

## **Deswell Announces Third Quarter Results**

### **FOR IMMEDIATE RELEASE**

MACAO (March 2, 2010) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal third quarter ended December 31, 2009.

Net sales for the third quarter ended December 31, 2009 were \$21.4 million, a decrease of 42.4% compared to net sales of \$37.1 million for the same quarter ended December 31, 2008. Net sales decreased by 36.7% to \$13.1 million in the plastic segment and by 49.7% to \$8.2 million in the Company's electronic and metallic segment. The operating income in the third quarter was \$0.3 million, compared to an operating income of \$0.9 million for the same quarter of 2008.

Total gross margin improved to 18.9% in the third quarter ended December 31, 2009 compared to 17.3% in the same quarter last year. Gross profit in the plastic segment slightly increased to 25.3% of net sales for the third quarter of fiscal 2010 compared to 25.1% of net sales for the same quarter of last year. The increased gross margin in the plastic segment was mainly due to lower materials usage and drop in plastic resin price, offsetting the increase in labor costs due to overtime allowance, as well as an increase in factory overhead. Gross profit in the electronic and metallic segment increased to 8.5% of net sales for the third quarter ended December 31, 2009, compared to 7.3% of net sales for the year-ago quarter. The improved gross margin in the electronic and metallic segment was mainly attributed to lower materials cost offsetting higher factory overheads.

The Company reported a net loss of \$0.4 million for the third quarter ended December 31, 2009 compared to net income of \$1.0 million for the quarter ended December 31, 2008. Basic net loss per share and diluted net loss per share decreased to \$0.03 and \$0.03 respectively, (based on 16,003,000 and 16,017,000 weighted average shares outstanding, respectively) compared to earnings per share of \$0.06 and \$0.06 respectively, (based on 15,791,000 and 15,791,000 weighted average shares outstanding, respectively) for the same quarter ended December 31, 2008.

Net sales for the nine months ended December 31, 2009 were \$65.0 million, a decrease of 37.8%, compared to sales of \$104.4 million for the corresponding period in 2008. Operating loss for the nine months ended December 31, 2009 was \$1.2 million, compared to operating income of \$0.5 million for the first nine months of fiscal 2009. The Company reported net income of \$2.4 million for the nine months ended December 31, 2009, compared to net income of \$0.6 million for the nine months ended December 30, 2008. Deswell reported basic and diluted net income per share for the nine months ended December 31, 2009 of \$0.15 and \$0.15, respectively (based on 15,892,000 and 15,962,000 weighted average share outstanding, respectively), compared to earnings per share of \$0.04 and \$0.04, respectively (based on 15,791,000 and 15,799,000 weighted average shares outstanding, respectively), for the nine months ended December 31, 2008.

The Company's financial position remained strong at the end of the third quarter of fiscal year 2010, with \$42.2 million in cash and cash equivalents at December 31, 2009, compared to \$23.1 million on March 31, 2009. Working capital totaled \$60.7 million as of December 31, 2009, versus \$52.6 million as of March 31, 2009. Furthermore, the Company has no long-term or short-term borrowings at December 31, 2009.

Mr. Franki Tse, chief executive officer, commented, "During the past quarter, we continued to see the impact of the difficult global economy and our sequential sales performance was essentially flat. We continuously drive efforts to diversify our customer base and products. There has been some strengthening in order volume recently and we believe that we are well positioned to benefit from a recovering global economy. That being said, we remain cautious and continue to evaluate ways to reduce expenses. Gross margins were strong and we maintained SG&A consistent with the second quarter."

Mr. Tse continued, "Deswell has maintained a strong balance sheet with third quarter book value per share of more than \$7.00 and working capital over \$61 million. Nonetheless, given our loss for the quarter, we have suspended the dividend to conserve cash and best position us to drive future performance."

## **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 N&J Company, Digidesign Inc., Vtech Telecommunications Ltd., Inter-Tel Incorporated, Focusrite Audio Engineering, Ltd.

To learn more about Deswell Industries, Inc., please visit the Company’s web site 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)**

	December 31, <u>2009</u>	March 31, <u>2009</u>
ASSETS	(Unaudited)	(Audited)
<b>Current assets :</b>		
Cash and cash equivalents	\$ 42,239	\$ 23,134
Marketable securities	269	100
Accounts receivable, net	17,257	22,227
Inventories	16,028	21,445
Assets held for sale	-	987
Prepaid expenses and other current assets	<u>1,361</u>	<u>1,887</u>
Total current assets	77,154	69,780
Property, plant and equipment - net	62,056	66,564
Deferred income tax assets	421	746
Goodwill	<u>392</u>	<u>392</u>
<b>Total assets</b>	<b><u>\$ 140,023</u></b>	<b><u>\$ 137,482</u></b>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 9,613	\$ 10,370
Accrued payroll and employee benefits	1,236	2,473
Customer deposits	1,104	1,460
Other accrued liabilities	3,225	2,167
Income taxes payable	<u>1,283</u>	<u>705</u>
Total current liabilities	<u>16,461</u>	<u>17,175</u>
Minority interests	-	-
 Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding 16,188,810 shares at December 31, 2009 and 15,790,810 shares at March 31, 2009, respectively	50,795	49,923
Additional paid-in capital	7,720	7,771
Accumulated other comprehensive income	5,316	5,316
Retained earnings	<u>59,731</u>	<u>57,297</u>
Total shareholders' equity	<u>123,562</u>	<u>120,307</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 140,023</u></b>	<b><u>\$ 137,482</u></b>

**DESWELL INDUSTRIES, INC.**  
**CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**  
(U.S. dollars in thousands, except per share data )

	Quarter ended December 31,		Nine months ended December 31,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(Unaudited)		(Unaudited)	
Net sales	\$ 21,358	\$ 37,101	\$ 64,947	\$104,381
Cost of sales	<u>17,330</u>	<u>30,688</u>	<u>54,410</u>	<u>88,542</u>
Gross profit	4,028	6,413	10,537	15,839
Selling, general and administrative expenses	3,875	5,015	11,657	15,528
Other income/(expenses), net	<u>143</u>	<u>(521)</u>	<u>(116)</u>	<u>215</u>
Operating income	296	877	(1,236)	526
Interest expense	-	-	-	-
Non-operating income/(expenses), net	<u>171</u>	<u>130</u>	<u>4,574</u>	<u>148</u>
	467	1,007	3,338	674
Income taxes	<u>904</u>	<u>20</u>	<u>904</u>	<u>67</u>
Income before minority interests	(437)	987	2,434	607
Minority interests	-	-	-	-
Net income	(437)	987	2,434	607
Other comprehensive income				
Foreign currency translation adjustment	-	-	-	<u>1,585</u>
Comprehensive income	<u>(437)</u>	<u>987</u>	<u>2,434</u>	<u>2,192</u>
Net income per share (note 3)				
Basic:				
Net income per share	<u>\$ (0.03)</u>	<u>\$ 0.06</u>	<u>\$ 0.15</u>	<u>\$ 0.04</u>
Weighted average number of shares				
outstanding (in thousands)	<u>16,003</u>	<u>15,791</u>	<u>15,892</u>	<u>15,791</u>
Diluted:				
Net income per share	<u>\$ (0.03)</u>	<u>\$ 0.06</u>	<u>\$ 0.15</u>	<u>\$ 0.04</u>
Weighted average number of shares				
outstanding (in thousands)	<u>16,017</u>	<u>15,791</u>	<u>15,962</u>	<u>15,799</u>