

Deswell Announces Second Quarter Results

- **Announces Second Quarter Dividend of \$0.10 Per Share** -
- **Company Realizes Net Gain of \$4.2 Million On Sale of Former Manufacturing Plant** -

FOR IMMEDIATE RELEASE

MACAO (December 3, 2009) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal second quarter ended September 30, 2009.

Net sales for the second quarter ended September 30, 2009 were \$20.8 million, a decrease of 35.3% compared to net sales of \$32.2 million for the same quarter ended September 30, 2009, mainly as a consequence of the continuing decline in demand for the Company's plastic injection molding as well as a decline in demand from the professional audio and instrument equipment market. The operating loss in the second quarter was \$1.3 million, compared to an operating loss of \$1.7 million for the same quarter of 2008.

The Company reported a non-operating income of \$4.3 million after realizing a net gain of \$4.2 million from disposal of a former manufacturing plant. Deswell reported net income of \$3.1 million for the second quarter ended September 30, 2009 compared to net loss of \$1.7 million for the quarter ended September 30, 2008. Basic net income per share and diluted net income per share improved to \$0.20 and \$0.20 respectively, (based on 15,880,000 and 16,016,000 weighted average shares outstanding, respectively) compared to a loss of (\$0.11) and (\$0.11) respectively, (based on 15,791,000 and 15,791,000 weighted average shares outstanding, respectively) for the quarter ended September 30, 2008.

As of September 30, 2009, the Company received the total sale proceeds of \$7.3 million from the sale of its former plastic injection manufacturing plant in Shekou, Shenzhen, China. The Company had entered into an agreement for sale of this manufacturing plant on August 6, 2009. The sale was closed in September 2009 with a gain on the sale, net of the transaction cost, of \$4.2 million, recognized in September 2009. The net gain on the sale of this plant is recorded as non-operating income in the Company's financial statements during the second fiscal quarter ended September 30, 2009.

Total gross margin improved to 13.9% in the second quarter ended September 30, 2009 compared to 10.9% in the same quarter last year. Gross profit in the plastic segment increased to 15.5% of net sales for the second quarter of fiscal 2010 compared to 10.8% 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 lower plastic resin price. There were also savings in labor cost due to headcount reduction, offsetting a slight increase in factory overhead. Gross profit in the electronic and metallic segment increased to 11.6% of net sales for the second quarter ended September 30, 2009, compared to 11.1% 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 as well as the savings in labor cost, offsetting higher factory overheads.

Net sales for the six months ended September 30, 2009 were \$43.6 million, a decrease of 35.2%, compared to sales of \$67.3 million for the corresponding period in 2008. Operating loss for the six months ended September 30, 2009 was \$1.5 million, compared to operating loss of \$0.4 million for the first six months of fiscal 2008. The Company reported net income of \$2.9 million, compared to a loss of \$0.4 million for the six months ended September 30, 2008. Deswell reported basic and diluted net income per share for the six months of \$0.18 and \$0.18, respectively (based on 15,836,000 and 15,969,000 weighted average share outstanding, respectively), compared to a loss of (\$0.02) and (\$0.02), respectively (based on 15,791,000 and 15,803,000 weighted average shares outstanding, respectively), for the six months ended September 30, 2008.

The Company's financial position remained strong at the end of the second quarter of fiscal year 2009, with \$41.1 million in cash and cash equivalents at September 30, 2009, compared to \$23.1 million on March 31, 2009. Working capital totaled \$59.3 million as of September 30, 2009, versus \$52.6 million as of March 31, 2009. Furthermore, the Company has no long-term or short-term borrowings at September 30, 2009.

Mr. Franki Tse, chief executive officer, commented, "Over the past year, we have taken and will continue to take considerable steps to reduce the cost structure of the business given the challenging economic environment. Our strong

balance sheet, with \$41 million in cash, no debt and over seven dollars per share in book value, positions us favorably with customers and is a strategic advantage. Revenues were down very modestly on a sequential basis and we have seen a slight increase in pipeline activity with existing and prospective customers. We are expecting some sales to be generated in the coming quarters from new market segments, such as audio amplifiers, products with LCD display and others.”

Second Quarter Dividends

The Company also announced that on December 3, 2009 its board of directors declared a dividend of \$0.10 per share for the fiscal second quarter ended September 30, 2009. The dividend will be payable on January 7, 2010 to shareholders of record as of December 15, 2009.

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.

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>2009</u> (Unaudited)	March 31, <u>2009</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 41,101	\$ 23,134
Marketable securities	167	100
Accounts receivable, net	17,289	22,227
Inventories	16,327	21,445
Assets held for sale	-	987
Prepaid expenses and other current assets	1,702	1,887
Total current assets	76,586	69,780
Property, plant and equipment - net	63,121	66,564
Deferred income tax assets	746	746
Goodwill	392	392
Total assets	<u>\$ 140,845</u>	<u>\$ 137,482</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 8,019	\$ 10,370
Accrued payroll and employee benefits	1,236	2,473
Customer deposits	1,541	1,460
Other accrued liabilities	5,820	2,167
Income taxes payable	705	705
Total current liabilities	<u>17,321</u>	<u>17,175</u>
Minority interests	<u>-</u>	<u>-</u>
Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding		
15,935,810 shares at September 30, 2009 and		
15,790,810 shares at March 31, 2008, respectively	50,199	49,923
Additional paid-in capital	7,841	7,771
Accumulated other comprehensive income	5,316	5,316
Retained earnings	60,168	57,297
Total shareholders' equity	<u>123,524</u>	<u>120,307</u>
Total liabilities and shareholders' equity	<u>\$ 140,845</u>	<u>\$ 137,482</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(Unaudited)		(Unaudited)	
Net sales	\$ 20,852	\$ 32,241	\$ 43,590	\$ 67,280
Cost of sales	<u>17,945</u>	<u>28,716</u>	<u>37,080</u>	<u>57,855</u>
Gross profit	2,907	3,525	6,510	9,425
Selling, general and administrative expenses	3,867	5,274	7,782	10,513
Other income/(expenses), net	<u>(300)</u>	<u>88</u>	<u>(259)</u>	<u>735</u>
Operating income	(1,260)	(1,661)	(1,531)	(353)
Interest expense	-	-	-	-
Non-operating income/(expenses), net	<u>4,348</u>	<u>(9)</u>	<u>4,403</u>	<u>18</u>
	3,088	(1,670)	2,872	(335)
Income taxes	<u>(36)</u>	<u>3</u>	<u>1</u>	<u>48</u>
Income before minority interests	3,124	(1,673)	2,871	(383)
Minority interests	-	-	-	-
Net income	<u>3,124</u>	<u>(1,673)</u>	<u>2,871</u>	<u>(383)</u>
Other comprehensive income				
Foreign currency translation adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,585</u>
Comprehensive income	<u><u>3,124</u></u>	<u><u>(1,673)</u></u>	<u><u>2,871</u></u>	<u><u>1,202</u></u>
Net income per share (note 3)				
Basic:				
Net income per share	<u>\$ 0.20</u>	<u>\$ (0.11)</u>	<u>\$ 0.18</u>	<u>\$ (0.02)</u>
Weighted average number of shares outstanding (in thousands)	<u>15,880</u>	<u>15,791</u>	<u>15,836</u>	<u>15,791</u>
Diluted:				
Net income per share	<u>\$ 0.20</u>	<u>\$ (0.11)</u>	<u>\$ 0.18</u>	<u>\$ (0.02)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,016</u>	<u>15,791</u>	<u>15,969</u>	<u>15,803</u>