

Deswell Announces Fourth Quarter 2014 Results

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

FOR IMMEDIATE RELEASE

MACAO (June 10, 2014) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal fourth quarter ended March 31, 2014.

Net sales for the fourth quarter ended March 31, 2014 were \$7.9 million, a decrease of 16.5% compared to net sales of \$9.5 million for the same quarter ended March 31, 2013. Net sales decreased by 27.4% to \$3.5 million in the Company's plastic segment and decreased by 5.3% to \$4.4 million in the electronic and metallic segment. The operating loss in the fourth quarter was \$3.0 million, compared to an operating loss of \$2.7 million for the same quarter of fiscal 2013.

Total gross margin decreased to 2.5% in the fourth quarter ended March 31, 2014 compared to 3.5% in the same quarter last year. Gross profit margin in the plastic segment increased to 13.1% of net sales for the fourth quarter of fiscal 2014 compared to 2.2% 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 decreases in labor costs and factory overhead, offsetting an increase in raw materials cost as a percentage of sales. Gross margin in the electronic and metallic segment decreased to negative 5.9% of net sales for the fourth quarter ended March 31, 2014 compared to 4.8% 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 raw materials and labor costs as well as in factory overheads.

The Company reported a net loss of \$3.1 million for the fourth quarter ended March 31, 2014 compared to a net loss of \$2.0 million for the quarter ended March 31, 2013. Deswell reported a basic and diluted loss per share of (\$0.19) for the fourth quarter of fiscal 2014 (based on 16,257,000 and 16,257,000 weighted average shares outstanding, respectively), compared to a basic and diluted loss per share of (\$0.12) (based on 16,794,000 and 16,810,000 weighted average shares outstanding, respectively), for the quarter ended March 31, 2013.

Net sales for the year ended March 31, 2014 were \$40.9 million, a decrease of 24.3%, compared to sales of \$54.1 million for the corresponding period in fiscal 2013. Operating loss for the year ended March 31, 2014 was \$7.2 million, compared to operating loss of \$3.7 million for fiscal 2013. The Company reported a net loss of \$7.5 million in fiscal 2014, compared to net loss of \$2.0 million for the year ended March 31, 2013. Deswell reported basic and diluted net loss per share of (\$0.46) for fiscal 2014, (based on 16,186,000 and 16,186,000 weighted average share outstanding, respectively), compared to basic and diluted loss per share of (\$0.12) (based on 16,468,000 and 16,560,000 weighted average shares outstanding, respectively), for the prior fiscal year.

The Company's balance sheet remained strong at the end of the fourth quarter of fiscal 2014, with \$23.3 million in cash and cash equivalents at March 31, 2014 compared to \$32.0 million at March 31, 2013. Working capital totaled \$50.9 million as of March 31, 2014, versus \$58.3 million as of March 31, 2013. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2014.

Mr. Edward So, Chief Executive Officer, commented, "While the global economic environment continues to be challenging, we are focused on growing our business by providing our customers the tools they need to remain competitive, such as product design assistance to reduce development costs and accelerate time to market. We are investing in new equipment and developing new capabilities to increase automation and quality assurance and we've introduced ongoing initiatives to streamline internal processes using Six Sigma and Lean manufacturing to reduce waste and increase operational efficiency. Another priority is developing our ability to leverage our existing strengths to gain exposure to related market segments to enhance our reach and drive new business growth. We are pleased to have maintained our strong balance sheet with \$23 million in cash and no debt."

Fourth Quarter Dividends

The Company also announced that on June 10, 2014 its board of directors declared a cash dividend of \$0.05 per share for the fiscal fourth quarter ended March 31, 2014. The dividend will be payable on June 30, 2014 to shareholders of record as of June 20, 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. 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 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)

	March 31, <u>2014</u> (Unaudited)	March 31, <u>2013</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 23,278	\$ 32,030
Fixed deposits maturing over three months	11,258	8,684
Marketable securities	5,303	6,168
Available-for-sale securities	1,643	1,586
Accounts receivable, net	7,926	8,291
Inventories	11,012	11,376
Prepaid expenses and other current assets	<u>1,474</u>	<u>1,152</u>
Total current assets	61,894	69,287
Property, plant and equipment - net	38,742	42,694
Deferred income tax assets	-	192
Goodwill	<u>-</u>	<u>392</u>
Total assets	<u>\$ 100,636</u>	<u>\$ 112,565</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,665	\$ 3,144
Accrued payroll and employee benefits	4,391	4,133
Customer deposits	1,780	1,254
Other accrued liabilities	1,237	1,260
Income taxes payable	262	592
Deferred income tax liabilities	<u>691</u>	<u>606</u>
Total current liabilities	<u>11,026</u>	<u>10,989</u>
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding March 31, 2014 - 16,056,239 (note 6);		
March 31, 2013 - 16,387,648	53,063	52,443
Additional paid-in capital	5,293	6,831
Accumulated other comprehensive income	5,345	5,288
Retained earnings	<u>25,909</u>	<u>37,014</u>
Total shareholders' equity	<u>89,610</u>	<u>101,576</u>
Total liabilities and shareholders' equity	<u>\$ 100,636</u>	<u>\$ 112,565</u>

DESWELL INDUSTRIES, INC.

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

	Quarter ended March 31,		Year ended March 31,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net sales	\$ 7,944	\$ 9,517	\$ 40,932	\$ 54,074
Cost of sales	<u>7,745</u>	<u>9,186</u>	<u>37,788</u>	<u>47,264</u>
Gross profit	199	331	3,144	6,810
Selling, general and administrative expenses	2,239	3,054	10,327	10,803
Other income (Loss), net	<u>(946)</u>	<u>55</u>	<u>(62)</u>	<u>274</u>
Operating loss	(2,986)	(2,668)	(7,245)	(3,719)
Non-operating income, net	<u>128</u>	<u>772</u>	<u>379</u>	<u>2,056</u>
Loss before income taxes	(2,858)	(1,896)	(6,866)	(1,663)
Income taxes	<u>263</u>	<u>103</u>	<u>624</u>	<u>328</u>
Net loss attributable to Deswell Industries, Inc.	\$ (3,121)	\$ (1,999)	\$ (7,490)	\$ (1,991)
Other comprehensive loss				
Unrealized gain (loss) on available-for-sale securities	\$ 99	\$ (227)	\$ 57	\$ 718
Comprehensive loss attributable to Deswell Industries, Inc.	<u>\$ (3,022)</u>	<u>\$ (2,226)</u>	<u>\$ (7,433)</u>	<u>\$ (1,273)</u>
Net loss per share attributable to Deswell Industries, Inc. (note 5)				
Basic:				
Net loss per share	<u>\$ (0.19)</u>	<u>\$ (0.12)</u>	<u>\$ (0.46)</u>	<u>\$ (0.12)</u>
Weighted average common shares outstanding shares (in thousands)	<u>16,257</u>	<u>16,794</u>	<u>16,186</u>	<u>16,468</u>
Diluted:				
Net loss per share	<u>\$ (0.19)</u>	<u>(0.12)</u>	<u>\$ (0.46)</u>	<u>\$ (0.12)</u>
Weighted average number of shares outstanding (in thousands)	<u>16,257</u>	<u>16,810</u>	<u>16,186</u>	<u>16,560</u>