

Deswell Announces Second Quarter 2015 Results

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

FOR IMMEDIATE RELEASE

MACAO (January 8, 2015) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal second quarter ended September 30, 2014.

Net sales for the second quarter ended September 30, 2014 were \$10.2 million, a decrease of 14.1% compared to net sales of \$11.9 million for the same quarter ended September 30, 2013. Net sales decreased by 8.1% to \$5.1 million in the Company's plastic segment and decreased by 19.4% to \$5.1 million in the electronic and metallic segment. The operating loss in the second quarter of fiscal 2015 was \$1.9 million, compared to an operating loss of \$1.5 million for the same quarter of fiscal 2014.

Total gross margin decreased to 6.8% in the second quarter ended September 30, 2014 compared to 8.8% in the same quarter last year. Gross profit margin in the plastic segment increased to 14.4% of net sales for the second quarter of fiscal 2015 compared to 8.8% 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 the combined effect of lower raw materials cost, and relatively lower labor cost as a percentage of sales due to a decrease in headcount. The Company reported a net loss of \$1.7 million for the second quarter ended September 30, 2014 compared to net loss of \$1.2 million for the quarter ended September 30, 2013. Deswell reported a basic and diluted loss per share of (\$0.11) for the second quarter of fiscal 2015 (based on 16,056,000 and 16,056,000 weighted average shares outstanding, respectively), compared to a basic and diluted loss per share of (\$0.08) (based on 16,201,000 and 16,206,000 weighted average shares outstanding, respectively), for the quarter ended September 30, 2013.

Net sales for the six months ended September 30, 2014 were \$19.1 million, a decrease of 16.8%, compared to sales of \$23.0 million for the corresponding period in fiscal 2014. Operating loss for the six months ended September 30, 2014 was \$2.7 million, compared to an operating loss of \$2.9 million for the first six months of fiscal 2014. The Company reported a net loss of \$1.7 million in the first half of fiscal 2015, compared to a net loss of \$2.9 million for the six months ended September 30, 2013. Deswell reported basic and diluted net loss per share of (\$0.11) for the first six months of fiscal 2015, (based on 16,056,000 and 16,056,000 weighted average share outstanding, respectively), compared to basic and diluted loss per share of (\$0.18) (based on 16,524,000 and 16,271,000 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 2014, with \$19.5 million in cash and cash equivalents at September 30, 2014 compared to \$24.6 million at September 30, 2013. Working capital totaled \$49.0 million as of September 30, 2014, versus \$54.6 million as of September 30, 2013. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2014.

Edward So, Chief Executive Officer of Deswell Industries, stated, "During the quarter, we maintained our focus on tightening our spending and improving operating efficiencies, which enabled a 12% reduction in SG&A expenses. We have also been working to strengthen our sales and engineering teams to better position the Company to capture new business opportunities and have seen more activity from both current and new customers. As we collaborate with our customers on new product design and development, the product introduction and corresponding sales cycle have become longer. Nonetheless we are pleased to have these ongoing development opportunities and believe these new products will make a positive contribution to margins as they are competed and brought to market.

Second Quarter Dividends

The Company also announced that on January 8, 2015 its board of directors declared a cash dividend of \$0.05 per share for the fiscal second quarter ended September 30, 2014. The dividends will be payable on January 30, 2015 to shareholders of record as of January 22, 2015.

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 Lenbrook Industries, Ltd.

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.

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)

	September 30, 2014 (Unaudited)	March 31, 2014 (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 19,486	\$ 23,278
Fixed deposits maturing over three months	11,461	11,258
Marketable securities	5,652	5,303
Available-for-sale securities	1,680	1,643
Accounts receivable, net	11,484	7,926
Inventories	10,365	11,012
Prepaid expenses and other current assets	1,689	1,474
Total current assets	<u>61,817</u>	<u>61,894</u>
Property, plant and equipment - net	<u>37,574</u>	<u>38,742</u>
Total assets	<u>\$ 99,391</u>	<u>\$ 100,636</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 3,400	\$ 2,665
Accrued payroll and employee benefits	4,371	4,391
Customer deposits	2,764	1,780
Other accrued liabilities	1,228	1,237
Income taxes payable	313	262
Deferred income tax liabilities	763	691
Total current liabilities	<u>12,839</u>	<u>11,026</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of September 30, 2014 and		
March 31, 2013 - 16,056,239;	53,063	53,063
Additional paid-in capital	5,492	5,293
Accumulated other comprehensive income	5,382	5,345
Retained earnings	22,615	25,909
Total shareholders' equity	<u>86,552</u>	<u>89,610</u>
Total liabilities and shareholders' equity	<u>\$ 99,391</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 September 30,		Six months ended September 30,	
	<u>2014</u>	<u>2013</u>	2014	<u>2013</u>
Net sales	\$ 10,193	\$ 11,869	\$ 19,117	\$ 22,989
Cost of sales	<u>9,498</u>	<u>10,824</u>	<u>17,557</u>	<u>21,171</u>
Gross profit	695	1,045	1,560	1,818
Selling, general and administrative expenses	2,545	2,900	4,498	5,479
Other income (expense), net	<u>(23)</u>	<u>336</u>	<u>252</u>	<u>750</u>
Operating loss	(1,873)	(1,519)	(2,686)	(2,911)
Non-operating income, net	<u>231</u>	<u>367</u>	<u>1,119</u>	<u>117</u>
Loss before income taxes	(1,642)	(1,152)	(1,567)	(2,794)
Income taxes	<u>60</u>	<u>76</u>	<u>121</u>	<u>154</u>
Net loss attributable to Deswell Industries, Inc.	\$ (1,702)	\$ (1,228)	\$ (1,688)	\$ (2,948)
Other comprehensive loss				
Unrealized gain (loss) on available-for-sale securities	<u>\$ (16)</u>	<u>\$ 4</u>	<u>\$ 37</u>	<u>\$ (108)</u>
Comprehensive loss attributable to Deswell Industries, Inc.	<u>\$ (1,718)</u>	<u>\$ (1,224)</u>	<u>\$ (1,651)</u>	<u>\$ (3,056)</u>
Net loss per share attributable to Deswell Industries, Inc.				
Basic:				
Net loss per share	<u>\$ (0.106)</u>	<u>\$ (0.076)</u>	<u>\$ (0.105)</u>	<u>\$ (0.181)</u>
Weighted average common shares outstanding shares (in thousands)	<u>16,056</u>	<u>16,201</u>	<u>16,056</u>	<u>16,247</u>
Diluted:				
Net loss per share	<u>\$ (0.106)</u>	<u>\$ (0.076)</u>	<u>\$ (0.105)</u>	<u>\$ (0.181)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,056</u>	<u>16,206</u>	<u>16,056</u>	<u>16,271</u>