

# Deswell Announces Fourth Quarter 2013 Results

## - Company Announces Fourth Quarter Cash Dividend of \$0.05 Per Share -

### FOR IMMEDIATE RELEASE

MACAO (June 13, 2013) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal fourth quarter ended March 31, 2013.

Net sales for the fourth quarter ended March 31, 2013 were \$9.5 million, a decrease of 22.0% compared to net sales of \$12.2 million for the same quarter ended March 31, 2012. Net sales decreased by 1.8% to \$4.8 million in the Company's plastic segment and decreased by 35.6% to \$4.7 million in the electronic and metallic segment. The operating loss in the fourth quarter was \$2.7 million, compared to an operating loss of \$1.7 million for the same quarter of fiscal 2012.

Total gross margin decreased to 3.5% in the fourth quarter ended March 31, 2013 compared to 11.6% in the same quarter last year. Gross profit margin in the plastic segment decreased to 2.2% of net sales for the fourth quarter of fiscal 2013 compared to 12.6% of net sales for the same quarter of last fiscal year. The decrease in gross profit and margin in the plastic segment was mainly due to increases in raw materials cost and in labor cost resulting from an increase in overtime allowances. Gross profit margin in the electronic and metallic segment decreased to 4.8% of net sales for the fourth quarter ended March 31, 2013 compared to 10.8% of net sales for the year-ago quarter. The decrease in gross profit and margin in the electronic and metallic segment was mainly attributed to an increase in labor costs as a percentage of sales, resulting from a higher labor rate and additional allowances.

The Company reported a net loss of \$2 million for the fourth quarter ended March 31, 2013 compared to a net loss of \$0.7 million for the quarter ended March 31, 2012. Deswell reported a basic and diluted loss per share of (\$0.12) for the fourth quarter of fiscal 2013, (based on 16,794,000 and 16,810,000 weighted average shares outstanding, respectively) compared to a basic and diluted loss per share of (\$0.04), (based on 16,197,000 and 16,202,000 weighted average shares outstanding, respectively) for the quarter ended March 31, 2012.

Net sales for the year ended March 31, 2013 were \$54.1 million, a decrease of 16.5%, compared to sales of \$64.8 million for fiscal 2012. Operating loss for the year ended March 31, 2013 was \$3.7 million, compared to an operating loss of \$2.2 million for fiscal 2012. The Company reported a net loss of \$2.0 million in fiscal 2013, compared to a net loss of \$1.5 million for the year ended March 31, 2012. Deswell reported basic and diluted net loss per share of (\$0.12) for fiscal 2013, (based on 16,468,000 and 16,560,000 weighted average share outstanding, respectively), compared to a basic and diluted loss per share of (\$0.09), (based on 16,197,000 and 16,207,000 weighted average shares outstanding, respectively), for the prior fiscal year.

The Company's financial position remained strong at the end of the fourth quarter of fiscal year 2013, with \$32.0 million in cash and cash equivalents at March 31, 2013, compared to \$33.1 million at March 31, 2012. Working capital totaled \$58.3 million as of March 31, 2013, versus \$60.9 million as of March 31, 2012. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2013.

Mr. Franki Tse, Chief Executive Officer, commented, "Sales were soft during the quarter primarily due to the poor economic situation in most of our export markets. Furthermore, we saw continued increase in the minimum wage in Dongguan China with a 19% increase this past May as well as continued RMB appreciation. A key focus of the management team is to drive new sales by strengthening our sales and engineering teams, improving product development capabilities and enhancing our relationships with current customers while maintaining a keen eye towards expense reduction. Our strong balance sheet remains an important competitive advantage for us."

Mr. Tse concluded, "We are confident, in spite of a challenging year, that we will be able to deliver improved performance in fiscal 2014 for our shareholders."

### **Fourth Quarter Dividends**

The Company also announced that on June 13, 2013 its board of directors declared a cash dividend of \$0.05 per share for the fiscal fourth quarter ended March 31, 2013. The dividends will be payable on July 18, 2013 to shareholders of record as of June 26, 2013.

**About Deswell**

Deswell manufactures injection-molded plastic parts and components, electronic products and subassemblies, and metallic products for original equipment manufacturers (“OEMs”) and contract manufacturers at its factories in the People’s Republic of China. The Company produces a wide variety of plastic parts and components used in the manufacture of consumer and industrial products; printed circuit board assemblies using surface mount (“SMT”) and finished products such as telephones, telephone answering machines, sophisticated studio-quality audio equipment and computer peripherals. The Company’s customers include Vtech Telecommunications Ltd. and Digidesign Inc.

To learn more about Deswell Industries, Inc., please visit the Company’s website at [www.deswell.com](http://www.deswell.com).

**Forward-Looking Statements**

Statements in this press release that are "forward-looking statements" are based on current expectations and assumptions that are subject to risks and uncertainties. For example, our statements regarding our expected growth in sales from the electronic and metallic division in the coming year and our efforts to reduce overhead costs in our plastic division are forward-looking statements. Actual results could differ materially because of the following factors, among others, which may cause revenues and income to fall short of anticipated levels or our overhead expenses to increase: our dependence on a few major customers; vigorous competition forcing product price reductions or discounts; the timing and amount of significant orders from our relatively few significant customers; continuing increases in resin prices that cannot be passed on to customers; unexpected production delays; obsolete inventory or product returns; losses resulting from fraudulent activity of our customers or employees; labor shortages that increase labor and costs; changes in the mix of product products we manufacture and sell; adverse currency fluctuations in the renminbi and Hong Kong dollar when translated to US dollars; potential new accounting pronouncements; and the effects of travel restrictions and quarantines associated with major health problems, such as the Severe Acute Respiratory Syndrome, on general economic activity.

For further information regarding risks and uncertainties associated with the Company’s business, please refer to the “Risk Factors” section of Company’s Annual Report on Form 20-F, copies of which may be obtained from the Website maintained by the Securities and Exchange Commission at <http://www.sec.gov>.

All information in this release is made as of the date of this press release. Deswell undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in Deswell’s expectations.

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**DESWELL INDUSTRIES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
**( U.S. dollars in thousands)**

	March 31, <u>2013</u> (Unaudited)	March 31, <u>2012</u> (Audited)
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$ 32,030	\$ 33,073
Fixed deposits maturing over three months	8,684	4,008
Marketable securities (note 2)	6,168	-
Available-for-sale securities (note 2)	1,586	7,630
Accounts receivable, net	8,291	12,476
Inventories (note 4)	11,376	15,852
Prepaid expenses and other current assets	1,152	2,164
Total current assets	<u>69,287</u>	<u>75,203</u>
Property, plant and equipment - net	42,694	46,177
Deferred income tax assets	192	187
Goodwill	392	392
Total assets	<u>\$ 112,565</u>	<u>\$ 121,959</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 3,144	\$ 5,741
Accrued payroll and employee benefits	4,133	3,778
Customer deposits	1,254	2,257
Other accrued liabilities	1,260	1,311
Income taxes payable	592	438
Deferred income tax liabilities	606	421
Dividend payable	-	324
Total current liabilities	<u>10,989</u>	<u>14,270</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding March 31, 2013 - 16,387,648 (note 6); March 31, 2012 - 16,196,810	52,443	50,816
Additional paid-in capital	6,831	8,265
Accumulated other comprehensive income	5,288	4,570
Retained earnings	37,014	44,038
Total shareholders' equity	<u>101,576</u>	<u>107,689</u>
Total liabilities and shareholders' equity	<u>\$ 112,565</u>	<u>\$ 121,959</u>

**DESWELL INDUSTRIES, INC.**

**CONSOLIDATED STATEMENT OF OPERATIONS &  
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)  
( U.S. dollars in thousands, except per share data )**

	Quarter ended March 31,		Year ended March 31,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net sales	\$ 9,517	\$ 12,198	\$ 54,074	\$ 64,783
Cost of sales	9,186	10,789	47,264	55,318
Gross profit	<u>331</u>	<u>1,409</u>	<u>6,810</u>	<u>9,465</u>
Selling, general and administrative expenses	3,054	3,235	10,803	12,273
Other income, net	55	174	274	639
Operating loss	<u>(2,668)</u>	<u>(1,652)</u>	<u>(3,719)</u>	<u>(2,169)</u>
Non-operating income, net	772	982	2,056	1,190
Loss before income taxes	<u>(1,896)</u>	<u>(670)</u>	<u>(1,663)</u>	<u>(979)</u>
Income taxes	103	43	328	482
Net loss attributable to Deswell Industries, Inc.	<u>\$ (1,999)</u>	<u>\$ (713)</u>	<u>\$ (1,991)</u>	<u>\$ (1,461)</u>
Other comprehensive income (loss)				
Unrealized gain (loss) on available-for-sale securities	\$ (227)	\$ 779	\$ 718	\$ (746)
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ (2,226)</u>	<u>\$ 66</u>	<u>\$ (1,273)</u>	<u>\$ (2,207)</u>
Net loss per share attributable to Deswell Industries, Inc. (note 5)				
Basic:				
Net loss per share	<u>\$ (0.12)</u>	<u>\$ (0.04)</u>	<u>\$ (0.12)</u>	<u>\$ (0.09)</u>
Weighted average common shares outstanding shares in thousands)	<u>16,794</u>	<u>16,197</u>	<u>16,468</u>	<u>16,197</u>
Diluted:				
Net loss per share	<u>\$ (0.12)</u>	<u>\$ (0.04)</u>	<u>\$ (0.12)</u>	<u>\$ (0.09)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,810</u>	<u>16,202</u>	<u>16,560</u>	<u>16,207</u>