Service Bank, Ltd. (Trust Account)	922,200	6.21	—	—
Yukie Hosono	763,780	5.15	—	—
The Hokkoku Bank, Ltd.	306,662	2.07	510,000	0.15
Nikko Cititrust and Banking Corporation (Investment Trust Unit)	279,200	1.88	—	—
Kanazawa Ligament Co., Ltd.	269,675	1.82	—	—
Mizuho Bank, Ltd.	153,331	1.03	—	—
I-O DATA DEVICE, INC.	148,896	1.00	—	—
Trust & Custody Services Bank, Ltd.	121,900	0.82	—	—
The Hokkoku Credit Service Co., Ltd.	81,400	0.55	—	—

Distribution of Shares by Shareholder Type

Number of Shareholders (Percentage)



Number of Shares Held (Percentage)



Information for Shareholders

Fiscal Year: From July 1 to June 30

Ordinary General Meeting of Shareholders: Annually in September

Record Date:

Ordinary General Meeting of Shareholders: June 30

Dividends: June 30

Interim Dividends: December 31

Listed Stock Exchange: JASDAQ

(Japan Association of Securities Dealers Automated Quotations)

Securities Code: 6916

Media of Public Notice: Announcements will be made electronically on our website. (<http://www.iodata.jp/>) However, when electronic announcements are difficult due to circumstances beyond our control, we will place a notice in the Nihon Keizai Shimbun (Nikkei Newspaper).

Administrator of Shareholders' Register: The Sumitomo Trust & Banking Co., Ltd.
4-5-33 Kitahama, Chuo-ku, Osaka

Handling Office: The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department
4-5-33 Kitahama, Chuo-ku, Osaka

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1-10 Nikko-cho, Fuchu, Tokyo 183-8701

Calling Center:

Requests for address change notification documents Tel : 0120-175-417

Other inquiries Tel : 0120-176-417

Website:

<http://www.sumitomotrust.co.jp/STA/retail/service/daiko/index.html>

Service Offices:

Head Office and domestic branch offices of The Sumitomo Trust & Banking Co., Ltd.

I·O DATA

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<http://www.iodata.jp/>

