

Deswell Announces First Quarter 2015 Results

- Company Announces First Quarter Cash Dividend of \$0.05 Per Share

FOR IMMEDIATE RELEASE

MACAO (August 22, 2014) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal first quarter ended June 30, 2014.

Net sales for the first quarter ended June 30, 2014 were \$8.9 million, a decrease of 19.7% compared to net sales of \$11.1 million for the same quarter ended June 30, 2013. Net sales decreased by 22.9% to \$4.5 million in the Company's plastic segment and decreased by 16.3% to \$4.4 million in the electronic and metallic segment. The operating loss in the first quarter was \$0.8 million, compared to an operating loss of \$1.4 million for the same quarter of fiscal 2014.

Total gross margin increased to 9.7% in the first quarter ended June 30, 2014 compared to 7.0% in the same quarter last year. Gross profit margin in the plastic segment increased to 14.7% of net sales for the first quarter of fiscal 2015 compared to 8.7% of net sales for the same quarter of last fiscal year. The increase in gross profit and margin in the plastic segment was mainly due to decreases in labor cost resulting from reduction in headcount, and in factory overhead as a percentage of sales. Gross profit margin in the electronic and metallic segment decreased slightly to 4.7% of net sales for the first quarter ended June 30, 2014 compared to 5.0% of net sales for the year-ago quarter. The decrease in gross profit and margin in the electronic and metallic segment was mainly attributed to increase in labor costs as a percentage of sales, resulting from more allowances paid.

Non-operating income was \$888,000 for the quarter ended June 30, 2014 as compared to non-operating expense of \$250,000 for the year-ago quarter. The increase of non-operating income is mainly attributable to increases of \$938,000 in unrealized gain on revaluation of marketable securities and of \$203,000 in rental income, as compared to the year-ago quarter.

The Company reported a net income of \$0.01 million for the first quarter ended June 30, 2014 compared to a net loss of \$1.7 million for the quarter ended June 30, 2013. Deswell reported a basic and diluted income per share of \$0.001 for the first quarter of fiscal 2015 (based on 16,257,000 and 16,257,000 weighted average shares outstanding, respectively) compared to a basic and diluted loss per share of (\$0.11) (based on 16,289,000 and 16,289,000 weighted average shares outstanding, respectively) for the quarter ended June 30, 2013.

The Company's financial position remained strong at the end of the first quarter of fiscal year 2014, with \$21.6 million in cash and cash equivalents at June 30, 2014, compared to \$23.3 million at June 30, 2013. Working capital as of June 30, 2014 and June 30, 2013 remained at a total of \$50.9 million. Furthermore, the Company has no long-term or short-term borrowings as of June 30, 2014.

Edward So, Chief Executive Officer of Deswell Industries, state, "We endeavor to maintain tight control on our spending and to improve the efficiency of our production. This resulted a significant decrease of 24% in SG&A expenses for the first quarter of fiscal year 2015. Also, we were able to realize \$203,000 in the quarter from renting idle space that we have identified after streamlining our production cycle."

Mr. So continued, "Our marketing team and engineering team are exploring OEM/ODM opportunities for certain new products, such as wireless audio streaming products, digital video products, and electronic accessories for smartphones. We expect these products will contribute reasonable profit margins upon their successful development and launch to the market."

First Quarter Dividends

The Company also announced that on August 22, 2014 its board of directors declared a cash dividend of \$0.05 per share for the fiscal first quarter ended June 30, 2014. The dividends will be payable on September 24, 2014 to shareholders of record as of September 2, 2014.

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., Lenbrook Industries, Ltd. and Loud Technologies, Inc.

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

	June 30, <u>2014</u> (Unaudited)	March 31, <u>2014</u> (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,555	\$ 23,278
Fixed deposits maturing over three months	11,304	11,258
Marketable securities (note 2)	5,765	5,303
Available-for-sale securities (note 2)	1,696	1,643
Accounts receivable, net	9,918	7,926
Inventories (note 4)	10,908	11,012
Prepaid expenses and other current assets	1,578	1,474
Total current assets	<u>62,724</u>	<u>61,894</u>
Property, plant and equipment - net	<u>38,014</u>	<u>38,742</u>
Total assets	<u>\$ 100,738</u>	<u>\$ 100,636</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,948	\$ 2,665
Accrued payroll and employee benefits	4,242	4,391
Customer deposits	2,422	1,780
Other accrued liabilities	1,237	1,237
Income taxes payable	288	262
Deferred income tax liabilities	727	691
Total current liabilities	<u>11,864</u>	<u>11,026</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of June 30, 2014 and March 31, 2013 - 16,056,239;	53,063	53,063
Additional paid-in capital	5,293	5,293
Accumulated other comprehensive income	5,398	5,345
Retained earnings	25,120	25,909
Total shareholders' equity	<u>88,874</u>	<u>89,610</u>
Total liabilities and shareholders' equity	<u>\$ 100,738</u>	<u>\$ 100,636</u>

DESWELL INDUSTRIES, INC.

**CONSOLIDATED STATEMENT OF OPERATIONS &
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(U.S. dollars in thousands, except per share data)**

	Quarter ended June 30, <u>2014</u>	Quarter ended June 30, <u>2013</u>
Net sales	\$ 8,924	\$ 11,120
Cost of sales	<u>8,059</u>	<u>10,347</u>
Gross profit	865	773
Selling, general and administrative expenses	1,953	2,579
Other income, net	<u>275</u>	<u>414</u>
Operating loss	(813)	(1,392)
Non-operating income (loss), net	<u>888</u>	<u>(250)</u>
Income (Loss) before income taxes	75	(1,642)
Income taxes	<u>61</u>	<u>78</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ 14	\$ (1,720)
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	\$ 53	\$ (112)
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ 67</u>	<u>\$ (1,832)</u>
Net income (loss) per share attributable to Deswell Industries, Inc. (note 5)		
Basic:		
Net income (loss) per share	<u>\$ 0.001</u>	<u>\$ (0.11)</u>
Weighted average common shares outstanding		.
shares (in thousands)	<u>16,257</u>	<u>16,289</u>
Diluted:		
Net income (loss) per share	<u>\$ 0.001</u>	<u>\$ (0.11)</u>
Weighted average number of shares		
outstanding (in thousands)	<u>16,257</u>	<u>16,289</u>

