

# Deswell Announces Third Quarter Results

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

### FOR IMMEDIATE RELEASE

MACAO (March 10, 2011) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal third quarter ended December 31, 2010.

Net sales for the third quarter ended December 31, 2010 were \$24 million, an increase of 10.2% compared to net sales of \$21.3 million for the same quarter ended December 31, 2009. Net sales decreased by 12.6% to \$11.5 million in the plastic segment and increased by 46.4% to \$12.1 million in the Company's electronic and metallic segment. The operating loss in the third quarter of fiscal 2011 was \$4.0 million, compared to operating income of \$0.3 million for the same quarter of fiscal 2010.

Total gross margin decreased to 14.1% in the third quarter ended December 31, 2010 compared to 19.0% in the same quarter last year. Gross profit margin in the plastic segment decreased to 24.8% of net sales for the third quarter of fiscal 2011 compared to 25.5% of net sales for the same quarter of last fiscal year. The decreased gross margin in the plastic segment was mainly due to an increase in labor costs resulting from a raise in the minimum wage rate and increases in overtime allowance, offsetting a decrease in raw material cost as a percentage of sales during the quarter. Gross profit margin in the electronic and metallic segment decreased to 3.9% of net sales for the third quarter ended December 31, 2010, compared to 8.5% 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 raw materials cost, resulting from an additional provision for excess materials relating to end-of-life models, and increased labor costs which were driven by increases in the minimum wage rate and headcount, as compared to the prior year quarter.

Management makes an assessment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In this quarter, the company has made a provision of \$3.6 million for the impairment of fixed assets.

The Company reported a net loss of \$3.6 million for the third quarter ended December 31, 2010 compared to net loss of \$0.4 million for the quarter ended December 31, 2009. Basic and diluted net loss per share was (\$0.22), (based on 16,195,000 and 16,203,000 weighted average shares outstanding, respectively) compared to basic and diluted net loss per share of (\$0.03), (based on 16,003,000 and 16,017,000 weighted average shares outstanding, respectively) for the same quarter ended December 31, 2009.

Net sales for the nine months ended December 31, 2010 were \$68.0 million, an increase of 4.8%, compared to sales of \$64.9 million for the corresponding period in fiscal 2010. Operating loss for the nine months ended December 31, 2010 was \$8.4 million, compared to operating income of \$3.0 million for the first nine months of fiscal 2010. The Company reported a net loss of \$7.5 million in the first nine months of fiscal 2011, compared to net income of \$2.4 million for the nine months ended December 31, 2009. Deswell reported basic and diluted net loss per share of (\$0.46) for the first nine months of fiscal 2011, (based on 16,193,000 and 16,201,000 weighted average share outstanding, respectively), compared to income per share of \$0.15, (based on 15,892,000 and 15,962,000 weighted average shares outstanding, respectively), for the prior corresponding period.

The Company's financial position remained strong at the end of the third quarter of fiscal year 2011, with \$34.8 million in cash and cash equivalents at December 31, 2010 compared to \$35.1 million at March 31, 2010. Working capital totaled \$59.9 million as of December 31, 2010 versus \$59.8 million as of March 31, 2010. Furthermore, the Company has no long-term or short-term borrowings at December 31, 2010.

Mr. Franki Tse, chief executive officer, commented, "During the quarter we saw a significant improvement in our sales, particularly in the electronics and metal segment, due to strong Christmas demand in the professional audio industry. We have reduced our headcount from 4,100 as of the second quarter end to 2,900 as of this quarter end, but the cost benefit of this significant reduction has been offset by increased labor

cost, RMB appreciation, provisioning of excess materials and impairments of fixed assets. Price negotiation with customers are undergoing and we believe it will help us to improve our performance in the coming quarters, although once again the China labor rate increases another 20% on March 1, 2011, the second 20% increase within 10 months. Nonetheless, we have maintained a very strong balance sheet with no short or long term debt, enabling us to declared a third quarter dividend of \$0.05 per share for our shareholders. “

### **Third Quarter Dividends**

The Company also announced that on March 10, 2011 its board of directors declared a dividend of \$0.05 per share for the fiscal third quarter ended December 31, 2010. The dividend will be payable on April 13, 2011 to shareholders of record as of March 23, 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 N&J Company, Digidesign Inc., Vtech Telecommunications 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.

### **Investor Relations Contact:**

John Nesbett/Jennifer Belodeau

Institutional Marketing Services (IMS)

203.972.9200

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

	December 31, <u>2010</u> (Unaudited)	March 31, <u>2010</u> (Audited)
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$ 34,837	\$ 35,120
Marketable securities	-	5,673
Accounts receivable, net	20,152	14,399
Inventories (note 2)	19,777	15,808
Prepaid expenses and other current assets	<u>2,396</u>	<u>1,844</u>
Total current assets	77,162	72,844
Property, plant and equipment - net	52,484	60,705
Deferred income tax assets	-	70
Goodwill	<u>392</u>	<u>392</u>
Total assets	<u><u>\$ 130,038</u></u>	<u><u>\$ 134,011</u></u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 9,455	\$ 7,298
Accrued payroll and employee benefits	3,773	2,570
Customer deposits	2,013	883
Other accrued liabilities	1,664	1,905
Deferred income tax liabilities	<u>383</u>	<u>340</u>
Total current liabilities	<u>17,288</u>	<u>12,996</u>
Shareholders' equity		
Common shares nil par value		
- authorized 30,000,000 shares; issued and outstanding		
16,194,810 shares at December 31, 2010 and		
16,191,810 shares at March 31, 2010, respectively	50,809	50,803
Additional paid-in capital	7,719	7,719
Accumulated other comprehensive income	5,316	5,316
Retained earnings	<u>48,906</u>	<u>57,177</u>
Total shareholders' equity	<u>112,750</u>	<u>121,015</u>
Total liabilities and shareholders' equity	<u><u>\$ 130,038</u></u>	<u><u>\$ 134,011</u></u>

**DESWELL INDUSTRIES, INC.**

**CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**

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

	Quarter ended		Nine months ended	
	December 31,		December 31,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(Unaudited)		(Unaudited)	
Net sales	\$ 23,534	\$ 21,358	\$ 68,043	\$ 64,947
Cost of sales	<u>20,220</u>	<u>17,308</u>	<u>60,935</u>	<u>54,388</u>
Gross profit	3,314	4,050	7,108	10,559
Selling, general and administrative expenses	3,496	3,897	11,154	11,680
Other income (expenses), net	<u>(3,849)</u>	<u>143</u>	<u>(4,378)</u>	<u>4,083</u>
Operating income (loss) (note 3)	(4,031)	296	(8,424)	2,962
Interest expense	-	-	-	-
Non-operating income, net	<u>486</u>	<u>171</u>	<u>1,067</u>	<u>376</u>
Income (loss) before income taxes	(3,545)	467	(7,357)	3,338
Income taxes	<u>40</u>	<u>904</u>	<u>105</u>	<u>904</u>
Net income (loss)	<u>\$ (3,585)</u>	<u>\$ (437)</u>	<u>\$ (7,462)</u>	<u>\$ 2,434</u>
Net income per share (note 4)				
Basic:				
Net income per share	<u>\$ (0.22)</u>	<u>\$ (0.03)</u>	<u>\$ (0.46)</u>	<u>\$ 0.15</u>
Weighted average number of shares outstanding (in thousands)	<u>16,195</u>	<u>16,003</u>	<u>16,193</u>	<u>15,892</u>
Diluted:				
Net income per share	<u>\$ (0.22)</u>	<u>\$ (0.03)</u>	<u>\$ (0.46)</u>	<u>\$ 0.15</u>
Weighted average number of shares outstanding (in thousands)	<u>16,203</u>	<u>16,017</u>	<u>16,201</u>	<u>15,962</u>