

DESWELL INDUSTRIES INC  
Form 6-K  
November 16, 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 November 16, 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 Second Quarter 2013 Results

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

FOR IMMEDIATE RELEASE

MACAO (November 16, 2012) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal second quarter ended September 30, 2012.

Net sales for the second quarter ended September 30, 2012 were \$16.3 million, a decrease of 9.5% compared to net sales of \$18.0 million for the same quarter ended September 30, 2011. Net sales increased by 9.2% to \$8.4 million in the Company's plastic segment and decreased by 23.5% to \$7.9 million in the electronic and metallic segment. The operating loss in the second quarter was \$0.08 million, compared to an operating loss of \$0.2 million for the same quarter of fiscal 2012.

Total gross margin increased to 16.1% in the second quarter ended September 30, 2012 compared to 14.0% in the same quarter last year. Gross profit margin in the plastic segment increased to 19.3% of net sales for the second quarter of fiscal 2013 compared to 16.3% of net sales for the same quarter of last fiscal year. The increase of gross profit and margin in the plastic segment was mainly due to decreases in factory overhead and depreciation expense as a percentage of net sales. Gross profit margin in the electronic and metallic segment slightly improved to 12.7% of net sales for the second quarter ended September 30, 2012 compared to 12.3% of net sales for the year-ago quarter. The improvement in gross profit margin in the electronic and metallic segment was mainly attributed to efficient usage of raw materials, offsetting an increase in labor cost as a percentage of net sales.

The Company reported a net income of \$0.2 million for the second quarter ended September 30, 2012 compared to net loss of \$0.9 million for the quarter ended September 30, 2011. Deswell reported a basic and diluted income per share of \$0.011 for the second quarter of fiscal 2013, (based on 16,726,000 and 16,749,000 weighted average shares outstanding, respectively) compared to a basic and diluted loss per share of (\$0.056), (based on 16,197,000 and 16,199,000 weighted average shares outstanding, respectively) for the same quarter ended September 30, 2011.

Net sales for the six months ended September 30, 2012 were \$30.7 million, a decrease of 15.3%, compared to sales of \$36.3 million for the corresponding period in fiscal 2012. Operating loss for the six months ended September 30, 2012 was \$0.4 million, compared to operating loss of \$0.1 million for the first six months of fiscal 2012. The Company reported a net income of \$0.2 million in the first half of fiscal 2013, compared to a net loss of \$0.8 million for the six months ended September 30, 2011. Deswell reported basic and diluted net income per share of \$0.014 for the first six months of fiscal 2013, (based on 16,596,000 and 16,654,000 weighted average share outstanding, respectively), compared to basic and diluted loss per share of (\$0.052), (based on 16,197,000 and 16,201,000 weighted average shares outstanding, respectively), for the prior corresponding period.

The Company's financial position remained strong at the end of the second quarter of fiscal year 2013, with \$26.7 million in cash and cash equivalents at September 30, 2012, compared to \$33.1 million at March 31, 2012. Working capital totaled \$61.1 million as of September 30, 2012, versus \$60.9 million as of March 31, 2012. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2012.

Mr. Franki Tse, Chief Executive Officer, commented, "In the plastic segment, our more consumer-related business, sales and gross margin have improved. Recently we obtained the quality management system ISO13485:2003 certification which allows us to manufacture plastic parts for medical devices, a new market opportunity for us. In our electronic and metallic segment, the softening demand prevails and sales of professional audio products and fixtures

are still suffering from the global economic situation. We are devoting more effort and resources into product design and development and expect this will help us to secure more orders and improved gross margins in the future. Our balance sheet remains particularly strong with cash and no long or short term debt and we expect to declare dividends in each of the coming three quarters of at least \$0.05 per share.

#### Second Quarter Dividends

The Company also announced that on November 16, 2012 its board of directors declared a cash dividend of \$0.05 per share for the fiscal second quarter ended September 30, 2012. The dividends will be payable on December 18, 2012 to shareholders of record as of November 29, 2012.

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#### 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)

|   | 9/30/2012<br>(Unaudited) | 3/31/2012<br>(Audited) |
|---|--------------------------|------------------------|
| <b>ASSETS</b>   |                          |                        |
| Current assets :  |                          |                        |
| Cash and cash equivalents   | \$26,749                 | \$33,073               |
| Fixed deposits maturing over three months   | 5,967                    | 4,008                  |
| Marketable securities (note 2)  | 2,082                    | -                      |
| Available-for-sale securities (note 2)  | 8,194                    | 7,630                  |
| Accounts receivable, net  | 14,559                   | 12,476                 |
| Inventories (note 4)  | 15,241                   | 15,852                 |
| Prepaid expenses and other current assets   | 1,695                    | 2,164                  |
| Total current assets  | 74,487                   | 75,203                 |
| Property, plant and equipment - net   | 44,201                   | 46,177                 |
| Deferred income tax assets  | 187                      | 187                    |
| Goodwill  | 392                      | 392                    |
| Total assets  | \$119,267                | \$121,959              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                          |                        |
| Current liabilities   |                          |                        |
| Accounts payable  | \$5,874                  | \$5,741                |
| Accrued payroll and employee benefits   | 3,655                    | 3,778                  |
| Customer deposits   | 1,482                    | 2,257                  |
| Other accrued liabilities   | 1,268                    | 1,311                  |
| Income taxes payable  | 524                      | 438                    |
| Deferred income tax liabilities   | 500                      | 421                    |
| Dividend payable  | -                        | 324                    |
| Total current liabilities   | 13,303                   | 14,270                 |
| Shareholders' equity  |                          |                        |
| Common shares nil par value - authorized 30,000,000 shares,<br>shares issued and outstanding September 30, 2012 - 16,635,101 (note 6);<br>March 31, 2012 - 16,196,810 | 52,443                   | 50,816                 |
| Additional paid-in capital  | 7,478                    | 8,265                  |
| Accumulated other comprehensive income  | 5,134                    | 4,570                  |
| Retained earnings   | 40,909                   | 44,038                 |
| Total shareholders' equity  | 105,964                  | 107,689                |
| Total liabilities and shareholders' equity  | \$119,267                | \$121,959              |

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

|   | Quarter ended |            | Six months ended |            |
|---|---------------|------------|------------------|------------|
|   | September 30, |            | September 30,    |            |
|   | 2012          | 2011       | 2012             | 2011       |
| Net sales   | \$16,303      | \$18,020   | \$30,791         | \$36,344   |
| Cost of sales   | 13,678        | 15,492     | 25,928           | 30,655     |
| Gross profit  | 2,625         | 2,528      | 4,863            | 5,689      |
| Selling, general and administrative expenses                                  | 2,767         | 3,145      | 5,346            | 6,240      |
| Other income, net   | 67            | 392        | 89               | 440        |
| Operating loss  | (75 )         | (225 )     | (394 )           | (111 )     |
| Non-operating income (expenses), net  | 345           | (370 )     | 788              | (381 )     |
| Income (Loss) before income taxes   | 270           | (595 )     | 394              | (492 )     |
| Income taxes  | 81            | 319        | 165              | 347        |
| Net income (loss) attributable to Deswell Industries, Inc.                    | \$189         | \$(914 )   | \$229            | \$(839 )   |
| Other comprehensive loss  |               |            |                  |            |
| Unrealized gain (loss) on available-for-sale securities                       | \$613         | \$(292 )   | \$564            | \$(520 )   |
| Comprehensive loss attributable to Deswell Industries, Inc.                   | \$802         | \$(1,206 ) | \$793            | \$(1,359 ) |
| Net income (loss) per share attributable to Deswell Industries, Inc. (note 5) |               |            |                  |            |
| Basic:  |               |            |                  |            |
| Net income (loss) per share   | \$0.011       | \$(0.056 ) | \$0.014          | \$(0.052 ) |
| Weighted average common shares outstanding shares in thousands)               | 16,726        | 16,197     | 16,596           | 16,197     |
| Diluted:  |               |            |                  |            |
| Net income (loss) per share   | \$0.011       | \$(0.056 ) | \$0.014          | \$(0.052 ) |
| Weighted average number of shares outstanding (in thousands)                  | 16,749        | 16,199     | 16,654           | 16,201     |

DESWELL INDUSTRIES, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
(U.S. dollars in thousands)

|   | Six months ended<br>September 30, |           |
|---|-----------------------------------|-----------|
|   | 2012                              | 2011      |
| Cash flows from operating activities :  |                                   |           |
| Net income  | \$229                             | \$(839 )  |
| Adjustments to reconcile net income to net cash<br>provided by operating activities : |                                   |           |
| Depreciation and amortization   | 2,178                             | 2,591     |
| Provision for (reversal of) doubtful accounts   | 188                               | (196 )    |
| Allowances for (reversal of) obsolete inventories                                     | 148                               | (183 )    |
| Impairment of (reversal of) property, plant and equipment                             | -                                 | (46 )     |
| Gain on sale of property, plant and equipment   | (84 )                             | (46 )     |
| Unrealized holding loss (gain) on marketable securities                               | (85 )                             | 936       |
| Deferred tax  | 79                                | 76        |
| Changes in operating assets and liabilities :   |                                   |           |
| Accounts receivable   | (2,271 )                          | 1,610     |
| Inventories   | 463                               | 2,905     |
| Prepaid expenses and other current assets   | 469                               | (177 )    |
| Accounts payable  | 133                               | (1,002 )  |
| Accrued payroll and employee benefits   | (123 )                            | (21 )     |
| Customer deposits   | (775 )                            | 573       |
| Other accrued liabilities   | (43 )                             | (101 )    |
| Income taxes payable  | 86                                | (188 )    |
| Net cash provided by operating activities   | 592                               | 5,892     |
| Cash flows from investing activities  |                                   |           |
| Purchase of property, plant and equipment   | (214 )                            | (174 )    |
| Proceeds from sale of property, plant and equipment,<br>net of transaction costs      | 96                                | 157       |
| Purchase of marketable securities   | (1,997 )                          | (3,184 )  |
| Investment in available-for-sales securities  | -                                 | (8,376 )  |
| Increase in fixed deposits maturing over three months                                 | (1,959 )                          | (3,129 )  |
| Net cash used in investing activities   | (4,074 )                          | (14,706 ) |
| Cash flows from financing activities  |                                   |           |
| Dividends paid  | (3,682 )                          | (1,620 )  |
| Exercised of stock options  | 1,295                             | 4         |
| Common stock repurchased  | (455 )                            | -         |
| Net cash used in financing activities   | (2,842 )                          | (1,616 )  |
| Net decrease in cash and cash equivalents   | (6,324 )                          | (10,430 ) |
| Cash and cash equivalents, beginning of year  | 33,073                            | 35,635    |
| Cash and cash equivalents, end of year  | 26,749                            | 25,205    |
| Supplementary disclosures of cash flow information :                                  |                                   |           |
| Cash paid during the period for :   |                                   |           |
| Interest  | -                                 | -         |

Income taxes

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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 September 30, 2012 and March 31, 2012, the results of operations for the quarter and six months ended September 30, 2012 and September 30, 2011, and the cash flows for the six months ended September 30, 2012 and September 30, 2011. The notes to the Consolidated Financial Statements contained in the Form 20-F Annual Report filed on July 20, 2012 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, 2012     |                          |            |
|---------------------------|--------------------|--------------------------|------------|
|                           | Cost               | Gross<br>Unrealized loss | Fair value |
| Marketable securities     |                    |                          |            |
| Equity securities         | -                  | -                        | -          |
| Available-for-sale        |                    |                          |            |
| Corporate debt securities | \$ 8,376           | \$ (746 )                | \$ 7,630   |
|                           |                    |                          |            |
|                           | September 30, 2012 |                          |            |
|                           | Cost               | Gross<br>Unrealized gain | Fair value |
| Marketable securities     |                    |                          |            |
| Equity securities         | \$ 1,997           | \$ 85                    | \$ 2,082   |
| Available-for-sale        |                    |                          |            |
| Corporate debt securities | \$ 8,376           | \$ 564                   | \$ 8,194   |

### Marketable Securities

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

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

There were no proceeds, recognized gain or loss from sale of these marketable securities during the six months ended September 30, 2012.

### Available-For-Sale 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 September 30, 2012 were more than 10 years.

The annual interest income receivable from those two corporate bonds is approximately \$750. 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 September 30, 2012.

As of September 30, 2012, the corporate debt securities have derived interest income of \$1,056 to the Company since the dates of their acquisitions.

### 3. Income from Available-For-Sale Securities

For the six months ended September 30, 2012, the interest income derived from the available-for-sale securities of \$370 and the unrealized gain on available-for-sale securities of \$564 have been separately presented as non-operating income and other comprehensive loss.

### 4. Inventories

|                                  | September 30,<br>2012 | March 31,<br>2012 |
|----------------------------------|-----------------------|-------------------|
| Inventories by major categories: |                       |                   |
| Raw materials                    | \$ 8,370              | \$ 8,440          |
| Work in progress                 | 4,728                 | 5,262             |
| Finished goods                   | 2,143                 | 2,150             |
|                                  | \$ 15,241             | \$ 15,852         |

### 5. 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 income for the quarters ended September 30, 2012 and 2011 were both from the Company's continuing operations.

#### 6. Stock Buyback Plan

On March 14, 2012, the Company's board of directors authorized a stock buyback plan to repurchase up to an aggregate of \$4.0 million of its issued and outstanding common shares during the next two years. The program does not obligate Deswell to acquire any particular number or dollar amount of its common shares and may be suspended, modified, extended or discontinued at any time. No assurance can be given that any particular number or dollar amount of common stock will be repurchased.

The Company has authorized a sole broker to execute the stock buyback plan in compliance with the requirement of Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934.

As of September 30, 2012, 166,709 common shares have been repurchased under the stock buyback plan for a total consideration of \$0.5 million at an average price of \$2.73 per share.

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 September 30, 2012 Compared to Quarter Ended September 30, 2011

Net Sales - The Company's net sales for the quarter ended September 30, 2012 were \$16,303,000, a decrease of \$1,717,000, or 9.5%, as compared to the corresponding period in fiscal 2012. The decrease in sales was mainly related to the decrease in sales in our electronic and metallic segment totaling \$2,427,000, offsetting the increase in sales of \$710,000 in our plastic segment. These represent a decrease of 23.5% and an increase of 9.2% respectively, as compared with the net sales from these segments in the corresponding period of the prior fiscal year.

The increase in net sales in our plastic segment was mainly due to an increase in orders from existing customers of \$1,886,000 mainly for motor vehicle, gaming and medical products, offsetting a decrease in orders from existing customers of \$1,175,000 mainly for telephone products and printing equipment. The decrease of net sales in the electronic and metallic segment was largely due to a decrease in orders from existing customers for professional audio equipment of \$3,459,000, offsetting increases of \$1,034,000 in sales for home entertainment and vending machine products from new projects with existing customers.

Gross Profit - The gross profit for the quarter ended September 30, 2012 was \$2,625,000, representing a gross profit margin of 16.1%. This compares with the overall gross profit and gross profit margin of \$2,528,000 or 14.0% for the quarter ended September 30, 2011.

Gross profit in the plastic segment increased by \$367,000 to \$1,623,000 or 19.3% of net sales, for the quarter ended September 30, 2012, as compared to \$1,256,000 or 16.3% of net sales, for the quarter ended September 30, 2011. The increase in gross margin in the plastic segment was mainly due to a decrease in depreciation expense as well as in factory overhead as a percentage of net sales, as compared to the same quarter in the prior year.

Gross profit in the electronic and metallic segment decreased by \$270,000 to \$1,002,000, or 12.7% of net sales, for the quarter ended September 30, 2012, as compared to \$1,272,000 or 12.3% of net sales, for the same period of last fiscal year. The improvement in gross margin was mainly attributed to savings in raw materials due to efficient usage, offsetting an increase in labor cost resulting from more allowances paid, as compared to the same quarter of last fiscal year.

Selling, General and Administrative Expenses – SG&A expenses for the quarter ended September 30, 2012 were \$2,767,000, or 17.0% of total net sales, compared to \$3,145,000, or 17.5% of total net sales for the quarter ended September 30, 2011. There was a decrease in selling, general and administrative expenses of \$378,000 compared to the corresponding period of last year.

The SG&A expenses in the plastic segment decreased by \$194,000 to \$1,787,000, or 21.2% of net sales, for the quarter ended September 30, 2012 compared to \$1,981,000 or 25.7% of net sales for the corresponding period in fiscal 2012. The lower SG&A expense for the quarter was primarily related to a decrease of \$205,000 in staff costs and welfare, which resulted from the reduction of administrative staff, and \$58,000 in depreciation expense, offsetting an increase of \$90,000 in selling expenses, as compared with the year-ago quarter.

SG&A expenses in the electronic and metallic segment decreased by \$184,000 to \$980,000, or 12.4% of net sales for the quarter ended September 30, 2012, compared to \$1,164,000, or 11.3% of net sales for the corresponding period in fiscal 2012. The decrease in SG&A expenses was primarily related to a decrease of \$71,000 in staff costs and welfare, \$46,000 in local government tax and charges, as well as \$25,000 in depreciation expense, as compared with the corresponding quarter in the prior fiscal year.

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Other operating income - Other operating income was \$67,000 for the quarter ended September 30, 2012, as compared to other operating income of \$392,000 for the quarter ended September 30, 2011.

On a segment basis, other operating income attributable to the plastic segment was \$44,000 as compared to other operating income of \$468,000 for the same quarter last year. The decrease in other operating income was mainly due to an exchange gain of \$31,000 in the quarter ended September 30, 2012, as compared to an exchange gain of \$82,000 and a reversal of the provision of \$343,000 for doubtful receivables in the corresponding year-ago quarter.

Other operating income attributable to the electronic and metallic segment was \$23,000 in the quarter ended September 30, 2012, as compared to other operating expense of \$76,000 for the year-ago quarter. The increase in other operating income was mainly due to an increase of \$74,000 in gain from disposal of fixed assets and \$122,000 in other operating income, offsetting an increase of \$105,000 of the provision for doubtful receivables, as compared to the corresponding quarter of the prior fiscal year.

Operating loss - Operating loss was \$75,000 for the quarter ended September 30, 2012, as compared with operating loss of \$225,000 for the corresponding quarter in the prior fiscal year.

On a segment basis, the operating loss in the plastic division was \$120,000 or negative 1.4% of net sales in the quarter ended September 30, 2012 compared to an operating loss of \$257,000 or negative 3.3% of net sales in the corresponding period of fiscal 2012. The decrease in operating loss in the plastic division was mainly due to an increase in gross margin and lower SG&A expenses as a percentage of net sales as described above.

Operating income in the electronic and metallic segment was \$45,000, or 0.6% of net sales in the quarter ended September 30, 2012 compared to an operating income of \$32,000 or 0.3% of net sales in the corresponding period of fiscal 2012. The increase in operating income of the electronic and metallic segment was mainly due to improvement in gross margins as well as an increase in other operating income as a percentage of net sales as described above.

Non-operating income – Non-operating income increased by \$715,000 to \$345,000 for the quarter ended September 30, 2012 as compared to non-operating expense of \$370,000 for the year-ago quarter. This is mainly attributable to \$185,000 of income from securities investments, \$129,000 of interest income and \$35,000 in unrealized gain on revaluation of marketable securities, as compared to \$330,000 of income from securities investments, \$97,000 of interest income and \$790,000 in unrealized loss on revaluation of marketable securities in the year-ago quarter.

Income Taxes – Income tax for the quarter ended September 30, 2012 was comprised of an income tax expense of \$27,000 and a deferred tax provision of \$54,000, as compared to an income tax expense of \$238,000 and a deferred tax provision of \$81,000 in the corresponding quarter of the prior fiscal year.

On a segment basis, there was a deferred tax provision of \$54,000 in the plastic segment for the quarter ended September 30, 2012, as compared to an income tax expense of \$205,000 and a deferred tax provision of \$81,000 in the year-ago quarter. The income tax of the electronic and metallic segment for the quarter ended September 30, 2012 was comprised of an income tax expense of \$27,000, as compared to an income tax expense of \$33,000 in the corresponding quarter of fiscal 2012.

Net Income – The Company had net income of \$189,000 for the quarter ended September 30, 2012 as compared to net loss of \$914,000 for the quarter ended September 30, 2011. Net income for the quarter ended September 30, 2012 represented 1.2% of net sales, compared to negative 5.1% of net sales in the same quarter of the prior fiscal year.

Net income for the plastic segment for the quarter ended September 30, 2012 totaled \$118,000, as compared to a net loss of \$764,000 for the corresponding quarter in fiscal 2012. The increase in net income was mainly the result of an

increase in non-operating income for the quarter as described above.

Net income for the electronic and metallic segment for the quarter ended September 30, 2012 was \$71,000, as compared to a net loss of \$150,000 for the corresponding quarter in fiscal 2012. The increase in net income of the electronic and metallic segment was primarily the result of improved gross margins, and increases in other operating and non-operating income as described above.

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Six Months Ended September 30, 2012 Compared to Six Months Ended September 30, 2011

Net Sales - The Company's net sales for the six months ended September 30, 2012 were \$30,791,000, a decrease of \$5,554,000 or 15.3% as compared to \$36,344,000 in the corresponding period in fiscal 2012. The decrease was related to a decrease in sales revenues of \$604,000 in our plastic segment and \$4,950,000 in 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 decrease in sales orders from existing customers reflecting the continuous uncertain global economic conditions. The decrease in net sales was related to a decrease of \$4,026,000 in orders from existing customers mainly for telephone and printing equipment, offsetting an increase of \$3,392,000 in orders from existing customers mainly for computer accessories and medical products.

The revenue decrease in the electronic and metallic segment was mainly due to a decrease of \$7,628,000 in orders from existing customers for professional audio instrument products, offsetting an increase of \$2,684,000 in orders for home entertainment and vending machine products. The decrease in sales orders was mainly attributed to the unstable economies in Europe and the United States resulting sluggish in demand for products.

Gross Profit - Gross profit for the six months ended September 30, 2012 was \$4,863,000, representing a gross profit margin of 15.8%. This compared with the overall gross profit and gross profit margin of \$5,688,000 or 15.7% for the six months ended September 30, 2011.

Gross profit in the plastic segment decreased by \$194,000 to \$2,976,000 or 19.2% of net sales for the six months ended September 30, 2012, as compared to \$3,170,000 or 19.7% of net sales, for the same period in the prior fiscal year. The slight decrease in gross margin for the plastic segment was mainly due to the increase in raw material costs and factory overhead as a percentage of net sales, when compared with the same period of last year.

Gross profit in the electronic and metallic segment decreased by \$631,000 to \$1,887,000 or 12.4% of net sales for the six months ended September 30, 2012, as compared to \$2,518,000 or 12.5% of net sales, for the same period of last fiscal year. The slight improvement in gross margin was mainly attributed to savings from efficient usage of raw materials, offsetting increase in higher labor allowances as a percentage of sales, as compared with the same period of last fiscal year.

Selling, general and administrative expenses - SG&A expenses for the six months ended September 30, 2012 were \$5,346,000 or 17.4% of total net sales, as compared to \$6,240,000 or 17.2% of total net sales for the six months ended September 30, 2011. Selling, general and administrative expenses decreased by \$895,000 or 14.3% in the first half of fiscal 2013 compared to the corresponding period of last fiscal year.

SG&A expenses in the plastic segment decreased by \$477,000 to \$3,438,000 or 22.2% of net sales for the six months ended September 30, 2012, compared to \$3,915,000 or 24.3% of net sales for the corresponding period in fiscal 2012. The decrease was primarily related to the decrease of \$492,000 in staff costs and benefits and \$98,000 in depreciation expense, offsetting an increase of \$97,000 in local government taxes and charges, as compared with the same period in the prior fiscal year.

SG&A expenses in the electronic and metallic segment decreased by \$418,000 to \$1,908,000 or 12.5% of net sales for the six months ended September 30, 2012, compared to \$2,326,000 or 11.5% of net sales for the corresponding period in fiscal 2012. The decrease was primarily related to the decrease of \$231,000 in staff costs and welfare as well as \$72,000 in selling expenses, as compared with the corresponding period in the prior fiscal year.

Other operating income - Other operating income was \$89,000 for the six months ended September 30, 2012, as compared to other operating expenses of \$440,000 in the corresponding six months of the prior fiscal year.

On a segment basis, other operating income attributable to the plastic segment for the six months ended September 30, 2012 was \$9,000, as compared to expenses of \$478,000 for the same period in the prior fiscal year. The decrease in other operating income was mainly due to an exchange gain of \$44,000, a gain of \$25,000 from disposal of fixed assets and a provision of \$84,000 for doubtful receivables in the six months ended September 30, 2012, as compared to an exchange gain of \$186,000, a gain of \$64,000 from disposal of fixed assets, as well as a reversal of provision of \$131,000 for doubtful receivables during the same period of prior fiscal year.

Other operating income attributable to the electronic and metallic segment for the six months ended September 30, 2012 was \$80,000, as compared with other operating expense of \$37,000 for the corresponding period in the prior fiscal year. This increase in other operating income was mainly due to an exchange gain of \$22,000, a gain of \$59,000 from disposal of fixed assets and \$103,000 in other operating income during the six months ended September 30, 2012, as compared to a loss of \$18,000 from disposal of fixed assets and \$23,000 of other operating expenses in the same period of last fiscal year.

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Operating Loss - Operating loss was \$394,000 for the six months ended September 30, 2012, as compared to operating loss of \$111,000 in the corresponding six months in the prior fiscal year.

On a segment basis, the operating loss of the plastic segment was \$453,000, or negative 2.9% of net sales in the six months ended September 30, 2012, as compared to operating loss of \$267,000 or negative 1.7% of net sales in the corresponding period in fiscal 2012. The increase in operating loss in the plastic segment was mainly due to a decrease in gross margin and other operating income as described above.

The electronic and metallic segment reported an operating income of \$59,000 or 0.4% of net sales in the six months ended September 30, 2012, compared to an operating income of \$155,000 or 0.8% of net sales in the corresponding period in fiscal 2012. The decrease in operating income was due to the combined effect of a decrease in sales revenues and an increase in SG&A expenses as a percentage of net sales as described above.

Non-operating income – Non-operating income for the six months ended September 30, 2012 was \$788,000, as compared to non-operating expenses of \$381,000 in the year-ago six months. This was primarily due to \$472,000 of income from securities investments and \$247,000 from interest income during the six months ended September 30, 2012, as compared to \$330,000 of income from securities investments, \$176,000 from interest income as well as \$933,000 in unrealized loss on the revaluation of marketable securities in the same six months of the prior fiscal year.

Income Taxes – Income tax for the six months ended September 30, 2012 represented an income tax expense of \$87,000 and a deferred tax provision of \$78,000, as compared to an income tax expense of \$266,000 and a deferred tax provision of \$81,000 in the corresponding six months of the prior fiscal year.

On a segment basis, there was an income tax expense of \$31,000 and a deferred tax provision of \$78,000 in the plastic segment for the six months ended September 30, 2012, as compared to an income tax expense of \$205,000 and a deferred tax provision of \$81,000 during the year-ago six months. The income tax of the electronic and metallic segment was comprised of an income tax expense of \$56,000 for the six months ended September 30, 2012, as compared to an income tax expense of \$61,000 in the corresponding six months of fiscal 2012.

Net Income – The Company had a net income of \$229,000 for the six months ended September 30, 2012, as compared to net loss of \$839,000 for the six months ended September 30, 2011. Net income for the six months ended September 30, 2012 represented 0.7% of net sales, compared to negative 2.3% in the same six months of the prior fiscal year. The increase in net income was mainly the result of an increase in non-operating income as described above.

Net income for the plastic segment for the six months ended September 30, 2012 totaled \$123,000, as compared to net loss of \$837,000 for the corresponding six months in fiscal 2012. The increase in net income of the plastic segment was mainly the result of an increase in non-operating income as described above.

Net income for the electronic and metallic segment for the six months ended September 30, 2012 was \$106,000, compared to a net loss of \$3,000 for the corresponding six months of fiscal 2012. The increase in net income of the electronic and metallic segment was mainly attributable to an increase in non-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 September 30, 2012, the Company had working capital of \$61,184,000 as compared to \$60,933,000 at March 31, 2012. 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 as of September 30, 2012.

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As of September 30, 2012, the Company had cash and cash equivalents of \$26,749,000, as compared to \$33,073,000 at March 31, 2012. During the six months ended September 30, 2012, net cash provided by operating activities was \$592,000. Net cash used in investing activities was \$4,074,000, mainly accounted for by \$1,997,000 in the purchase of marketable securities and a \$1,959,000 increase in time deposits over three months during the six months ended September 30, 2012. Net cash used in financing activities was comprised mainly of \$3,682,000 for quarterly dividend payments and \$455,000 in repurchase of the Company's common shares, offsetting \$1,295,000 cash available from exercise of employee stock options in the six months ended September 30, 2012.

As of September 30, 2012, 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: November 16, 2012