

# Deswell Announces Second Quarter Results

## - Company Announces Second Quarter Dividend of \$0.02 Per Share -

### FOR IMMEDIATE RELEASE

MACAO (November 30, 2011) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal second quarter ended September 30, 2011.

Net sales for the second quarter ended September 30, 2011 were \$18.0 million, a decrease of 25.0% compared to net sales of \$24.0 million for the same quarter ended September 30, 2010. Net sales decreased by 41.3% to \$7.7 million in the Company's plastic segment and by 5.2% to 10.3 million in the electronic and metallic segment. The operating loss in the second quarter was \$0.2 million, compared to an operating loss of \$1.7 million for the same quarter of fiscal 2011.

Total gross margin increased to 14.0% in the second quarter ended September 30, 2011 compared to 12.0% in the same quarter last year. Gross profit margin in the plastic segment increased to 16.3% of net sales for the second quarter of fiscal 2012 compared to 10.5% of net sales for the same quarter of last fiscal year. The increase of gross profit margin was mainly due to an increase in the selling price of products, production of high margin items and improvement in operating efficiency. Gross profit margin in the electronic and metallic segment decreased to 12.3% of net sales for the second quarter ended September 30, 2011 compared to 14.0% of net sales for the year-ago quarter. The decrease in gross margin in the electronic and metallic segment was mainly attributable to an increase in the labor cost as a result in overtime allowances as well as increase in factory overheads.

The Company reported a net loss of \$0.9 million for the second quarter ended September 30, 2011 compared to a net loss of \$1.6 million for the quarter ended September 30, 2010. Basic and diluted net loss per share was (\$0.056), (based on 16,197,000 and 16,199,000 weighted average shares outstanding, respectively) compared to basic and diluted net loss per share of (\$0.10), (based on 16,194,000 and 16,205,000 weighted average shares outstanding, respectively) for the same quarter ended September 30, 2010.

Net sales for the six months ended September 30, 2011 were \$36.3 million, a decrease of 18.3%, compared to sales of \$44.5 million for the corresponding period in fiscal 2011. Operating loss for the six months ended September 30, 2011 was \$0.1 million, compared to operating loss of \$4.4 million for the first six months of fiscal 2011. The Company reported a net loss of \$0.8 million in the first half of fiscal 2012, compared to a net loss of \$3.9 million for the six months ended September 30, 2010. Deswell reported basic and diluted net loss per share of (\$0.052) for the first six months of fiscal 2012, (based on 16,197,000 and 16,201,000 weighted average share outstanding, respectively), compared to basic and diluted loss per share of (\$0.24), (based on 16,194,000 and 16,200,000 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 2012, with \$25.2 million in cash and cash equivalents at September 30, 2011, compared to \$35.6 million at March 31, 2011. Working capital totaled \$59.5 million as of September 30, 2011, versus \$59.7 million as of March 31, 2011. Furthermore, the Company has no long-term or short-term borrowings at September 30, 2011.

Mr. Franki Tse, chief executive officer, commented, "Many of our customers were impacted by weak demand in their own markets, mainly in the U.S. and Europe. It is our expectation that the challenging world economic situation will inevitably affect us in the coming few quarters. We have managed our expenses aggressively and improved our information technology with the successful implementation of a new SAP system in our electronic and metallic segment. Gross margins have continued to improve and we have reduced our SG&A expenses effectively. Hence, our net loss was minimized, and our cash flow remains healthy with Cash Provided by Operating Activities for the six months at \$5.9 million."

### **Second Quarter Dividends**

The Company also announced that on November 29, 2011 its board of directors declared a dividend of \$0.02 per share for the fiscal second quarter ended September 30, 2011. The dividend will be payable on December 29, 2011 to shareholders of record as of December 5, 2011.

## **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.

## **Investor Relations Contact:**

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

	September 30, <u>2011</u> (Unaudited)	March 31, <u>2011</u> (Audited)
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$ 25,205	\$ 35,635
Fixed deposits maturing over three months	3,129	-
Marketable securities	3,293	1,045
Available-for-sale securities	7,856	-
Accounts receivable, net	15,796	17,210
Inventories	16,795	19,517
Prepaid expenses and other current assets	2,331	2,154
Total current assets	<u>74,405</u>	<u>75,561</u>
Property, plant and equipment - net	48,570	51,052
Deferred income tax assets	159	154
Goodwill	392	392
Total assets	<u>\$ 123,526</u>	<u>\$ 127,159</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 5,862	\$ 6,864
Accrued payroll and employee benefits	3,950	3,971
Customer deposits	2,538	1,965
Other accrued liabilities	1,352	1,453
Income taxes payable	408	596
Deferred income tax liabilities	294	213
Dividend payable	486	810
Total current liabilities	<u>14,890</u>	<u>15,872</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding September 30, 2011 - 16,196,810; March 31, 2011 - 16,194,810	50,816	50,809
Additional paid-in capital	7,716	7,719
Accumulated other comprehensive income	4,796	5,316
Retained earnings	45,308	47,443
Total shareholders' equity	<u>108,636</u>	<u>111,287</u>
Total liabilities and shareholders' equity	<u>\$ 123,526</u>	<u>\$ 127,159</u>

**DESWELL INDUSTRIES, INC.****Consolidated Statement of Income (Unaudited)**

( U.S. dollars in thousands, except per share data )

	Quarter ended September 30,		Six months ended September 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net sales	\$ 18,020	\$ 24,023	\$ 36,344	\$ 44,510
Cost of sales	<u>15,492</u>	<u>21,129</u>	<u>30,655</u>	<u>40,716</u>
Gross profit	2,528	2,894	5,689	3,794
Selling, general and administrative expenses	3,145	3,835	6,240	7,658
Other income (expenses), net	<u>392</u>	<u>(773)</u>	<u>440</u>	<u>(529)</u>
Operating loss	(225)	(1,714)	(111)	(4,393)
Non-operating income (expenses), net	<u>(370)</u>	<u>184</u>	<u>(381)</u>	<u>581</u>
Loss before income taxes	(595)	(1,530)	(492)	(3,812)
Income taxes	<u>319</u>	<u>67</u>	<u>347</u>	<u>65</u>
Net loss attributable to Deswell Industries, Inc.	\$ (914)	\$ (1,597)	\$ (839)	\$ (3,877)
Other comprehensive loss				
Unrealized loss on available-for-sale securities	\$ (292)	\$ -	\$ (520)	\$ -
Comprehensive loss attributable to Deswell Industries, Inc.	<u>\$ (1,206)</u>	<u>\$ (1,597)</u>	<u>\$ (1,359)</u>	<u>\$ (3,877)</u>
Net loss per share attributable to Deswell Industries, Inc.				
Basic:				
Net loss per share	<u>\$ (0.056)</u>	<u>\$ (0.10)</u>	<u>\$ (0.052)</u>	<u>\$ (0.24)</u>
Weighted average common shares outstanding shares in thousands)	<u>16,197</u>	<u>16,194</u>	<u>16,197</u>	<u>16,194</u>
Diluted:				
Net loss per share	<u>\$ (0.056)</u>	<u>\$ (0.10)</u>	<u>\$ (0.052)</u>	<u>\$ (0.24)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,199</u>	<u>16,205</u>	<u>16,201</u>	<u>16,200</u>