

## Deswell Announces Fourth Quarter Results

### - Announces Fourth Quarter Dividend of \$0.05 Per Share -

#### FOR IMMEDIATE RELEASE

MACAO (June 23, 2010) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal fourth quarter ended March 31, 2010.

Net sales for the fourth quarter ended March 31, 2010 were \$16.7 million, a decrease of 39.1% compared to net sales of \$27.4 million for the same quarter ended March 31, 2009. Net sales decreased by 37.4% to \$9.1 million in the plastic segment and by 41.0% to \$7.5 million in the Company's electronic and metallic segment. The operating loss in the fourth quarter was \$1.2 million, compared to an operating income of \$0.2 million for the same quarter of fiscal 2009.

Total gross margin decreased to 12.6% in the fourth quarter ended March 31, 2010 compared to 15.8% in the same quarter last year. Gross profit in the plastic segment slightly increased to 21.9% of net sales for the fourth quarter of fiscal 2010 compared to 18.9% of net sales for the same quarter of last year. The increased gross margin in the plastic segment was mainly due to the reduction of sales of lower profit margin items, offsetting the higher labor costs and increase in factory overhead as a percentage of sales during the quarter. Gross profit margin in the electronic and metallic segment decreased to 1.2% of net sales for the fourth quarter ended March 31, 2010, compared to 12.4% of net sales for the year-ago quarter. The decrease in gross margin in the electronic and metallic segment was due mainly to an increase in raw material costs as a percentage of sales due to higher provisions for obsolete inventory, and in labor costs and factory overhead as a percentage of sales during the quarter.

The Company reported a net loss of \$0.9 million for the fourth quarter ended March 31, 2010 compared to net income of \$0.6 million for the quarter ended March 31, 2009. Basic net loss per share and diluted net loss per share were (\$0.06) and (\$0.06) respectively, (based on 16,190,000 and 16,203,000 weighted average shares outstanding, respectively) compared to earnings per share of \$0.04 and \$0.04 respectively, (based on 15,791,000 and 15,821,000 weighted average shares outstanding, respectively) for the same quarter ended March 31, 2009.

Net sales for the year ended March 31, 2010 were \$81.6 million, a decrease of 38.0%, compared to sales of \$131.7 million for the corresponding period in fiscal 2009. Operating loss for the year ended March 31, 2010 was \$2.4 million, compared to operating income of \$0.7 million for fiscal 2009. The Company reported net income of \$1.5 million for the year ended March 31, 2010, compared to net income of \$1.2 million for the year ended March 31, 2009. Deswell reported basic and diluted net income per share for the year ended March 31, 2010 of \$0.09 and \$0.09, respectively (based on 15,965,000 and 16,039,000 weighted average shares outstanding, respectively), compared to earnings per share of \$0.08 and \$0.08, respectively (based on 15,791,000 and 15,805,000 weighted average shares outstanding, respectively), for the year ended March 31, 2009.

The Company's financial position remained strong at the end of fiscal year 2010, with \$35.1 million in cash and cash equivalents at March 31, 2010, compared to \$23.1 million on March 31, 2009. Working capital totaled \$59.8 million as of March 31, 2010, versus \$52.6 million as of March 31, 2009. Furthermore, the Company has no long-term or short-term borrowings at March 31, 2010.

Mr. Franki Tse, chief executive officer, commented, "We experienced a significant decline in sales during 2009. Both of our operations, the plastics and the electronics business, were down approximately 37-40%, which affected our revenues and bottom line. Although the world economic situation is becoming more stable and we have seen some uplifting signs, we remain very cautious and expect that this unsettled business situation may continue for a few more quarters.

"The China labor shortage and recent minimum wage increase, as well as the fluctuation of the renmibi, have been and will continue to be the factors driving the increase in manufacturing costs. To combat this trend, we will focus on

reducing overhead costs and increasing new business development. We believe these efforts, combined with the contribution of new accounts and projects later this year, will provide more positive results in the coming fiscal year.

“Our balance sheet remains healthy, with \$35.1 million in cash and cash equivalents and \$59.8 million in working capital. Furthermore, we will distribute a dividend of \$0.05 per share for the quarter.”

#### **Fourth Quarter Dividend**

The Company announced that on June 22, 2010 its board of directors declared a dividend of \$0.05 per share for the fiscal fourth quarter ended March 31, 2010. The dividend will be payable on July 28, 2010 to shareholders of record as of July 7, 2010.

#### **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 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)**

	March 31, <u>2010</u> (Unaudited)	March 31, <u>2009</u> (Audited)
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$ 35,120	\$ 23,134
Marketable securities	5,673	100
Accounts receivable, net	14,399	22,227
Inventories	15,808	21,445
Assets held for sale	-	987
Prepaid expenses and other current assets	1,844	1,887
Total current assets	72,844	69,780
Property, plant and equipment - net	60,705	66,564
Deferred income tax assets	70	746
Goodwill	392	392
Total assets	<u>\$ 134,011</u>	<u>\$ 137,482</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities		
Accounts payable	\$ 7,298	\$ 10,370
Accrued payroll and employee benefits	2,570	2,473
Customer deposits	883	1,460
Other accrued liabilities	1,905	2,167
Income taxes payable	-	705
Deferred income tax liability	340	-
Total current liabilities	12,996	17,175
Minority interests	-	-
Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding		
16,191,810 shares at March 31, 2010 and		
15,790,810 shares at March 31, 2009, respectively	50,803	49,923
Additional paid-in capital	7,719	7,771
Accumulated other comprehensive income	5,316	5,316
Retained earnings	57,177	57,297
Total shareholders' equity	121,015	120,307
Total liabilities and shareholders' equity	<u>\$ 134,011</u>	<u>\$ 137,482</u>

**DESWELL INDUSTRIES, INC.**

**CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**

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

	Quarter ended		Year ended	
	March 31,		March 31,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(Unaudited)		(Unaudited)	
Net sales	\$ 16,667	\$ 27,357	\$ 81,614	\$131,738
Cost of sales	<u>14,570</u>	<u>23,028</u>	<u>68,958</u>	<u>111,570</u>
Gross profit	2,097	4,329	12,656	20,168
Selling, general and administrative expenses	3,826	3,763	15,505	19,291
Other income/(expenses), net	<u>511</u>	<u>(347)</u>	<u>396</u>	<u>(132)</u>
Operating income	(1,218)	219	(2,453)	745
Non-operating income/(expenses), net	<u>69</u>	<u>20</u>	<u>4,642</u>	<u>168</u>
	(1,149)	239	2,189	913
Income taxes	<u>(214)</u>	<u>(349)</u>	<u>690</u>	<u>(282)</u>
Income before minority interests	(935)	588	1,499	1,195
Minority interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	(935)	588	1,499	1,195
Other comprehensive income				
Foreign currency translation adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,582</u>
Comprehensive income	<u>(935)</u>	<u>588</u>	<u>1,499</u>	<u>2,777</u>
Net income per share (note 3)				
Basic:				
Net income per share	<u>\$ (0.06)</u>	<u>\$ 0.04</u>	<u>\$ 0.09</u>	<u>\$ 0.08</u>
Weighted average number of shares outstanding (in thousands)	<u>16,190</u>	<u>15,791</u>	<u>15,965</u>	<u>15,791</u>
Diluted:				
Net income per share	<u>\$ (0.06)</u>	<u>\$ 0.04</u>	<u>\$ 0.09</u>	<u>\$ 0.08</u>
Weighted average number of shares outstanding (in thousands)	<u>16,203</u>	<u>15,821</u>	<u>16,039</u>	<u>15,805</u>