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DESWELL INDUSTRIES INC  
Form 6-K  
June 11, 2002

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 JUNE 6, 2002

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

Unit 516 517, Hong Leong Industrial Complex,  
No. 4 Wang Kwong Road, Kowloon Bay,  
Kowloon, Hong Kong  
(Address of principal executive offices)

DESWELL [LOGO]

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DESWELL INDUSTRIES, INC.  
ANNOUNCES 18% INCREASE IN FOURTH QUARTER NET INCOME

-COMPANY ALSO ANNOUNCES FOURTH QUARTER DIVIDEND OF \$0.28 PER SHARE-

HONG KONG (June 6, 2002) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its results for the fourth quarter and year ended March 31, 2002.

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Net sales for the fourth quarter increased 13% to \$19.0 million compared to sales of \$16.9 million in the fourth quarter ended March 31, 2001. Operating income increased 69% to \$2.7 million for the most recent quarter, compared to \$1.6 million for the year-ago quarter. Net income for the fourth quarter increased 18% to \$2.9 million compared to \$2.5 million for the year-ago quarter. Basic earnings per share and diluted earnings per share increased to \$0.52 and \$0.50 respectively (based on 5,606,000 and 5,745,000 weighted average shares outstanding, respectively), compared to \$0.45 and \$0.45 respectively (based on 5,451,000 and 5,465,000 weighted average shares outstanding, respectively), in the fourth quarter ended March 31, 2001.

Net sales for the year ended March 31, 2002, were \$83.3 million, an increase of 3% compared to sales of \$80.8 million for the year ended March 31, 2001. Operating income increased 9% to 13.9 million, compared to \$12.8 million in the previous year, and net income increased 4% to \$13.3 million, compared to \$12.8 million in the previous year. Basic earnings per share and diluted earnings per share increased to \$2.38 and \$2.36 respectively (based on 5,602,000 and 5,644,000 weighted average shares outstanding, respectively), compared to \$2.38 and \$2.36 respectively (based on 5,376,000 and 5,435,000 weighted average shares outstanding, respectively), for the year ended March 31, 2001.

The Company's balance sheet remains strong. The Company's cash and cash equivalents increased to \$31.5 million at March 31, 2002, compared to \$25.3 million on March 31, 2001. Working capital was \$54.9 million as of March 31, 2002, versus \$47.3 million as of March 31, 2001. The Company has no long-term borrowings.

Mr. Richard Lau, chairman and chief executive officer, commented, "Our efforts to turn around the performance at our electronics-assembly and metallic-products divisions paid off during the quarter with a combined 44% increase in sales at these two divisions. This increase was slightly offset by Jetcrown, our injection-molding division, which experienced a 3.5% decrease in revenues due to the soft economy, particularly in the telecommunications industry where we have some key OEM customers, and a 5% to 10% reduction in pricing. The impact of the pricing adjustment was minimized by higher sales volume and increased efficiency during the quarter. Furthermore, we are encouraged about the prospects for our injection-molding division, particularly due to China's entry into the WTO. The gradual shift of our injection operation to a new factory in early fiscal 2003 significantly increases our production capacity with considerable cost benefits. These savings should be substantially realized in the third quarter of fiscal 2003."

Mr. Lau continued, "Throughout the year we focused on keeping costs down to maximize profits in this uncertain economic environment. I am particularly pleased with our strong gross margins and reduced SG&A as a percentage of sales for the quarter and the year despite increased rental and transportation expenses, as well as an expanded marketing force."

### FOURTH QUARTER & FINAL DIVIDENDS

The Company also announced that on May 30, 2002, its board of directors declared a final cash dividend of \$0.28 per share (totally \$1.00 cash dividend per share for the year ended March 31, 2002, compared to \$0.90 per share in 2001). The dividend will be payable on July 3, 2002, to shareholders of record as of June 17, 2002.

Deswell manufactures injection-molded plastic parts and components, electronic

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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 pin-through hole ("PHT") interconnection technologies; and finished products such as telephones, telephone answering machines, sophisticated studio-quality audio equipment and computer peripherals. The Company's customers include Kyocera Mita Industrial Co. (H.K.) Limited, Epson Precision (H.K.) Ltd., Namtai Electronics (Shenzhen) Co. Ltd., Inter-Tel Incorporated, Vtech Telecommunications Ltd., Peavey Electronics Corporation, and Emerson.

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

### TABLES FOLLOW

#### CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) (U.S. DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Quarter ended March 31, 2002 ----- (Unaudited)	2001 ----- (Unaudited)	Year e March 2002 ----- (Unaudited)
Net sales	\$19,030	\$16,876	\$ 83,320
Cost of sales	12,470	11,654	54,448
	-----	-----	-----
Gross profit	6,560	5,222	28,872
Selling, general and administrative expenses	3,836	3,613	14,939
	-----	-----	-----
Operating income	2,724	1,609	13,933
Interest expense	(7)	(1)	(26)
Other income, net	397	305	877
	-----	-----	-----
Income before income taxes	3,114	1,913	14,784
Income taxes	43	(245)	535
	-----	-----	-----
Income before minority interests	3,071	2,158	14,249
Minority interests	181	(295)	925
	-----	-----	-----
Net income	\$ 2,890	\$ 2,453	\$13,324
	=====	=====	=====
Basic earnings per share (note 3)	\$ 0.52	\$ 0.45	\$ 2.38
	=====	=====	=====
Weighted average number of shares outstanding (in thousands)	5,606	5,451	5,602
	=====	=====	=====

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Diluted earnings per share (note 3)	\$0.50	\$0.45	\$2.36
	=====	=====	=====
Diluted weighted average number of shares outstanding (in thousands)	5,745	5,465	5,644
	=====	=====	=====

DESWELL INDUSTRIES, INC.  
CONSOLIDATED BALANCE SHEET  
(U.S. DOLLARS IN THOUSANDS)

	March 31, 2002 ----	March 31, 2001 ----
ASSETS	(Unaudited)	(Audited)
Current assets :		
Cash and cash equivalents	\$ 31,534	\$ 25,330
Restricted cash	2,861	1,988
Marketable securities	1,115	--
Accounts receivable, net	16,888	15,777
Inventories	13,225	12,034
Prepaid expenses and other current assets	3,421	1,833
Income taxes receivable	428	428
	-----	-----
Total current assets	69,472	57,390
Property, plant and equipment - net	24,794	25,563
Goodwill	478	513
	-----	-----
Total assets	\$ 94,744	\$ 83,466
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 7,583	\$ 4,274
Bank loans	482	--
Customer deposits and accrued expenses	6,320	5,463
Income taxes payable	165	297
	-----	-----
Total current liabilities	14,550	10,034
Minority interests	10,528	9,540
	-----	-----
Deferred income tax	15	15
	-----	-----
Shareholders' equity		

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Common stock		
- authorized 20,000,000 shares;		
issued and outstanding 5,580,331 shares		
at March 31, 2002 and 5,597,931 shares		
at March 31, 2001	56	56
Additional paid-in capital	26,522	26,843
Retained earnings	43,073	36,978
	-----	-----
Total shareholders' equity	69,651	63,877
	-----	-----
Total liabilities and shareholders' equity	\$ 94,744	\$ 83,466
	=====	=====

DESWELL INDUSTRIES, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
(U.S. DOLLARS IN THOUSANDS)

	Year ended March 31,
	----- 2002 ----
Cash flows from operating activities:	
Net income	\$ 13,324
Adjustments to reconcile net income to net cash Provided by operating activities:	
Depreciation and amortization	4,918
(Gain) loss on disposal of property, plant and equipment	7
Minority interests	988
Changes in current assets and liabilities:	
Accounts receivable	(1,111)
Marketable securities	(1,115)
Inventories	(1,191)
Prepaid expenses and other current assets	(1,588)
Income taxes receivable	-
Accounts payable	3,309
Customer deposits and accrued expenses	857
Income taxes payable	(132)
	-----
Net cash provided by operating activities	18,266
	-----
Cash flows from investing activities	
Purchase of property, plant and equipment	(4,397)
Proceeds from disposal of property, plant and Equipment	276
(Increase)/decrease in restricted cash	(873)
	-----
Net cash used in investing activities	(4,994)
	-----

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Cash flows from financing activities	
Repurchase of Common Stock	(564)
Issue of Common Stock	243
Increase of bank loans	482
Dividends paid	(7,229)
	-----
Net cash used in financing activities	(7,068)
	-----
Net increase/(decrease) in cash and cash equivalents	6,204
Cash and cash equivalents, at beginning of year	25,330
	-----
Cash and cash equivalents, at end of year	31,534
	=====
Supplementary disclosures of cash flow information: Cash paid during the year for:	
Interest	\$ 26
Income taxes	669
	=====

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 March 31, 2002 and March 31, 2001, the results of operations for the quarters and year ended March 31, 2002 and March 31, 2001, and the cash flows for the year ended March 31, 2002 and March 31, 2001. The notes to the Consolidated Financial Statements that are contained in the Form 20-F Annual Report filed on July 10, 2001 under the Securities Exchange Act of 1934 should be read in conjunction with these Consolidated Financial Statements.

2. INVENTORIES

	March 31, 2002	March 31, 2001
	-----	-----
Inventories by major categories :		
Raw materials	\$ 7,368	\$ 6,130
Work in progress	3,213	2,946
Finished goods	2,644	2,958
	-----	-----
	\$ 13,225	\$ 12,034
	=====	=====

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### 3. EARNINGS PER SHARE

The basic net income per share and diluted net income per share are computed in accordance with the Statement of Financial Accounting Standards 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 dilutive potential 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 dilutive potential 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 income for the quarters and year ended March 31, 2002, and 2001 were both from the Company's continuing operations.

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. 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 inexpensive labor rates as compared to Hong Kong.

QUARTER ENDED MARCH 31, 2002 COMPARED TO QUARTER ENDED MARCH 31, 2001

The Company's net sales for the quarter ended March 31, 2002 were \$19,030,000, an increase of \$2,154,000 or 12.8% as compared to the corresponding period in 2001. The increase in sales was mainly related to an increase in sales of electronic and metallic products of \$2,549,000 offset by a decrease in sales of injection-molded plastic products of \$395,000. This represented an increase of 44.4% and a decrease of 3.5% respectively, as compared with the net sales in the corresponding period in the prior year.

The increase in net sales in the electronics and metallics divisions was mainly

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due to an increase in orders from their existing customers, together with the orders from new customers during the quarter ended March 31, 2002, as compared to the prior-year period.

The gross profit for the quarter ended March 31, 2002 was \$6,560,000, representing a gross profit margin of 34.5%. This compares with the overall gross profit and gross profit margin of \$5,222,000 or 30.9% for the quarter ended March 31, 2001.

Selling, general and administrative expenses for the quarter ended March 31, 2002 were \$3,836,000, amounting to 20.2% of total net sales, as compared to \$3,613,000 or 21.4% of total net sales for the quarter ended March 31, 2001. The increase in selling, general and administrative expenses of \$223,000 over the corresponding period was mainly attributed to the increase in general and administrative expenses resulted from improved business over last year.

As a result of the increase in net sales, operating income was \$2,704,000 for the quarter ended March 31, 2002, an increase of \$1,115,000 or 69.3% as compared with the corresponding quarter in the prior year.

Minority interests represent the 49% minority interest in both the electronics and metallics subsidiaries and the marketing subsidiary. The increase in minority interest to a surplus of \$181,000 for the quarter ended March 31, 2002, from a deficiency of \$295,000 for the corresponding quarter in the prior year reflects an increase in profits in the subsidiaries.

As a result of the above factors, net income was \$2,890,000 for the quarter ended March 31, 2002, an increase of \$437,000 or 17.8%, as compared to the quarter ended March 31, 2001, and net income as a percentage of net sales increased to 15.2% from 14.5%.

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DESWELL INDUSTRIES, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

YEAR ENDED MARCH 31, 2002 COMPARED TO YEAR ENDED MARCH 31, 2001

The Company's net sales for the year ended March 31, 2002, were \$83,320,000, an increase of \$2,473,000 or 3.1% as compared to year ended March 31, 2001. The increase in sales was mainly related to increases in sales of electronic and metallic products of \$4,311,000 offset by a decrease in sales of injection-molded plastic products of \$1,838,000. This represented an increase of 13.7% and a decrease of 3.7% respectively, as compared with the net sales in prior year.

The increase in net sales in the electronics and metallics divisions was mainly due to an increase in orders from their existing customers, together with orders from new customers during the year.

The gross profit for the year ended March 31, 2002 was \$28,872,000, representing a gross profit margin of 34.7%. This compares with the overall gross profit and gross profit margin of \$28,251,000 or 34.9% for the year ended March 31, 2001.

Selling, general and administrative expenses for the year ended March 31, 2002



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were \$14,939,000, amounting to 17.9% of total net sales, as compared to \$15,414,000 or 19.1% of total net sales for the year ended March 31, 2001. The decrease in selling, general and administrative expenses of \$475,000 over the prior year was mainly attributed to the strict control on these expenses.

As a result of the increase in sales revenue and a decrease in selling, general & administrative expenses, operating income was \$13,933,000 for the year ended March 31, 2002, an increase of \$1,096,000 or 8.5% as compared with the prior year.

During the year ended March 31, 2002, the Company established a 51%-owned marketing subsidiary to strengthen our marketing force. As a result, minority interests represent the 49% minority interest in the electronics and metallics subsidiaries and the marketing subsidiary. The increase in minority interest to \$925,000 for the year ended March 31, 2002, from \$621,000 for the year ended March 31, 2001, reflects that the electronics and metallics business generated more profits in the current year as compared to the prior year.

As a result of the above factors, net income was \$13,324,000 for the year ended March 31, 2002, an increase of \$514,000 or 4.0%, as compared to the year ended March 31, 2001, and net income as a percentage of net sales increased slightly to 16.0% from 15.8%.

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DESWELL INDUSTRIES, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

### LIQUIDITY AND CAPITAL RESOURCES

During the past five years, the Company has relied primarily upon internally generated funds and short-term borrowings (including trade finance facilities) to finance its operations and expansion.

As of March 31, 2002, the Company had a working-capital surplus of \$54,923,000. This compares with a working-capital surplus of \$47,356,000 at March 31, 2001. The increase in working capital was mainly attributed to net cash generated from its operating activities of \$18,266,000 and the funds from short-term bank loans of \$482,000, exercise of stock options of \$243,000 during the year offset by the cash dividend distributed of \$7,229,000 and the capital investment of \$4,397,000 during the year ended March 31, 2002.

The Company has generated sufficient funds from its operating activities to finance its operations and there is little need for external financing other than short-term borrowings that are used to finance accounts receivable and are generally paid with cash generated from operations. The Company has outstanding short-term borrowings of \$482,000 and no long-term debt at March 31, 2002.

As of March 31, 2002, the Company had in place general banking facilities with seven financial institutions aggregating approximately \$19,515,000. Such facilities, which are subject to annual review, include overdrafts, letters of

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credit, import facilities, trust receipt financing, inward bills financing as well as fixed loans. As of March 31, 2002, the Company had ( i ) unused credit facilities of \$16,581,000 ( ii ) cash and cash equivalents of \$31,534,000 and ( iii ) restricted cash of \$2,861,000, which has been pledged as collateral for those credit facilities. The restricted cash of \$2,762,000 and leasehold land and buildings of \$1,348,000 have been pledged as collateral for those credit facilities. The Company also had \$99,000 pledged as deposit for customs duty in Dongguan, China.

The Company expects that working capital requirements and capital additions will be funded through a combination of internally generated funds and existing facilities.

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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: /s/ \_\_\_\_\_  
Richard Lau  
Chief Executive Officer

Date: June 6, 2002