

I-O DATA

The 33rd term Annual Report

From July 1, 2007 to June 30, 2008



I-O DATA DEVICE, INC.

Greetings to Our Shareholders



I hope this report finds you well. Please allow me to take this opportunity to express my utmost gratitude for your continued generous support. As of June 30, 2008, we completed our 33rd fiscal year (from July 1, 2007 to June 30, 2008). Hence, I would like to hereby report an overview of our business performance and other relevant information. I sincerely hope you will grant us continued support and guidance for the future.

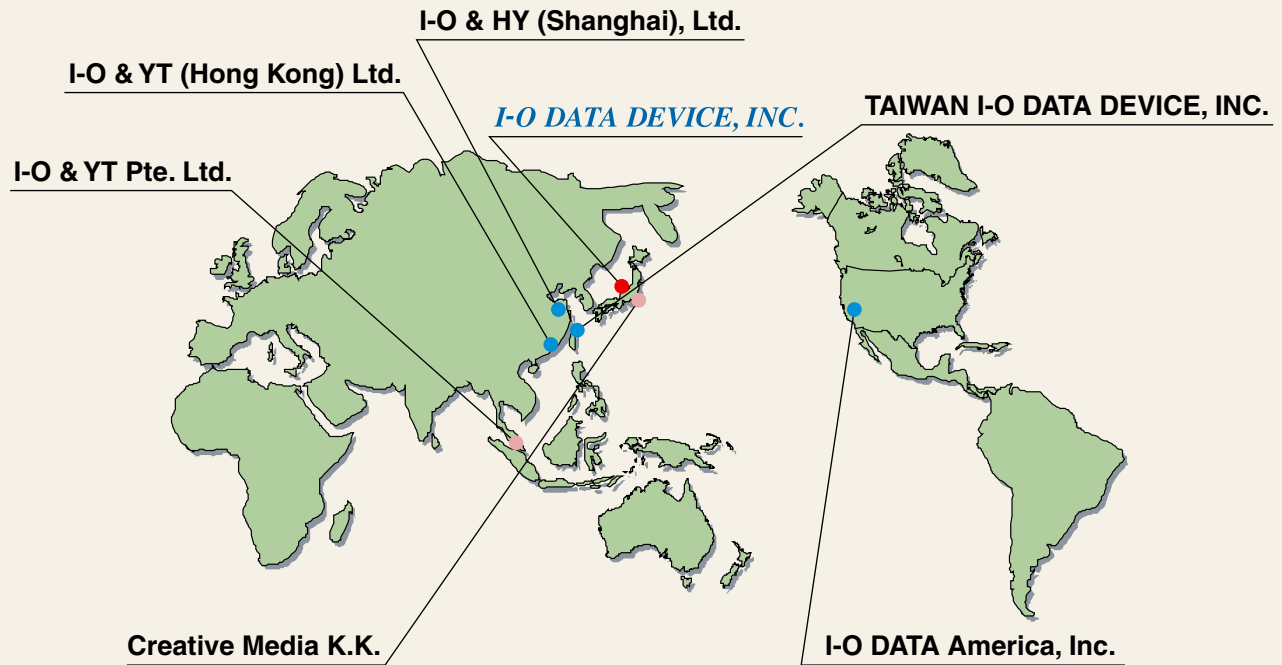
A handwritten signature in black ink that reads "Akio Hosono". The signature is written in a cursive, flowing style.

Akio Hosono, President
September 2008

● CONTENTS

Status of Corporate Group	2
The Outline of Sales	3~4
Outline of Sales by Division	5~6
Sales by Division	7~8
Consolidated Financial Statements	
Consolidated Balance Sheets	9
Consolidated Statements of Income	10
Consolidated Statements of Cash Flow	10
Consolidated Statement of Changes in Shareholders' Equity	10
Non-Consolidated Financial Statements	
Non-Consolidated Balance Sheets	11
Non-Consolidated Statements of Income	12
Non-Consolidated Statement of Changes in Shareholders' Equity	12
Company Profile	13
Status of Shares	14
Information for Shareholders	14

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%
	I-O & YT(Hong Kong) Ltd.	HK\$2,550,000	See Note
	I-O & HY(Shanghai), Ltd.	US\$600,000	50%
	I-O DATA America, Inc.	US\$100,000	100%
Affiliates	I-O & YT Pte. Ltd.	S\$1,585,000	49%
	Creative Media K.K.	¥499,000,000	30%

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

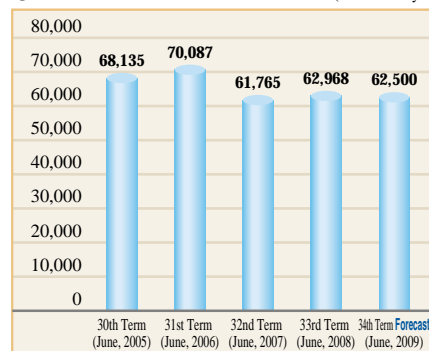
The Japanese economy, during the current consolidated fiscal year, was in a moderate recovery phase as the employment situation showed signs of a stable increase on the back of solid corporate earnings, and personal consumption was also steady. However, issues slowing the economy, such as the surge in crude oil and materials prices, the turmoil in financial markets triggered by the subprime loan (or home mortgage loans to lower-income households) crisis in the United States, and lower stock prices, had a multiple effect in the latter half of the year, leading to stagnant corporate earnings and the slowing of capital spending, and in turn, a sharp decline in economic confidence.

In the domestic personal computer (PC) market, to which our group of companies is exposed, a series of new products with built-in one-segment (television broadcast) service capabilities or digital terrestrial tuners were introduced particularly for the consumer market and spurred demand with an eye on the Beijing Summer Olympic Games. However, according to a report by the Japan Electronics and Information Technology Industries Association (JEITA) on July 25, 2008, domestic PC shipments between July 2007 and the end of June 2008 fell for the second year in a row, declining 15.5% year-over-year in terms of units and 15.6% in value. Unit prices, reflecting both desktop PCs and portable PCs, remained almost unchanged compared to the previous year, at the 120,000-yen mark.

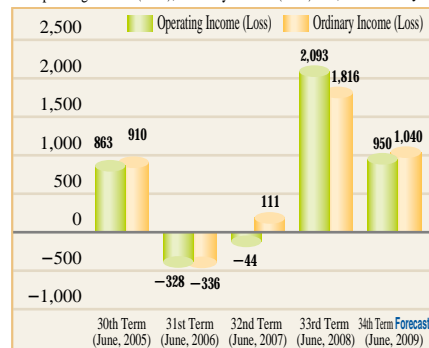
Under such circumstances, our group of companies has been working to redress high-cost structures, aggressively pursue new business or products that will lead to profit increases, and eliminate losses within the company since the beginning of the fiscal year. Capital investment shrank in the corporate customers market due to the surge in crude oil and material prices, lower stock prices, and financial unrest, even though there is continued eagerness to invest in information technologies. On the other hand, wide liquid crystal displays (LCD), hard disk drives (HDD), mainly with 500 GB capacity, and during the first half of the year, one-segment tuners, as well as multimedia products, including digital terrestrial tuners from May in the latter half of the fiscal year, contributed to sales. As a result, revenue increased 1.9% from the previous consolidated fiscal year.

Turning to profitability, operating, current, and net profits were all positive as of the previous consolidated fiscal year as the whole group worked to reduce the cost of products starting from the purchase of materials, and with the boost from the higher yen having a huge impact.

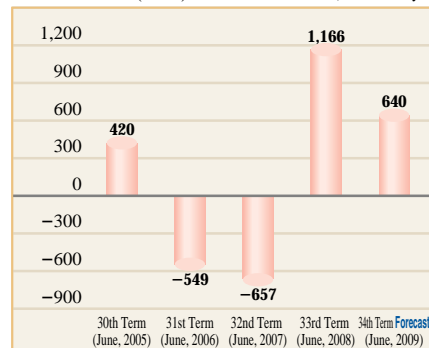
● Net Sales (Millions of yen)



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



● Net Income (Loss) (Millions of yen)

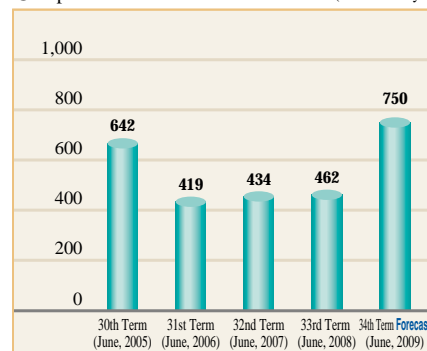


As a result, group sales for the consolidated fiscal year rose 1.9% year-over-year to 62,968 million yen. As for profits, operating profit improved to 2,093 million yen from a loss of 44 million yen the previous consolidated fiscal year, while current profit jumped to 1,816 million yen, or a 1,535.8% increase over the previous year. Net income was 1,166 million yen (compared to a 657 million yen loss the previous consolidated fiscal year) with the impact of a special loss related to the cost of repairs for a product sold to specific clients. But nevertheless, overall, we achieved higher sales and profits.

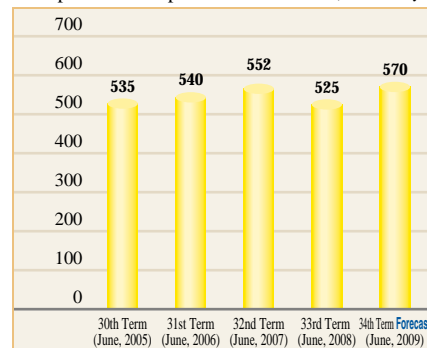
Looking ahead, we expect the economic environment surrounding our group of companies to become even more difficult, with the continued surge in global materials prices, crude oil prices, the steep rise in the yen, and the escalation of the subprime lending woes in the United States. The timing for a recovery in corporate capital spending remains uncertain, and on top of this, competition with rival companies in the market is expected to further intensify, while the needs of consumers for products and services may become even more diversified.

Under these circumstances, our group intends to work on (1) strengthening the competitiveness of existing business and maintaining profit, (2) establishing new businesses, and (3) achieving greater soundness in our internal system through efforts to maintain the high quality of products we produce, and advance to become a company that is trusted by its customers.

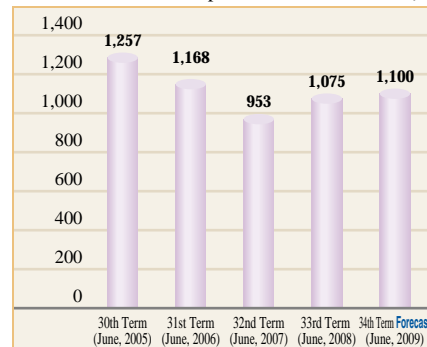
● Capital Investments (Millions of yen)



● Depreciation Expense (Millions of yen)



● Research and Development Costs (Millions of yen)

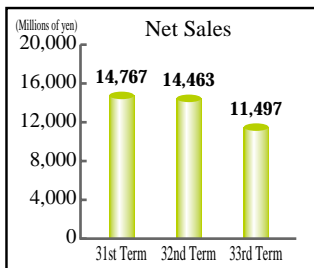


Outline of Sales by Division

Extension Memory Board Division

In the memory board business, although unit sales volume rose reflecting higher demand for extensions from the spreading of the new operating system Windows Vista, the sales price declined due to the impact of the lower market price for DRAM, which is a major component, thus revenue fell below the previous consolidated fiscal year. For flash memory products, led by memory cards and USB memory devices, the situation was

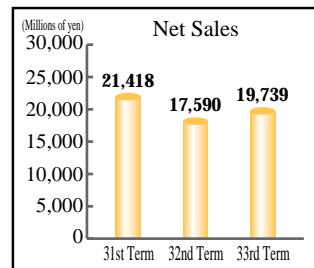
similar, but with heightened competition, sales dropped compared to last consolidated fiscal year. As a result, sales in the Extension Memory Board Division fell 20.5% year-over-year to 11,497 million yen.



Storage Division

Sales of hard disk drive (HDD) products surpassed the previous year, supported by firm demand throughout the consolidated fiscal year, particularly for external large capacity hard drives. As for DVD products, demand bottomed out in the last consolidated fiscal year and was on track to a recovery as the shift to next generation Blu-ray Discs began, and sales rose to exceed the previous consolidated fiscal year. As a result, the Storage Division

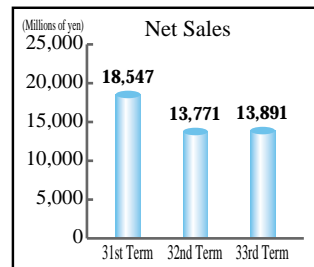
posted sales of 19,739 million yen, up 12.2% from the previous year.



Liquid Crystal Division

LCD product sales were supported by steady demand from corporate customers. At the same time, in light of declining consumer demand for additional sets, we expanded our product lineup from the traditional 4:3 aspect ratio models to wide-screen models, introduced models with pre-installed digital terrestrial tuners before others in the market, and made aggressive advertising efforts. As a result, the division posted

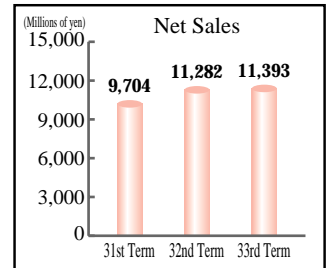
sales of 13,891 million yen, up 0.9% year-over-year, to maintain previous consolidated fiscal year levels.



Peripheral Division

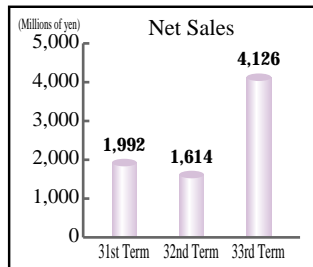
Sales of multimedia products rose from a year ago, as we began sales of add-on tuners for PCs with digital terrestrial broadcast reception capabilities at the end of the fiscal year, on top of one-segment tuners, which were introduced in the latter half of the previous consolidated fiscal year and contributed to sales throughout the year. Furthermore, sales of NAS (network attached storage) products grew in both the corporate and general customers markets on the back of the rising need to share data via networks and our efforts to cultivate the market. On the other hand, sales of AVeL products, mainly network media players for general customers, fell compared to last year because the players were between product introductions.

As a result, the Peripherals Division had sales of 11,393 million yen, up 1.0% from the previous consolidated fiscal year.



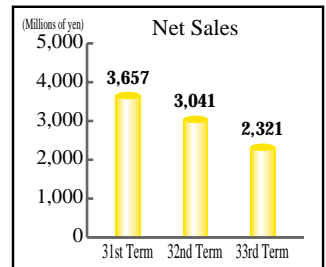
Custom Order Product Division

Sales showed a 155.6% increase over the year-ago period to 4,126 million yen, due to firmness in OEM products such as STB products for video distribution services over the Internet and digital terrestrial tuner products.



Others

Sales fell below the previous consolidated fiscal year in the latter half of the fiscal year, particularly from overseas, because of the impact of I-O & YT Pte. Ltd. becoming an equity method affiliate in January 2008. As a result, sales from the division declined 23.7% year-over-year to 2,321 million yen.



Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

Item	Amount	
	32nd Term (As of June 30, 2007)	33rd Term (As of June 30, 2008)
ASSETS		
Current Assets		
Cash and bank deposits	6,477	5,605
Notes and accounts receivable-trade	12,633	11,366
Inventories	6,478	8,079
Other	2,801	811
Less: Allowance for doubtful accounts	(99)	(142)
Total Current Assets	28,291	25,719
Fixed Assets		
Tangible fixed assets		
Buildings and structures	1,193	1,150
Land	2,772	2,880
Other	357	321
Total tangible fixed assets	4,323	4,352
Intangible fixed assets		
Investments and others	1,772	1,956
Total Fixed Assets	6,618	6,718
Total Assets	34,910	32,437

Item	Amount	
	32nd Term (As of June 30, 2007)	33rd Term (As of June 30, 2008)
LIABILITIES		
Current Liabilities		
Notes and accounts payable-trade	10,351	9,523
Short-term borrowings	741	—
Accrued income taxes	108	286
Other	2,064	2,230
Total Current Liabilities	13,266	12,040
Long-term Liabilities		
Reserve for retirement benefits	171	184
Reserve for directors' retirement allowances	133	129
Reserve for recycle projects	300	377
Other	300	55
Total Long-term Liabilities	906	747
Total Liabilities	14,172	12,787
NET ASSETS		
Shareholders' equity	18,965	19,457
Common stock	3,588	3,588
Capital surplus	4,308	4,308
Retained earnings	11,361	12,381
Treasury stock-at cost	(293)	(820)
Net unrealized gain, foreign currency translation adjustments etc.	1,500	(13)
Net unrealized gain on investment securities	65	(10)
Deferred net gain on hedge	1,377	76
Cumulative currency translation adjustments	57	(79)
Minority interests	272	206
Total Net Assets	20,738	19,650
Total Liabilities and Net Assets	34,910	32,437

※Truncating the number under million yen

Notes: 1

Consolidated Statements of Income

(Millions of yen)

Item	Amount	
	32nd Term (Year ended June 30, 2007)	33rd Term (Year ended June 30, 2008)
Net sales	61,765	62,968
Cost of sales	54,988	53,376
Gross profit	6,776	9,592
Selling, general and administrative expenses	6,821	7,499
Operating income (loss)	(44)	2,093
Other income	512	205
Other expenses	356	481
Ordinary income	111	1,816
Extraordinary income	156	16
Extraordinary loss	260	423
Income before income taxes	7	1,408
Income taxes-current	156	363
Income taxes-deferred	478	(157)
Minority interests	29	36
Net income (loss)	(657)	1,166

※Truncating the number under million yen

Notes:2

Consolidated Statements of Cash Flow

(Millions of yen)

Item	Amount	
	32nd Term (Year ended June 30, 2007)	33rd Term (Year ended June 30, 2008)
Cash flows from operating activities	4,554	1,110
Cash flows from investing activities	317	(428)
Cash flows from financing activities	(2,418)	(1,346)
Effects of exchange rate changes on cash and cash equivalents	110	(173)
Net increase in cash and cash equivalents	2,564	(838)
Cash and cash equivalents at beginning of year	3,913	6,477
Effect of disposal of Consolidated Subsidiaries	—	(33)
Cash and cash equivalents at end of year	6,477	5,605

※Truncating the number under million yen

Notes:3

Consolidated Statement of Changes in Shareholders' Equity (Year ended June 30, 2008)

(Millions of yen)

	Shareholders' equity					Net unrealized gain, foreign currency translation adjustments etc.			Minority interests
	Common stock	Capital surplus	Retained earnings	Treasury stock-at cost	Total	Net unrealized gain on investment securities	Deferred net gain on hedge	Cumulative currency translation adjustments	
Initial Balance	3,588	4,308	11,361	(293)	18,965	65	1,377	57	272
Changes									
Distribution of unappropriated earned surplus	—	—	(146)	—	(146)	—	—	—	—
Net income	—	—	1,166	—	1,166	—	—	—	—
Acquisition of treasury stock	—	—	—	(526)	(526)	—	—	—	—
Other changes outside shareholders' equity	—	—	—	—	—	(76)	(1,300)	(137)	(65)
Total changes	—	—	1,019	(526)	492	(76)	(1,300)	(137)	(65)
Ending balance	3,588	4,308	12,381	(820)	19,457	(10)	76	(79)	206

※Truncating the number under million yen

Non-Consolidated Financial Statements

Non-Consolidated Balance Sheets

(Millions of yen)

Item	Amount	
	32nd Term (As of June 30, 2007)	33rd Term (As of June 30, 2008)
ASSETS		
Current Assets		
Cash and bank deposits	4,331	3,636
Notes and accounts receivable-trade	11,634	11,142
Inventories	5,588	6,327
Other	3,188	1,274
Less: Allowance for doubtful accounts	(364)	(152)
Total Current Assets	24,378	22,228
Fixed Assets		
Tangible fixed assets		
Buildings and structures	1,193	1,150
Land	2,772	2,880
Other	346	320
Total tangible fixed assets	4,312	4,351
Intangible fixed assets	521	408
Investments and others	1,996	1,959
Total Fixed Assets	6,831	6,718
Total Assets	31,209	28,946

Item	Amount	
	32nd Term (As of June 30, 2007)	33rd Term (As of June 30, 2008)
LIABILITIES		
Current Liabilities		
Notes and accounts payable-trade	8,901	7,292
Short-term borrowings	500	—
Accrued income taxes	26	270
Other	1,880	2,195
Total Current Liabilities	11,308	9,758
Long-term Liabilities		
Reserve for retirement benefits	171	184
Reserve for directors' retirement allowances	133	129
Reserve for recycle projects	300	377
Other	53	55
Total Long-term Liabilities	658	747
Total Liabilities	11,967	10,505
NET ASSETS		
Shareholders' equity	17,799	18,374
Common stock	3,588	3,588
Capital surplus	4,308	4,308
Retained earnings	10,195	11,298
Treasury stock-at cost	(293)	(820)
Net unrealized gain, foreign currency translation adjustments etc.	1,443	65
Net unrealized gain on investment securities	65	(10)
Deferred net gain on hedge	1,377	76
Total Net Assets	19,242	18,440
Total Liabilities and Net Assets	31,209	28,946

※Truncating the number under million yen

Notes:4

Non-Consolidated Statements of Income

(Millions of yen)

Item	Amount	
	32nd Term (Year ended June 30, 2007)	33rd Term (Year ended June 30, 2008)
Net sales	59,793	61,476
Cost of sales	53,933	53,103
Gross profit	5,860	8,373
Selling, general and administrative expenses	6,335	6,813
Operating income (loss)	(474)	1,560
Other income	424	449
Other expenses	168	179
Ordinary income (loss)	(218)	1,829
Extraordinary income	152	16
Extraordinary loss	320	423
Income (loss) before income taxes	(386)	1,422
Income taxes-current	34	300
Income taxes-deferred	499	(127)
Net income (loss)	(920)	1,249

※Truncating the number under million yen

Notes:5

Notes:1 (Millions of yen)

	32nd Term (As of June 30, 2007)	33rd Term (As of June 30, 2008)
1. Accumulated depreciation of tangible fixed assets	3,327	3,593
2. Investments in securities with regard to affiliated companies are as follows: Investments in securities (for shares of affiliated companies)	—	250

Notes:2 (Millions of yen)

	32nd Term (As of June 30, 2007)	33rd Term (As of June 30, 2008)
1. Major expense items and amounts in selling, general and administrative expenses		
Advertising and general publicity expenses	588	625
Salaries, benefits and bonuses	1,838	2,146
Packing and freight charges	1,045	1,072
Research and development expense	953	1,075
Net income (Net loss) per share (unit:yen)	(44.73)	81.05

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)

	32nd Term (As of June 30, 2007)	33rd Term (As of June 30, 2008)
1. Short-term receivable due from affiliated companies	139	184
Short-term payable due to affiliated companies	1,355	1,683
2. Accumulated depreciation of tangible fixed assets	3,307	3,581
3. Liabilities for guarantee TAIWAN I-O DATA DEVICE, INC. Those denominated in foreign currencies therein:	1,023 (US\$8,293 thousand)	1,317 (US\$12,372 thousand)

Notes:5 (Millions of yen)

	32nd Term (Year ended June 30, 2007)	33rd Term (Year ended June 30, 2008)
1. Purchases, etc. from affiliated companies	27,604	26,676
2. Research and development costs included in selling, general and administrative expenses	953	1,075
3. Net income (Net loss) per share (unit:yen)	(62.63)	86.80

Non-Consolidated Statement of Changes in Shareholders' Equity (Year ended June 30, 2008)

(Millions of yen)

	Shareholders' equity							Net unrealized gain, foreign currency translation adjustments etc.		
	Common stock	Capital surplus		Retained earnings			Treasury stock-at cost	Total	Net unrealized gain on investment securities	Deferred net gain on hedge
		Capital reserve	Other capital surplus	Other retained earnings						
				Reserve for reduction of fixed assets	Special reserves	Retained earnings carried forward				
Initial Balance	3,588	1,000	3,308	208	10,900	(912)	(293)	17,799	65	1,377
Changes										
Distribution of unappropriated earned surplus	—	—	—	—	—	(146)	—	(146)	—	—
Net income	—	—	—	—	—	1,249	—	1,249	—	—
Acquisition of treasury stock	—	—	—	—	—	—	(526)	(526)	—	—
Reversal of reserve for reduction of fixed assets	—	—	—	(0)	—	0	—	—	—	—
Reversal of special reserves	—	—	—	—	(1,100)	1,100	—	—	—	—
Other changes outside shareholders' equity	—	—	—	—	—	—	—	—	(76)	(1,300)
Total changes	—	—	—	(0)	(1,100)	2,202	(526)	575	(76)	(1,300)
Ending balance	3,588	1,000	3,308	207	9,800	1,290	(820)	18,374	(10)	76

※Truncating the number under million yen

Company Profile

■ Outline (As of June 30, 2008)

■ Name	I-O DATA DEVICE, INC.
■ Established	January 10, 1976
■ Capital	3,588.07 million yen
■ Employees	557 (Non-Consolidated) 604 (Consolidated)

■ Board of Directors (As of September 25, 2008)

President	Akio Hosono
Executive Director	Nobuo Ikeda
Managing Director	Takeji Shimada
Director	Hiroshi Kawada
Standing Statutory Auditor	Yoshio Hirabayashi
Statutory Auditor	Fumio Miyazaki
Statutory Auditor	Akira Mizutani
Statutory Auditor	Yukio Kanai

Notes: All of the auditors are the outside auditors.

■ Offices (As of June 30, 2008)

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

Status of Shares (As of June 30, 2008)

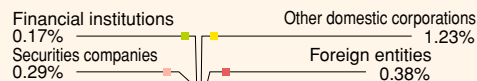
Authorized shares	41,000,000
Total number of shares outstanding	14,839,349
Number of shares per unit	100
Number of shareholders at the term-end	8,695

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	4,514,643	30.42%	—	— %
I-O DATA DEVICE, INC.	900,864	6.07	—	—
Yukie Hosono	763,780	5.15	—	—
The Hokkoku Bank, Ltd.	306,662	2.07	510,000	0.15
Japan Trustee Service Bank, Ltd. (Trust Account)	305,600	2.06	—	—
TRENT Ltd.	269,675	1.82	—	—
Mizuho Bank, Ltd.	153,331	1.03	—	—

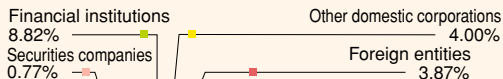
Distribution of Shares by Shareholder Type

Number of Shareholders



Number of Shareholders	
Individuals, Others	8,515
Financial institutions	15
Securities companies	25
Other domestic corporations	107
Foreign entities	33
Total	8,695

Number of Shares Held



Number of Shares Held	
Individuals, Others	12,248,097
Financial institutions	1,309,183
Securities companies	114,365
Other domestic corporations	594,004
Foreign entities	573,700
Total	14,839,349

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

Mailing Address: The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department
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

I-O DATA DEVICE, INC.

3-10 Sakurada-machi, Kanazawa, Ishikawa, JAPAN
<http://www.iodata.jp/>