

## Deswell Announces Second Quarter 2014 Results

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

#### **FOR IMMEDIATE RELEASE**

MACAO (November 13, 2013) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal second quarter ended September 30, 2013.

Net sales for the second quarter ended September 30, 2013 were \$11.9 million, a decrease of 27.2% compared to net sales of \$16.3 million for the same quarter ended September 30, 2012. Net sales decreased by 34.0% to \$5.6 million in the Company's plastic segment and decreased by 19.9% to \$6.3 million in the electronic and metallic segment. The operating loss in the second quarter was \$1.5 million, compared to an operating loss of \$0.08 million for the same quarter of fiscal 2013.

Total gross margin decreased to 8.8% in the second quarter ended September 30, 2013 compared to 16.1% in the same quarter last year. Gross profit margin in the plastic segment decreased to 8.8% of net sales for the second quarter of fiscal 2014 compared to 19.3% 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 the combined effect of decrease in sales volume, plus relatively higher labor cost as a percentage of sales due to a raise in minimum wage rate offsetting the decrease in headcount. Gross profit margin in the electronic and metallic segment decreased to 8.8% of net sales for the second quarter ended September 30, 2013 compared to 12.7% 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 increase in labor costs, resulting from a higher labor rate, offsetting the decrease in headcount.

The Company reported a net loss of \$1.2 million for the second quarter ended September 30, 2013 compared to net income of \$0.2 million for the quarter ended September 30, 2012. Deswell reported a basic and diluted loss per share of (\$0.076) for the second quarter of fiscal 2014 (based on 16,201,000 and 16,206,000 weighted average shares outstanding, respectively), compared to a basic and diluted income per share of \$0.011 (based on 16,726,000 and 16,749,000 weighted average shares outstanding, respectively), for the quarter ended September 30, 2012.

Net sales for the six months ended September 30, 2013 were \$23.0 million, a decrease of 25.3%, compared to sales of \$30.8 million for the corresponding period in fiscal 2013. Operating loss for the six months ended September 30, 2013 was \$2.9 million, compared to operating loss of \$0.4 million for the first six months of fiscal 2013. The Company reported a net loss of \$2.9 million in the first half of fiscal 2013, compared to net income of \$0.2 million for the six months ended September 30, 2012. Deswell reported basic and diluted net loss per share of (\$0.181) for the first six months of fiscal 2013, (based on 16,247,000 and 16,271,000 weighted average share outstanding, respectively), compared to basic and diluted income per share of \$0.014 (based on 16,596,000 and 16,654,000 weighted average shares outstanding, respectively), for the prior corresponding period.

The Company's financial position remained strong at the end of the second quarter of fiscal year 2014, with \$24.6 million in cash and cash equivalents at September 30, 2013 compared to \$26.7 million at September 30, 2012. Working capital totaled \$54.6 million as of September 30, 2013, versus \$61.1 million as of September 30, 2012. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2013.

Mr. Franki Tse, Chief Executive Officer, commented, "This was another challenging quarter for our business and our results continue to be impacted by weak export sales, higher labor wages and RMB appreciation. We remain focused on controlling costs while also taking the initiative to sell out of date or unused equipment, restructure our factory operations and bolster our R&D and marketing organizations so that we may provide improved products to our existing customers and attract new customers. Our balance sheet is strong with approximately \$25 million in cash and no short or long term debt."

#### **Second Quarter Dividends**

The Company also announced that on November 13, 2013 its board of directors declared a cash dividend of \$0.05 per share for the fiscal second quarter ended September 30, 2013. The dividends will be payable on December 18, 2013 to shareholders of record as of November 25, 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 Lenbrook Industries, Ltd.

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)**

	September 30, <u>2013</u> (Unaudited)	March 31, <u>2013</u> (Audited)
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$ 24,576	\$ 32,030
Fixed deposits maturing over three months	12,076	8,684
Marketable securities	5,726	6,168
Available-for-sale securities	1,478	1,586
Accounts receivable, net	11,009	8,291
Inventories	12,486	11,376
Prepaid expenses and other current assets	<u>1,085</u>	<u>1,152</u>
Total current assets	68,436	69,287
Property, plant and equipment - net	40,969	42,694
Deferred income tax assets	196	192
Goodwill	<u>392</u>	<u>392</u>
Total assets	<u>\$ 109,993</u>	<u>\$ 112,565</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 5,205	\$ 3,144
Accrued payroll and employee benefits	4,685	4,133
Customer deposits	1,166	1,254
Other accrued liabilities	1,390	1,260
Income taxes payable	655	592
Deferred income tax liabilities	<u>688</u>	<u>606</u>
Total current liabilities	<u>13,789</u>	<u>10,989</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding September 30, 2013 - 16,296,211; March 31, 2013 - 16,387,648	53,063	52,443
Additional paid-in capital	5,885	6,831
Accumulated other comprehensive income	5,180	5,288
Retained earnings	<u>32,076</u>	<u>37,014</u>
Total shareholders' equity	<u>96,204</u>	<u>101,576</u>
Total liabilities and shareholders' equity	<u>\$ 109,993</u>	<u>\$ 112,565</u>

**DESWELL INDUSTRIES, INC.**

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

	Quarter ended		Six months ended	
	September 30,		September 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net sales	\$ 11,869	\$ 16,303	\$ 22,989	\$ 30,791
Cost of sales	<u>10,824</u>	<u>13,678</u>	<u>21,171</u>	<u>25,928</u>
Gross profit	1,045	2,625	1,818	4,863
Selling, general and administrative expenses	2,900	2,767	5,479	5,346
Other income, net	<u>336</u>	<u>67</u>	<u>750</u>	<u>89</u>
Operating loss	(1,519)	(75)	(2,911)	(394)
Non-operating income, net	<u>367</u>	<u>345</u>	<u>117</u>	<u>788</u>
Income (loss) before income taxes	(1,152)	270	(2,794)	394
Income taxes	<u>76</u>	<u>81</u>	<u>154</u>	<u>165</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ (1,228)	\$ 189	\$ (2,948)	\$ 229
Other comprehensive income (loss)				
Unrealized gain (loss) on available-for-sale securities	<u>\$ 4</u>	<u>\$ 613</u>	<u>\$ (108)</u>	<u>\$ 564</u>
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ (1,224)</u>	<u>\$ 802</u>	<u>\$ (3,056)</u>	<u>\$ 793</u>
Net income (loss) per share attributable to Deswell Industries, Inc.				
Basic:				
Net income (loss) per share	<u>\$ (0.076)</u>	<u>\$ 0.011</u>	<u>\$ (0.181)</u>	<u>\$ 0.014</u>
Weighted average common shares outstanding shares (in thousands)	<u>16,201</u>	<u>16,726</u>	<u>16,247</u>	<u>16,596</u>
Diluted:				
Net income (loss) per share	<u>\$ (0.076)</u>	<u>0.011</u>	<u>\$ (0.181)</u>	<u>\$ 0.014</u>
Weighted average number of shares outstanding (in thousands)	<u>16,206</u>	<u>16,749</u>	<u>16,271</u>	<u>16,654</u>