

DESWELL INDUSTRIES INC  
Form 6-K  
March 07, 2012

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of the  
Securities Exchange Act of 1934

For March 7, 2012

DESWELL INDUSTRIES, INC.  
(Registrant's name in English)

17B Edificio Comercial Rodrigues  
599 Avenida Da Praia Grande,  
Macao, China  
(Address of principal executive offices)

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Deswell Announces Third Quarter Results

- Company Announces Third Quarter Dividend of \$0.02 Per Share -

FOR IMMEDIATE RELEASE

MACAO (March 7, 2011) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal third quarter ended December 31, 2011.

Net sales for the third quarter ended December 31, 2011 were \$16.2 million, a decrease of 31.0% compared to net sales of \$23.5 million for the same quarter ended December 31, 2010. Net sales decreased by 36.4% to \$7.3 million in the Company's plastic segment and by 25.9% to \$8.9 million in the electronic and metallic segment. The operating loss in the third quarter was \$0.4 million, compared to an operating loss of \$4.0 million for the same quarter of fiscal 2011.

Total gross margin increased to 14.6% in the third quarter ended December 31, 2011 compared to 14.1% in the same quarter last year. Gross profit margin in the plastic segment decreased to 19.1% of net sales for the third quarter of fiscal 2012 compared to 24.8% of net sales for the same quarter of last fiscal year. The decreases of gross profit and margin in the plastic segment were mainly due to an increase in raw materials cost due to a price increase for plastic resin, and an increase in factory overhead as a percentage of net sales. Gross profit margin in the electronic and metallic segment increased to 10.9% of net sales for the third quarter ended December 31, 2011 compared to 3.9% of net sales for the year-ago quarter. The increase in gross margin in the electronic and metallic segment was mainly related to relatively less inventory purchased than in the prior fiscal quarter, offsetting an increase in labor cost due to higher contract labor cost for replacing lower headcount as well as an increase in factory overheads.

The Company reported net income of \$91,000 for the third quarter ended December 31, 2011 compared to a net loss of \$3.6 million for the quarter ended December 31, 2010. Deswell reported basic and diluted earnings per share of \$0.006, (based on 16,197,000 and 16,198,000 weighted average shares outstanding, respectively) compared to basic and diluted net loss per share of (\$0.22), (based on 16,195,000 and 16,203,000 weighted average shares outstanding, respectively) for the same quarter ended December 31, 2010.

Net sales for the nine months ended December 31, 2011 were \$52.6 million, a decrease of 22.7%, compared to sales of \$68.0 million for the corresponding period in fiscal 2011. Total gross margin for the first nine months of fiscal 2012 increased to 15.3% compared to total gross margin of 10.4% in the first nine months of fiscal 2011. Operating loss for the nine months ended December 31, 2011 was \$0.5 million, compared to operating loss of \$8.4 million for the first nine months of fiscal 2011. The Company reported a net loss of \$0.7 million in the first nine months of fiscal 2012, compared to a net loss of \$7.5 million for the nine months ended December 31, 2010. Deswell reported basic and diluted net loss per share of (\$0.05) for the first nine months of fiscal 2012, (based on 16,197,000 and 16,202,000 weighted average shares outstanding, respectively), compared to basic and diluted loss per share of (\$0.46), (based on 16,193,000 and 16,201,000 weighted average shares outstanding, respectively), for the prior corresponding period.

Net cash provided by (used in) operating activity from the nine months ended December 31, 2011 was \$9.1 million compared to (\$5.1) million last year.

The Company's financial position remained strong at the end of the third quarter of fiscal year 2012, with \$27.7 million in cash and cash equivalents at December 31, 2011, compared to \$35.6 million at March 31, 2011. Working capital totaled \$59.6 million as of December 31, 2011, versus \$59.7 million as of March 31, 2011. Furthermore, the Company has no long-term or short-term borrowings at December 31, 2011.

Mr. Franki Tse, Chief Executive Officer, commented, “Despite a decline in revenues related to the challenging worldwide economy, we achieved improved margins in the third quarter and made progress in significantly reducing our net loss as compared to the third quarter of fiscal 2011. We continue to maintain tight control on our spending reflected in our reduced SG&A expenses. We remain focused on meeting the needs of our existing customers to build upon those relationships while also seeking out new projects and customers. Our balance sheet remains strong, with approximately \$28 million in cash and no debt. We believe our good cash flow and solid balance sheet positions us well to drive enhanced performance for our shareholders over the long term.”

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### Third Quarter Dividends

The Company also announced that on March 7, 2012 its board of directors declared a dividend of \$0.02 per share for the fiscal third quarter ended December 31, 2011. The dividend will be payable on April 12, 2012 to shareholders of record as of March 20, 2012.

### 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 Digidesign Inc.

To learn more about Deswell Industries, Inc., please visit the Company’s website at [www.deswell.com](http://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:

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DESWELL INDUSTRIES, INC.  
CONSOLIDATED BALANCE SHEET  
(U.S. dollars in thousands)

	December 31, 2011 (Unaudited)	March 31, 2011 (Audited)
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$27,687	\$35,635
Fixed deposits maturing over three months	3,153	-
Marketable securities (note 2)	3,575	1,045
Available-for-sale securities (note 2)	6,851	-
Accounts receivable, net	14,701	17,210
Inventories (note 3)	16,206	19,517
Prepaid expenses and other current assets	1,960	2,154
Total current assets	74,133	75,561
Property, plant and equipment - net	47,289	51,052
Deferred income tax assets	159	154
Goodwill	392	392
Total assets	\$121,973	\$127,159
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$5,812	\$6,864
Accrued payroll and employee benefits	3,828	3,971
Customer deposits	2,804	1,965
Other accrued liabilities	1,347	1,453
Income taxes payable	462	596
Deferred income tax liabilities	322	213
Dividend payable	-	810
Total current liabilities	14,575	15,872
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding December 31, 2011 - 16,196,810; March 31, 2011 - 16,194,810	50,816	50,809
Additional paid-in capital	7,716	7,719
Accumulated other comprehensive income	3,791	5,316
Retained earnings	45,075	47,443
Total shareholders' equity	107,398	111,287
Total liabilities and shareholders' equity	\$121,973	\$127,159

## DESWELL INDUSTRIES, INC.

## CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(U.S. dollars in thousands, except per share data)

	Quarter ended December 31,		Nine months ended December 31,	
	2011	2010	2011	2010
Net sales	\$16,241	\$23,534	\$52,585	\$68,043
Cost of sales	13,874	20,220	44,529	60,935
Gross profit	2,367	3,314	8,056	7,108
Selling, general and administrative expenses	2,798	3,496	9,038	11,154
Other income (expenses), net	25	(3,849 )	465	(4,378 )
Operating loss	(406 )	(4,031 )	(517 )	(8,424 )
Non-operating income, net	589	486	208	1,067
Income (loss) before income taxes	183	(3,545 )	(309 )	(7,357 )
Income taxes	92	40	439	105
Net income (loss) attributable to Deswell Industries, Inc.	\$91	\$(3,585 )	\$(748 )	\$(7,462 )
Other comprehensive loss				
Unrealized loss on available-for-sale securities	\$(1,005 )	\$-	\$(1,525 )	\$-
Comprehensive loss attributable to Deswell Industries, Inc.	\$(914 )	\$(3,585 )	\$(2,273 )	\$(7,462 )
Net income (loss) per share attributable to Deswell Industries, Inc. (note 4)				
Basic:				
Net income (loss) per share	\$0.006	\$(0.22 )	\$(0.05 )	\$(0.46 )
Weighted average common shares outstanding shares in thousands)	16,197	16,195	16,197	16,193
Diluted:				
Net income (loss) per share	\$0.006	\$(0.22 )	\$(0.05 )	\$(0.46 )
Weighted average number of shares outstanding (in thousands)	16,198	16,203	16,202	16,201

DESWELL INDUSTRIES, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(U.S. dollars in thousands)	Nine months ended	
	December 31,	
	2011	2010
Cash flows from operating activities :		
Net loss	\$ (748 )	\$ (7,462 )
Adjustments to reconcile net loss to net cash provided by operating activities :		
Depreciation and amortization	3,868	4,880
Reversal of doubtful accounts	(110 )	-
Reversal of obsolete inventories	(396 )	-
Provision for (reversal of) impairment of property, plant and equipment	(112 )	4,218
Gain on sale of property, plant and equipment	(76 )	(14 )
Unrealized holding loss on marketable securities	654	-
Gain on disposal of marketable securities	-	(853 )
Deferred tax	104	113
Changes in operating assets and liabilities :		
Accounts receivable	2,619	(5,752 )
Inventories	3,707	(3,969 )
Prepaid expenses and other current assets	194	(552 )
Accounts payable	(1,052 )	2,157
Accrued payroll and employee benefits	(143 )	1,203
Customer deposits	839	1,130
Other accrued liabilities	(106 )	(241 )
Income taxes payable	(134 )	-
Net cash provided by (used in) operating activities	9,108	(5,142 )
Cash flows from investing activities		
Purchase of property, plant and equipment	(228 )	(1,045 )
Proceeds from sale of property, plant and equipment, net of transaction costs	311	182
Purchase of marketable securities	(3,184 )	(6,983 )
Proceeds from sale of marketable securities	-	13,509
Investment in available-for-sales securities	(8,376 )	-
Increase in fixed deposits maturing over three months	(3,153 )	-
Net cash (used in) provided by investing activities	(14,630 )	5,663
Cash flows from financing activities		
Dividends paid	(2,430 )	(810 )
Exercised of stock options	4	6
Net cash used in financing activities	(2,426 )	(804 )
Net decrease in cash and cash equivalents	(7,948 )	(283 )
Cash and cash equivalents, beginning of year	35,635	35,120
Cash and cash equivalents, end of year	27,687	34,837
Supplementary disclosures of cashflow information :		
Cash paid during the period for :		
Interest	-	-
Income taxes	469	-





DESWELL INDUSTRIES, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (U.S. dollars in thousands except per share data)

1. Management's Statement

In the opinion of Management, the accompanying unaudited financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Deswell Industries, Inc. (the Company) at December 31, 2011 and March 31, 2011, the results of operations for the quarter and nine months ended December 31, 2011 and December 31, 2010, and the cash flows for the nine months ended December 31, 2011 and December 31, 2010. The notes to the Consolidated Financial Statements contained in the Form 20-F Annual Report filed on August 2, 2011 under the Securities Exchange Act of 1934 should be read in conjunction with these Consolidated Financial Statements.

2. Marketable securities and other securities investments

Marketable securities and other securities investments include debt and equity securities of which the aggregate fair value, unrealized loss and cost are as follows:

	March 31, 2011		
	Cost	Gross Unrealized loss	Fair value
Marketable securities			
Equity securities	\$1,066	\$(21 )	\$1,045
Available-for-sale			
Corporate debt securities	-	-	-
	December 31, 2011		
	Cost	Gross Unrealized loss	Fair value
Marketable securities			
Equity securities	\$4,250	\$(675 )	\$3,575
Available-for-sale			
Corporate debt securities	\$8,376	\$(1,525 )	\$6,851

### Marketable Securities

The Company acquired equity securities listed on the Hong Kong and Singapore Stock Exchanges. These securities are recorded at fair value based on quoted market prices.

Unrealized losses from these marketable securities are included in the other operating expense of the consolidated statement of income.

There were no proceeds, recognized gain or loss from sales of these marketable securities during the quarter and nine months ended December 31, 2011.

### Available-For-Sales Securities

The Company has investments in two corporate bonds that have been classified as available-for-sale and recorded at fair value based upon quoted market prices. Unrealized gains and losses arising from the revaluation of available-for-sale securities are included in accumulated other comprehensive income (loss) in the Consolidated Balance Sheet.

The contractual maturities of the Corporate bonds held at December 31, 2011 were more than 10 years.

The unrealized losses on the Company's investments in corporate bonds at December 31, 2011 were caused by increases in market interest rates. Those investments have been in continuous unrealized loss position for less than 12 months. As the Company has ability and intent to hold these corporate bonds until a recovery of fair value occurs, the company does not consider these investments to be other-than-temporarily impaired as of December 31, 2011.

### 3. Inventories

	December 31, 2011	March 31, 2011
Inventories by major categories :		
Raw materials	\$ 8,920	\$ 12,280
Work in progress	4,378	4,167
Finished goods	2,908	3,070
	\$ 16,206	\$ 19,517

### 4. Earnings Per Share

The basic net income per share and diluted net income per share are computed in accordance with ASC No. 260, "Earnings Per Share" (formerly the SFAS No.128 "Earnings Per Share").

The basic net income per share is computed by dividing income available to common holders by the weighted average number of common shares outstanding during the period. Diluted net income per share gives effect to all potentially dilutive common shares outstanding during the period. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. In computing the dilutive effect of potential common shares, the average stock price for the period is used in determining the number of treasury shares assumed to be purchased with the proceeds from exercise of options.

The net loss for the quarters ended December 31, 2011 and 2010 were both from the Company's continuing operations.

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DESWELL INDUSTRIES, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

Results of Operations

General

The Company's revenues are derived from the manufacture and sale of (i) injection-molded plastic parts and components, (ii) electronic products and subassemblies and (iii) metallic parts and components and distribution sales of audio equipment. The Company carries out all of its manufacturing operations in southern China, where it is able to take advantage of the lower overhead costs and less expensive labor rates as compared with Hong Kong.

Quarter Ended December 31, 2011 Compared to Quarter Ended December 31, 2010

Net Sales - The Company's net sales for the quarter ended December 31, 2011 were \$16,241,000, a decrease of \$7,293,000 or 31.0%, as compared to the corresponding period in fiscal 2011. The decrease in sales was mainly related to the decrease in sales at our plastic segment of \$4,173,000 and \$3,120,000 in our electronic and metallic segment. These represent decreases of 36.4% and 25.9% respectively, as compared with the net sales from these segments in the corresponding period of the prior fiscal year.

The decrease of net sales at our plastic segment was mainly the result of the decrease in orders from existing customers of \$4,934,000 offsetting the increase in orders from existing customers of \$761,000, when compared to prior fiscal quarter. About 44% of the decrease in orders was from the segment's customer related to plastic component sales of electronic entertainment products as well as a 34% decrease in orders for telephone and office equipment products. The decrease in net sales in the electronic and metallic segment was mainly due to the decrease in orders from existing customers for professional audio equipment of \$6,851,000, offsetting the increase of \$3,922,000 in sales for audio and home entertainment products from existing customers.

Gross Profit - The gross profit for the quarter ended December 31, 2011 was \$2,367,000, representing a gross profit margin of 14.6%. This compares with the overall gross profit and gross profit margin of \$3,314,000 or 14.1% for the quarter ended December 31, 2010.

Gross profit in the plastic segment decreased by \$1,445,000 to \$1,396,000 or 19.1% of net sales, for the quarter ended December 31, 2011, as compared to \$2,841,000 or 24.8% of net sales, for the quarter ended December 31, 2010. The decrease in gross margin for the plastic segment was mainly due to an increase in the price of plastic resin as well as increases in factory overheads, as compared to the same quarter in the prior year.

Gross profit in the electronic and metallic segment increased by \$498,000 to \$971,000 or 10.9% of net sales, for the quarter ended December 31, 2011, as compared to \$473,000, or 3.9% of net sales for the same period of last fiscal year. The increase in gross profit and margin was mainly attributed to a decrease in raw material costs as a result of relatively less provision made for excess materials or obsolete inventory, offsetting increases in factory overhead, and labor cost, as compared to the same quarter of last fiscal year.

Selling, General and Administrative Expenses – SG&A expenses for the quarter ended December 31, 2011 were \$2,798,000 or 17.2% of total net sales, compared to \$3,496,000, or 14.9% of total net sales for the quarter ended December 31, 2010. There was a decrease in selling, general and administrative expenses of \$698,000 compared to the corresponding period of last year.

SG&A expenses in the plastic segment decreased by \$614,000 to \$1,654,000 or 22.7% of net sales, for the quarter ended December 31, 2011 compared to \$2,268,000, or 19.8% of net sales for the corresponding period in fiscal 2011. The lower SG&A expense for the third quarter of fiscal 2012 was primarily related to decreases of \$307,000 in staff costs and benefits, \$76,000 in selling expenses and \$74,000 in depreciation, as compared with the year-ago quarter.

SG&A expenses in the electronic and metallic segment decreased by \$84,000 to \$1,144,000 or 12.8% of net sales, for the quarter ended December 31, 2011 compared to \$1,228,000, or 10.2% of net sales for the corresponding period in fiscal 2011. The decrease in SG&A expenses was primarily related to decreases of \$41,000 in staff cost and benefits, \$53,000 in sundry expense and \$46,000 in depreciation expense, offsetting an increase of \$65,000 in local government registration and charges, as compared with the corresponding quarter in the prior fiscal year.

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Other operating income - Other operating income was \$25,000 for the quarter ended December 31, 2011, as compared to other operating expense of \$3,849,000 for the quarter ended December 31, 2010.

On a segment basis, other operating expense attributable to the plastic segment was \$23,000, as compared to other operating expense of \$3,698,000 for the same quarter last year. The decrease in other operating expense was mainly due to a provision of \$87,000 for doubtful receivables offsetting income of \$42,000 from sales of materials in the quarter ended December 31, 2011, as compared to a provision of \$3,600,000 for the impairment of fixed assets upon review by management in the quarter ended December 31, 2010.

Other operating income attributable to the electronic and metallic segment was \$48,000 in the quarter ended December 31, 2011, as compared to other operating expense of \$151,000 for the year-ago quarter. The increase in other operating income was mainly due to an increase of \$28,000 in exchange gain, a decrease of \$107,000 in provision for doubtful receivables and an increase of \$64,000 in other operating income during the quarter ended December 31, 2011, as compared to the same period of last fiscal year.

Operating Loss - Operating loss was \$406,000 for the quarter ended December 31, 2011, as compared to an operating loss of \$4,031,000 for the corresponding quarter in the prior fiscal year.

On a segment basis, the operating loss in the plastic division was \$281,000 or negative 3.9% of net sales in the quarter ended December 31, 2011, as compared to operating loss of \$3,125,000, or negative 27.2% of net sales in the corresponding period in fiscal 2011. The decrease in operating loss in the plastic division was mainly due to the decrease in other operating expense as described above.

Operating loss in the electronic and metallic segment was \$125,000 or negative 1.4% of net sales in the quarter ended December 31, 2011 compared to operating expense of \$906,000 or negative 7.5% of net sales in the corresponding period in fiscal 2011. The decrease in electronic & metallic operating expense was due to a higher gross profit margin and an increase in other operating income as described above.

Non-operating income – Non-operating income for the quarter ended December 31, 2011 was \$589,000, as compared to non-operating income of \$486,000 for the year-ago quarter. The increase in non-operating income is mainly attributable to an unrealized gain of \$281,000 on the revaluation of marketable securities, \$187,000 of dividend income and \$119,000 of interest income, as compared to \$666,000 in realized gain from marketable securities and an unrealized loss of \$126,000 on the revaluation of marketable securities in the year-ago quarter.

Income Taxes – Income tax for the quarter ended December 31, 2011 was comprised of an income tax expense of \$5,000 and a deferred tax provision of \$28,000 for the plastic segment, as well as an income tax expense of \$59,000 for the electronic and metallic segment, as compared to the deferred tax provisions of \$40,000 for the electronic and metallic segment in the corresponding quarter of fiscal 2011.

Net Income – The Company had a net income of \$91,000 for the quarter ended December 31, 2011 as compared to a net loss of \$3,585,000 for the quarter ended December 31, 2010. Net income for the quarter ended December 31, 2011 represented 0.6% of net sales, compared to negative 15.2% of net sales in the same quarter of the prior fiscal year.

Net income for the plastic segment for the quarter ended December 31, 2011 totaled \$81,000, as compared to a net loss of \$2,651,000 for the corresponding quarter in fiscal 2011. The increase in net income for the plastic segment was mainly the result of decrease in other operating expense as described above.

Net income for the electronic and metallic segment for the quarter ended December 31, 2011 was \$10,000, as compared to net loss of \$934,000 for the corresponding quarter in fiscal 2011. The decrease in net income for the electronic and metallic segment was mainly related to improved gross margins and an increase in other operating income as described above.

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Nine Months Ended December 31, 2011 Compared to Nine Months Ended December 31, 2010

Net Sales - The Company's net sales for the nine months ended December 31, 2011 were \$52,585,000, a decrease of \$15,458,000 or 22.7% as compared to \$68,043,000 in the corresponding period in fiscal 2011. The decrease was related to decreases in sales revenues of \$11,951,000 at our plastic segment and \$3,507,000 at our electronic and metallic segment, as compared with the respective net sales from these segments in the corresponding period of the prior fiscal year.

The revenue decrease in the plastic segment was due to a decrease in sales orders from existing customers reflecting the current uncertain global economic conditions. The decrease in net sales was mainly related to decreases of \$4,676,000 in orders related to plastic component sales of electronic entertainment products, and \$5,135,000 from sales for telephone and office equipment products.

The revenue decrease in the electronic and metallic segment was mainly due to a net decrease of \$2,737,000 in orders for professional audio instrument products from existing customers. The decrease in sales orders was mainly attributed to sluggish demand for products as a result of the unstable conditions in the European and American economies.

Gross Profit - Gross profit for the nine months ended December 31, 2011 was \$8,056,000, representing a gross profit margin of 15.3%. This compared with the overall gross profit and gross profit margin of \$7,108,000 or 10.4% for the nine months ended December 31, 2010.

Gross profit in the plastic segment increased by \$179,000 to \$4,567,000 or 19.5% of net sales for the nine months ended December 31, 2011, as compared to \$4,388,000 or 12.4% of net sales, for the same period in the prior fiscal year. The increase in gross profit for the plastic segment was mainly due to the combined effect of increases in the selling price of products, savings in labor cost resulting from headcount reduction and decreases in factory overheads, when compared with the same period of last year.

Gross profit in the electronic and metallic segment increased by \$769,000 to \$3,489,000 or 12.0% of net sales, for the nine months ended December 31, 2011, as compared to \$2,720,000 or 8.3% of net sales, for the same period of last fiscal year. The increase in gross profit and margin was mainly attributed to an increase in the selling price of products and overall cost control measures, as compared with the same period of last fiscal year.

Selling, general and administrative expenses - SG&A expenses for the nine months ended December 31, 2011 were \$9,038,000 or 17.2% of total net sales, as compared to \$11,154,000 or 16.4% of total net sales for the nine months ended December 31, 2010. Selling, general and administrative expenses decreased by \$2,116,000 or 19.0% in the first nine months of fiscal 2012 compared to the corresponding period of last fiscal year.

SG&A expenses in the plastic segment decreased by \$1,830,000 to \$5,568,000 or 23.8% of net sales, for the nine months ended December 31, 2011 compared to \$7,398,000 or 20.9% of net sales, for the corresponding period in fiscal 2011. The decrease was primarily related to decreases of \$1,170,000 in staff costs and benefits, \$296,000 in selling expense and \$267,000 in depreciation expense, as compared with the same period in the prior fiscal year.

SG&A expenses in the electronic & metallic segment decreased by \$286,000 to \$3,470,000 or 11.9% of net sales, for the nine months ended December 31, 2011 compared to \$3,756,000 or 11.5% of net sales for the corresponding period in fiscal 2011. The decrease was primarily related to decreases of \$129,000 in staff costs and welfare, \$89,000 in selling expense and \$80,000 in depreciation expense, as compared with the corresponding period in the prior fiscal year.



Other operating income - Other operating income was \$465,000 for the nine months ended December 31, 2011, as compared to other operating expense of \$4,378,000 in the corresponding nine months of the prior fiscal year.

On a segment basis, other operating income attributable to the plastic segment for the nine months ended December 31, 2011 was \$454,000, as compared to expense of \$4,314,000 for the same period in the prior fiscal year. The increase in other operating income was mainly due to an exchange gain of \$177,000 and gain of \$225,000 from the sales of materials and disposal of fixed assets, as compared to an exchange loss of \$194,000 as well as a provision of \$4,000,000 for impairment of fixed assets during the nine months ended December 31, 2010.

Other operating income attributable to the electronic & metallic segment for the nine months ended December 31, 2011 was \$11,000, as compared with expense of \$64,000 for the corresponding period in the prior fiscal year. This increase in other operating income was mainly due to a decrease of \$108,000 in the provision for doubtful receivables during the nine months ended December 31, 2011, as compared to the same period of last fiscal year.

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Operating Loss - Operating loss was \$517,000 for the nine months ended December 31, 2011, as compared to operating loss of \$8,424,000 in the corresponding nine months in the prior fiscal year.

On a segment basis, the operating loss of the plastic segment was \$547,000, or negative 2.3% of net sales in the nine months ended December 31, 2011, as compared to operating loss of \$7,324,000 or negative 20.7% of net sales in the corresponding period in fiscal 2011. The decrease in operating loss in the plastic segment was mainly due to the increases in gross margin and other operating income as described above.

The electronic & metallic segment reported an operating income of \$30,000, or 0.1% of net sales in the nine months ended December 31, 2011 compared to an operating loss of \$1,100,000 or negative 3.4% of net sales in the corresponding period in fiscal 2011. The increase in operating income was due to the combined effect of increased gross profit margin and increase in other operating income as a percentage of net sales as described above.

Non-operating income – Non-operating income for the nine months ended December 31, 2011 was \$208,000, as compared to non-operating income of \$1,067,000 in the year-ago nine months. The decrease in non-operating income is mainly due to an unrealized loss of \$652,000 on the revaluation of marketable securities, offsetting a dividend income of \$517,000 and interest income of \$295,000 from both segments during the nine months ended December 31, 2011 as compared to a realized gain on marketable securities of \$854,000 and dividend income of \$226,000 in the same nine months of the prior fiscal year.

Income Taxes – Income tax for the nine months ended December 31, 2011 represented an income tax expense of \$330,000 and a deferred tax provision of \$109,000, as compared to the deferred tax provision of \$105,000 in the corresponding nine months of the prior fiscal year.

On a segment basis, there was an income tax expense of \$210,000 and a deferred tax provision of \$109,000 in the plastic segment for the nine months ended December 31, 2011, as compared to a deferred tax benefit of \$65,000 during the year-ago nine months. The income tax of the electronic & metallic segment was comprised of an income tax expense of \$120,000 for the nine months ended December 31, 2011, as compared to a deferred tax provision of \$170,000 in the corresponding nine months of fiscal 2011.

Net Loss – The Company had a net loss of \$748,000 for the nine months ended December 31, 2011, as compared to net loss of \$7,462,000 for the nine months ended December 31, 2010. Net loss for the nine months ended December 31, 2011 represented negative 1.4% as a percentage of net sales, compared to negative 11.0% in the same nine months of the prior fiscal year. The decrease in net loss was mainly the result of the increases in gross profit margin and in other operating income as described above.

Net loss for the plastic segment for the nine months ended December 31, 2011 totaled \$755,000, as compared to net loss of \$6,291,000 for the corresponding nine months in fiscal 2011. The decrease in net loss of the plastic segment was mainly the result of increases in gross margin and in other operating income as described above.

Net income for the electronic & metallic segment for the nine months ended December 31, 2011 was \$7,000, compared to a net loss of \$1,171,000 for the corresponding nine months of fiscal 2011. The increase in net income for the electronic & metallic segment was mainly the result of increases in gross margin and in other operating income as described above.

#### Liquidity and Capital Resources

Traditionally, the Company had relied primarily upon internally generated funds and short-term borrowings (including trade finance facilities) to finance its operations and expansion.

As of December 31, 2011, the Company had a working capital of \$59,558,000 and cash and cash equivalents of \$27,687,000. This compares with working capital of \$59,689,000 and cash and cash equivalents of \$35,635,000 at March 31, 2011. The decrease in cash and cash equivalents was mainly attributed to net cash used in investing activities comprising investments in marketable securities for \$3,184,000, available-for-sale securities for \$8,376,000 and time deposits with maturities over three months for \$3,153,000, and net cash used in financing activity of mainly dividend payment for \$2,430,000, offsetting net cash provided by operating activities of \$9,108,000 during the nine months ended December 31, 2011.

The Company has generated sufficient funds from its operating activities to finance its operations and there is little need for external financing. The Company had no short-term borrowings or long-term borrowings at December 31, 2011.

As of December 31, 2011, the Company had no general banking facilities. The Company expects that working capital requirements and capital additions will be funded through internally generated funds.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

For and on behalf of  
Deswell Industries, Inc.  
by

Franki Tse  
Chief Executive Officer

Date: March 7, 2012