

Deswell Announces Third Quarter 2016 Results

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

FOR IMMEDIATE RELEASE

MACAO (March 11, 2016) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal third quarter ended December 31, 2015.

Net sales for the third quarter ended December 31, 2015 were \$12.5 million, an increase of 15.5% compared to net sales of \$10.8 million for the same quarter ended December 31, 2014. Net sales increased by 13.5% to \$6.4 million in the Company's plastic segment and increased by 17.6% to \$6.1 million in the electronic segment. The operating loss in the third quarter was \$1.0 million, compared to an operating loss of \$1.7 million for the same quarter of fiscal 2015.

Total gross margin increased to 11.3% in the third quarter ended December 31, 2015 compared to 8.7% in the same quarter last year. Gross profit margin in the plastic segment increased to 16.8% of net sales for the third quarter of fiscal 2015 compared to 16.1% of net sales for the same quarter of last fiscal year. The increase in gross margin in the plastic segment was mainly due to the decrease in material cost, offsetting the increase in subcontracting charges. Gross profit margin in the electronic segment increased to 5.6% of net sales for the third quarter ended December 31, 2015, as compared to 0.6% of net sales for the year-ago quarter. The increase in gross profit and margin in the electronic segment was mainly attributed to decreases in labor costs and subcontracting charges, offsetting the increase in materials cost.

The Company reported a net loss of \$0.3 million for the third quarter ended December 31, 2015 compared to net loss of \$1.1 million for the quarter ended December 31, 2014. Deswell reported a basic and diluted loss per share of (\$0.02) for the third quarter of fiscal 2016 (based on 16,056,000 and 16,056,000 weighted average shares outstanding, respectively), compared to a basic and diluted loss per share of (\$0.07) (based on 16,056,000 and 16,056,000 weighted average shares outstanding, respectively), for the quarter ended December 31, 2014.

Net sales for the nine months ended December 31, 2015 were \$36.2 million, an increase of 20.7%, compared to net sales of \$30.0 million for the corresponding period in fiscal 2015. Operating loss for the nine months ended December 31, 2015 was \$3.6 million, compared to an operating loss of \$4.4 million for the first nine months of fiscal 2015. The Company reported a net loss of \$3.8 million in the first nine months of fiscal 2016, compared to net loss of \$2.8 million for the nine months ended December 31, 2014. Deswell reported basic and diluted net loss per share of (\$0.24) for the first nine months of fiscal 2016, (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 16,056,000 and 16,056,000 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 2016, with \$10.3 million in cash and cash equivalents and working capital of \$40.9 million at December 31, 2015. Furthermore, the Company has no long-term or short-term borrowings as of December 31, 2015.

Edward So, Chief Executive Officer of Deswell Industries, stated, "We delivered solid third quarter results, with 15.5% growth in consolidated revenue driven by increased sales in both our plastics and our electronic divisions. Deswell has a strong reputation in the marketplace for delivering dependable design and manufacturing solutions and by partnering with our customers to identify and effectively address their needs, we have seen enhanced revenue from both existing and new customers. Gross margin on a consolidated basis improved, reflecting increased gross margin in both divisions, and SG&A as a percentage of sales decreased to 17.8% from 23.7% in the prior year quarter. Hence, net loss markedly improved to \$0.3 million from \$1.1 million in the third quarter of fiscal 2015. Our balance sheet remains strong, providing a platform for our continued growth."

Third Quarter Dividends

The Company also announced that on March 11, 2016 its board of directors declared a cash dividend of \$0.035 per share for the fiscal third quarter ended December 31, 2015. The dividend will be payable on April 14, 2016 to shareholders of record as of March 23, 2016.

About Deswell

Deswell manufactures injection-molded plastic parts and components, electronic products and subassemblies, and metallic molds and accessory parts 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 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)**

	31-Dec <u>2015</u> (Unaudited)	March 31, <u>2015</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 10,305	\$ 14,325
Fixed deposits maturing over three months	6,405	9,911
Marketable securities (note 2)	11,720	9,803
Available-for-sale securities (note 2)	1,615	1,676
Accounts receivable, net	11,971	9,577
Inventories (note 4)	9,300	10,828
Prepaid expenses and other current assets	1,947	2,120
Total current assets	<u>53,263</u>	<u>58,240</u>
Property, plant and equipment - net	34,527	36,598
Time depositis maturing over twelve months	3,086	1,601
Total assets	<u>\$ 90,876</u>	<u>\$ 96,439</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,213	\$ 3,348
Accrued payroll and employee benefits	4,114	4,228
Customer deposits	1,444	2,450
Other accrued liabilities	1,317	1,201
Income taxes payable	381	345
Deferred income tax liabilities	868	804
Total current liabilities	<u>12,337</u>	<u>12,376</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of June 30, 2015 and March 31, 2015 - 16,056,239;	53,063	53,063
Additional paid-in capital	5,492	5,492
Accumulated other comprehensive income	5,317	5,378
Retained earnings	14,667	20,130
Total shareholders' equity	<u>78,539</u>	<u>84,063</u>
Total liabilities and shareholders' equity	<u>\$ 90,876</u>	<u>\$ 96,439</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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net sales	\$ 12,510	\$ 10,834	\$ 36,158	\$ 29,951
Cost of sales	<u>11,092</u>	<u>9,892</u>	<u>32,638</u>	<u>27,449</u>
Gross profit	1,418	942	3,520	2,502
Selling, general and administrative expenses	2,226	2,565	6,651	7,063
Other income (expense), net	<u>(147)</u>	<u>(102)</u>	<u>(447)</u>	<u>150</u>
Operating loss	(955)	(1,725)	(3,578)	(4,411)
Non-operating income (expense), net	<u>693</u>	<u>631</u>	<u>(35)</u>	<u>1,750</u>
Loss before income taxes	(262)	(1,094)	(3,613)	(2,661)
Income taxes	<u>43</u>	<u>39</u>	<u>164</u>	<u>160</u>
Net loss attributable to Deswell Industries, Inc.	\$ (305)	\$ (1,133)	\$ (3,777)	\$ (2,821)
Other comprehensive loss				
Unrealized gain (loss) on available-for-sale securities	<u>\$ (7)</u>	<u>\$ 8</u>	<u>\$ (61)</u>	<u>\$ 45</u>
Comprehensive loss attributable to Deswell Industries, Inc.	<u>\$ (312)</u>	<u>\$ (1,125)</u>	<u>\$ (3,838)</u>	<u>\$ (2,776)</u>
Net loss per share attributable to Deswell Industries, Inc. (note 5)				
Basic:				
Net loss per share	<u>\$ (0.019)</u>	<u>\$ (0.071)</u>	<u>\$ (0.235)</u>	<u>\$ (0.176)</u>
Weighted average common shares outstanding shares (in thousands)	<u>16,056</u>	<u>16,056</u>	<u>16,056</u>	<u>16,056</u>
Diluted:				
Net loss per share	<u>\$ (0.019)</u>	<u>\$ (0.071)</u>	<u>\$ (0.235)</u>	<u>\$ (0.176)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,056</u>	<u>16,056</u>	<u>16,056</u>	<u>16,056</u>