

Deswell Announces Third Quarter 2015 Results

- Company Announces Third Quarter Cash Dividend of \$0.035 Per Share -

FOR IMMEDIATE RELEASE

MACAO (Feb 13, 2015) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal third quarter ended December 31, 2014.

Net sales for the third quarter ended December 31, 2014 were \$10.8 million, an increase of 1.0% compared to net sales of \$10.7 million for the same quarter ended December 31, 2013. Net sales increased by 8.7% to \$5.6 million in the Company's plastic segment and decreased by 6.2% to \$5.2 million in the electronic and metallic segment. The operating loss in the third quarter was \$1.7 million, compared to an operating loss of \$1.3 million for the same quarter of fiscal 2014.

Total gross margin decreased to 8.7% in the third quarter ended December 31, 2014 compared to 10.5% in the same quarter last year. Gross profit margin in the plastic segment increased to 16.1% of net sales for the third quarter of fiscal 2015 compared to 15.5% 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 decrease in labor cost and depreciation expense, offsetting the increase in raw materials cost and factory overhead. Gross profit margin in the electronic and metallic segment decreased to 0.6% of net sales for the third quarter ended December 31, 2014 compared to 5.9% 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 increases in labor costs due to a higher average labor rate, resulting from higher allowances paid, offsetting the decrease in headcount.

The Company reported a net loss of \$1.1 million for the third quarter ended December 31, 2014 compared to net loss of \$1.4 million for the quarter ended December 31, 2013. Deswell reported a basic and diluted loss per share of (\$0.07) for the third 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 (\$0.09) (based on 16,262,000 and 16,266,000 weighted average shares outstanding, respectively), for the quarter ended December 31, 2013.

Net sales for the nine months ended December 31, 2014 were \$30.0 million, a decrease of 11.2%, compared to sales of \$33.7 million for the corresponding period in fiscal 2014. Operating loss for the nine months ended December 31, 2014 was \$4.4 million, compared to operating loss of \$4.3 million for the first nine months of fiscal 2014. The Company reported a net loss of \$2.8 million in the first nine months of fiscal 2015, compared to net loss of \$4.4 million for the nine months ended December 31, 2013. Deswell reported basic and diluted net loss per share of (\$0.18) for the first nine 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 (\$0.27) (based on 16,229,000 and 16,256,000 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 2015, with \$14.5 million in cash and cash equivalents and working capital of \$48.3 million at December 31, 2014. Furthermore, the Company has no long-term or short-term borrowings as of December 31, 2014.

Mr. Edward So, Chief Executive Officer, commented, "We are pleased to have delivered a slight increase in revenues during the quarter after many years of decreasing sales. This is a result of our strengthened sales and engineering teams who are focused on collaborating with our customers on new product designs and development. While this entails a long sales cycle, we are encouraged by the progress being made. We continued to keep our SG&A low and focus resources on areas that can best drive future sales growth and margins."

Third Quarter Dividends

The Company also announced that on February 13, 2015 its board of directors declared a cash dividend of \$0.035 per share for the fiscal third quarter ended December 31, 2014. The dividend will be payable on March 19, 2015 to shareholders of record as of February 25, 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)

	December 31, <u>2014</u> (Unaudited)	March 31, <u>2014</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 14,550	\$ 23,278
Fixed deposits maturing over three months	11,468	11,258
Marketable securities	10,398	5,303
Available-for-sale securities	1,688	1,643
Accounts receivable, net	10,769	7,926
Inventories	9,531	11,012
Prepaid expenses and other current assets	1,922	1,474
Total current assets	<u>60,326</u>	<u>61,894</u>
Property, plant and equipment - net	37,164	38,742
Total assets	<u>\$ 97,490</u>	<u>\$ 100,636</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 3,399	\$ 2,665
Accrued payroll and employee benefits	4,421	4,391
Customer deposits	2,009	1,780
Other accrued liabilities	1,121	1,237
Income taxes payable	334	262
Deferred income tax liabilities	779	691
Total current liabilities	<u>12,063</u>	<u>11,026</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of December 31, 2014 and March 31, 2013 - 16,056,239;	53,063	53,063
Additional paid-in capital	5,492	5,293
Accumulated other comprehensive income	5,390	5,345
Retained earnings	21,482	25,909
Total shareholders' equity	<u>85,427</u>	<u>89,610</u>
Total liabilities and shareholders' equity	<u>\$ 97,490</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 December 31,		Nine months ended December 31,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net sales	\$ 10,834	\$ 10,724	\$ 29,951	\$ 33,713
Cost of sales	9,892	9,597	27,449	30,768
Gross profit	942	1,127	2,502	2,945
Selling, general and administrative expenses	2,565	2,609	7,063	8,088
Other income (expense), net	<u>(102)</u>	<u>134</u>	<u>150</u>	<u>884</u>
Operating loss	(1,725)	(1,348)	(4,411)	(4,259)
Non-operating income, net	<u>631</u>	<u>134</u>	<u>1,750</u>	<u>251</u>
Loss before income taxes	(1,094)	(1,214)	(2,661)	(4,008)
Income taxes	<u>39</u>	<u>207</u>	<u>160</u>	<u>361</u>
Net loss attributable to Deswell Industries, Inc.	\$ (1,133)	\$ (1,421)	\$ (2,821)	\$ (4,369)
Other comprehensive loss				
Unrealized gain (loss) on available- for-sale securities	<u>\$ 8</u>	<u>\$ 66</u>	<u>\$ 45</u>	<u>\$ (42)</u>
Comprehensive loss attributable to Deswell Industries, Inc.	<u>\$ (1,125)</u>	<u>\$ (1,355)</u>	<u>\$ (2,776)</u>	<u>\$ (4,411)</u>
Net loss per share attributable to Deswell Industries, Inc.				
Basic:				
Net loss per share	<u>\$ (0.071)</u>	<u>\$ (0.087)</u>	<u>\$ (0.176)</u>	<u>\$ (0.269)</u>
Weighted average common shares outstanding shares (in thousands)	<u>16,056</u>	<u>16,262</u>	<u>16,056</u>	<u>16,229</u>
Diluted:				
Net loss per share	<u>\$ (0.071)</u>	<u>\$ (0.087)</u>	<u>\$ (0.176)</u>	<u>\$ (0.269)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,056</u>	<u>16,266</u>	<u>16,056</u>	<u>16,256</u>