

DESWELL INDUSTRIES INC
Form 6-K
November 13, 2013

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 13, 2013

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

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

Deswell Announces Second Quarter 2014 Results

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

FOR IMMEDIATE RELEASE

MACAO (November 13, 2013) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal second quarter ended September 30, 2013.

Net sales for the second quarter ended September 30, 2013 were \$11.9 million, a decrease of 27.2% compared to net sales of \$16.3 million for the same quarter ended September 30, 2012. Net sales decreased by 34.0% to \$5.6 million in the Company's plastic segment and decreased by 19.9% to \$6.3 million in the electronic and metallic segment. The operating loss in the second quarter was \$1.5 million, compared to an operating loss of \$0.08 million for the same quarter of fiscal 2013.

Total gross margin decreased to 8.8% in the second quarter ended September 30, 2013 compared to 16.1% in the same quarter last year. Gross profit margin in the plastic segment decreased to 8.8% of net sales for the second quarter of fiscal 2014 compared to 19.3% of net sales for the same quarter of last fiscal year. The decrease in gross profit and margin in the plastic segment was mainly due to the combined effect of decrease in sales volume, plus relatively higher labor cost as a percentage of sales due to a raise in minimum wage rate offsetting the decrease in headcount. Gross profit margin in the electronic and metallic segment decreased to 8.8% of net sales for the second quarter ended September 30, 2013 compared to 12.7% of net sales for the year-ago quarter. The decrease in gross profit and margin in the electronic and metallic segment was mainly attributed to increase in labor costs, resulting from a higher labor rate, offsetting the decrease in headcount.

The Company reported a net loss of \$1.2 million for the second quarter ended September 30, 2013 compared to net income of \$0.2 million for the quarter ended September 30, 2012. Deswell reported a basic and diluted loss per share of (\$0.076) for the second quarter of fiscal 2014 (based on 16,201,000 and 16,206,000 weighted average shares outstanding, respectively), compared to a basic and diluted income per share of \$0.011 (based on 16,726,000 and 16,749,000 weighted average shares outstanding, respectively), for the quarter ended September 30, 2012.

Net sales for the six months ended September 30, 2013 were \$23.0 million, a decrease of 25.3%, compared to sales of \$30.8 million for the corresponding period in fiscal 2013. Operating loss for the six months ended September 30, 2013 was \$2.9 million, compared to operating loss of \$0.4 million for the first six months of fiscal 2013. The Company reported a net loss of \$2.9 million in the first half of fiscal 2013, compared to net income of \$0.2 million for the six months ended September 30, 2012. Deswell reported basic and diluted net loss per share of (\$0.181) for the first six months of fiscal 2013, (based on 16,247,000 and 16,271,000 weighted average share outstanding, respectively), compared to basic and diluted income per share of \$0.014 (based on 16,596,000 and 16,654,000 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 2014, with \$24.6 million in cash and cash equivalents at September 30, 2013 compared to \$26.7 million at September 30, 2012. Working capital totaled \$54.6 million as of September 30, 2013, versus \$61.1 million as of September 30, 2012. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2013.

Mr. Franki Tse, Chief Executive Officer, commented, "This was another challenging quarter for our business and our results continue to be impacted by weak export sales, higher labor wages and RMB appreciation. We remain focused

on controlling costs while also taking the initiative to sell out of date or unused equipment, restructure our factory operations and bolster our R&D and marketing organizations so that we may provide improved products to our existing customers and attract new customers. Our balance sheet is strong with approximately \$25 million in cash and no short or long term debt.”

Second Quarter Dividends

The Company also announced that on November 13, 2013 its board of directors declared a cash dividend of \$0.05 per share for the fiscal second quarter ended September 30, 2013. The dividends will be payable on December 18, 2013 to shareholders of record as of November 25, 2013.

About Deswell

Deswell manufactures injection-molded plastic parts and components, electronic products and subassemblies, and metallic products for original equipment manufacturers (“OEMs”) and contract manufacturers at its factories in the People’s Republic of China. The Company produces a wide variety of plastic parts and components used in the manufacture of consumer and industrial products; printed circuit board assemblies using surface mount (“SMT”) and finished products such as telephones, telephone answering machines, sophisticated studio-quality audio equipment and computer peripherals. The Company’s customers include Vtech Telecommunications Ltd. and Lenbrook Industries, Ltd.

To learn more about Deswell Industries, Inc., please visit the Company’s website at www.deswell.com.

Forward-Looking Statements

Statements in this press release that are "forward-looking statements" are based on current expectations and assumptions that are subject to risks and uncertainties. For example, our statements regarding our expected growth in sales from the electronic and metallic division in the coming year and our efforts to reduce overhead costs in our plastic division are forward-looking statements. Actual results could differ materially because of the following factors, among others, which may cause revenues and income to fall short of anticipated levels or our overhead expenses to increase: our dependence on a few major customers; vigorous competition forcing product price reductions or discounts; the timing and amount of significant orders from our relatively few significant customers; continuing increases in resin prices that cannot be passed on to customers; unexpected production delays; obsolete inventory or product returns; losses resulting from fraudulent activity of our customers or employees; labor shortages that increase labor and costs; changes in the mix of product products we manufacture and sell; adverse currency fluctuations in the renminbi and Hong Kong dollar when translated to US dollars; potential new accounting pronouncements; and the effects of travel restrictions and quarantines associated with major health problems, such as the Severe Acute Respiratory Syndrome, on general economic activity.

For further information regarding risks and uncertainties associated with the Company’s business, please refer to the “Risk Factors” section of Company’s Annual Report on Form 20-F, copies of which may be obtained from the Website maintained by the Securities and Exchange Commission at <http://www.sec.gov>.

All information in this release is made as of the date of this press release. Deswell undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in Deswell’s expectations.

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

	September 30, 2013 (Unaudited)	March 31, 2013 (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$24,576	\$32,030
Fixed deposits maturing over three months	12,076	8,684
Marketable securities (note 2)	5,726	6,168
Available-for-sale securities (note 2)	1,478	1,586
Accounts receivable, net	11,009	8,291
Inventories (note 4)	12,486	11,376
Prepaid expenses and other current assets	1,085	1,152
Total current assets	68,436	69,287
Property, plant and equipment - net	40,969	42,694
Deferred income tax assets	196	192
Goodwill	392	392
Total assets	\$109,993	\$112,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$5,205	\$3,144
Accrued payroll and employee benefits	4,685	4,133
Customer deposits	1,166	1,254
Other accrued liabilities	1,390	1,260
Income taxes payable	655	592
Deferred income tax liabilities	688	606
Total current liabilities	13,789	10,989
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued & outstanding September 30, 2013 - 16,296,211; (note 6) March 31, 2013 - 16,387,648	53,063	52,443
Additional paid-in capital	5,885	6,831
Accumulated other comprehensive income	5,180	5,288
Retained earnings	32,076	37,014
Total shareholders' equity	96,204	101,576
Total liabilities and shareholders' equity	\$109,993	\$112,565

DESWELL INDUSTRIES, INC.

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

	Quarter ended September 30,		Six months ended September 30,	
	2013	2012	2013	2012
Net sales	\$11,869	\$16,303	\$22,989	\$30,791
Cost of sales	10,824	13,678	21,171	25,928
Gross profit	1,045	2,625	1,818	4,863
Selling, general and administrative expenses	2,900	2,767	5,479	5,346
Other income, net	336	67	750	89
Operating loss	(1,519)	(75)	(2,911)	(394)
Non-operating income, net	367	345	117	788
Income (loss) before income taxes	(1,152)	270	(2,794)	394
Income taxes	76	81	154	165
Net income (loss) attributable to Deswell Industries, Inc.	\$(1,228)	\$189	\$(2,948)	\$229
Other comprehensive income (loss)				
Unrealized gain (loss) on available-for-sale securities	\$4	\$613	\$(108)	\$564
Comprehensive income (loss) attributable to Deswell Industries, Inc.	\$(1,224)	\$802	\$(3,056)	\$793
Net income (loss) per share attributable to Deswell Industries, Inc. (note 5)				
Basic:				
Net income (loss) per share	\$(0.076)	\$0.011	\$(0.181)	\$0.014
Weighted average common shares outstanding shares (in thousands)	16,201	16,726	16,247	16,596
Diluted:				
Net income (loss) per share	\$(0.076)	0.011	\$(0.181)	\$0.014
Weighted average number of shares outstanding (in thousands)	16,206	16,749	16,271	16,654

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

(U.S. dollars in thousands)

	Six months ended September 30,	
	2013	2012
Cash flows from operating activities :		
Net income (loss)	\$(2,948	) \$229
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	1,928	2,178
(Reversal of) provision for doubtful accounts	(3	) 188
(Reversal of) allowances for obsolete inventories	(210	) 148
Gain on disposal of property, plant and equipment	(208	) (84
Unrealized holding (gain) loss on marketable securities	442	(85
Deferred tax	78	79
Changes in operating assets and liabilities :		
Accounts receivable	(2,715	) (2,271
Inventories	(900	) 463
Prepaid expenses and other current assets	67	469
Accounts payable	2,061	133
Accrued payroll and employee benefits	552	(123
Customer deposits	(88	) (775
Other accrued liabilities	130	(43
Income taxes payable	63	86
Net cash provided by (used in) operating activities	(1,751	) 592
Cash flows from investing activities		
Purchase of property, plant and equipment	(462	) (214
Proceeds from disposal of property, plant and equipment,	467	96
Purchase of marketable securities	-	(1,997
Increase in fixed deposits maturing over three months	(3,392	) (1,959
Net cash used in investing activities	(3,387	) (4,074
Cash flows from financing activities		
Dividends paid	(1,990	) (3,682
Exercised of stock options	493	1,295
Purchase of Common stock	(819	) (455
Net cash used in financing activities	(2,316	) (2,842
Cash effect of exchange rate changes	-	-
Net decrease in cash and cash equivalents	(7,454	) (6,324
Cash and cash equivalents, at beginning of period	32,030	33,073
Cash and cash equivalents, at end of period	24,576	26,749
Supplementary disclosures of cashflow 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, 2013 and March 31, 2013, the results of operations for the six months ended September 30, 2013 and September 30, 2012, and the cash flows for the six months ended September 30, 2013 and September 30, 2012. The notes to the Consolidated Financial Statements contained in the Form 20-F Annual Report filed on July 16, 2013 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 gain (loss) and cost are as follows:

	March 31, 2013		
	Cost	Gross Unrealized gain/ (loss)	Fair value
Marketable securities			
Equity securities	\$5,982	\$186	\$6,168
Available-for-sale securities			
Corporate debt securities	\$1,614	\$(28)	\$1,586
	September 30, 2013		
	Cost	Gross Unrealized gain/ (loss)	Fair value
Marketable securities			
Equity securities	\$5,982	\$(256)	\$5,726
Available-for-sale securities			
Corporate debt securities	\$1,614	\$(136)	\$1,478

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 gain (loss) from these marketable securities is included in the non-operating income of the consolidated statement of income (loss).

There was no realized gain from the sale of marketable securities during the six months ended September 30, 2013.

Available-For-Sale Securities

The Company has investments in 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.

During the six months ended September 30, 2013, there was no realized gain from the sale of available-for-sale securities.

The contractual maturity of the Corporate bond held at September 30, 2013 was more than 10 years.

3. Income from Available-For-Sale Securities

For the six months ended September 30, 2013, the interest income derived from the available-for-sale securities of \$63 and the unrealized loss on available-for-sale securities of \$108 have been separately presented as non-operating income and other comprehensive loss.

4. Inventories

	September 30, 2013	March 31, 2013
Inventories by major categories :		
Raw materials	\$ 7,141	\$ 6,565
Work in progress	4,036	3,080
Finished goods	1,309	1,731
	\$ 12,486	\$ 11,376

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 the exercise of options.

The net income (loss) for the quarters ended September 30, 2013 and 2012 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, 2013, 735,599 common shares have been repurchased under the stock buyback plan for a total consideration of \$1.9 million at an average price of \$2.61 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, 2013 Compared to Quarter Ended September 30, 2012

Net Sales - The Company's net sales for the quarter ended September 30, 2013 were \$11,869,000, a decrease of \$4,434,000, or 27.2%, as compared to the corresponding period in fiscal 2013. The decrease in sales was mainly related to the decrease in sales of \$2,864,000 in our plastic segment and of \$1,570,000 in our electronic and metallic segment. These represent decreases of 34.0% and 19.9% respectively, as compared with the net sales from these segments in the corresponding period of the prior fiscal year.

The decrease in net sales in our plastic segment was mainly due to a decrease in orders from existing customers of \$3,437,000 mainly for printing, telephone and office equipment, baby cutlery and gaming products, offsetting an increase in orders from other existing customers of \$572,000, mainly for printers. The decrease of net sales in the electronic and metallic segment was largely due to a decrease in orders of \$2,658,000 from existing customers for professional audio equipment, home entertainment and vending machine products, offsetting an increase of \$1,088,000 in sales for professional audio equipment with other existing customers.

Gross Profit - The gross profit for the quarter ended September 30, 2013 was \$1,045,000, representing a gross profit margin of 8.8%. This compares with the overall gross profit and gross profit margin of \$2,625,000 or 16.1% for the quarter ended September 30, 2012.

Gross profit in the plastic segment decreased by \$1,134,000 to \$489,000 or 8.8% of net sales, for the quarter ended September 30, 2013, as compared to \$1,623,000 or 19.3% of net sales, for the quarter ended September 30, 2012. The decrease in gross margin in the plastic segment was mainly attributed to the combined effect of a decrease in sales volume and relatively higher labor cost as a percentage of sales resulting from a raise of minimum wage rate, as compared to the same quarter in the prior year.

Gross profit in the electronic and metallic segment decreased by \$446,000 to \$556,000, or 8.8% of net sales, for the quarter ended September 30, 2013, as compared to \$1,002,000 or 12.7% of net sales, for the same period of the last fiscal year. The decrease in gross margin was mainly attributed to increases in labor costs resulting from a higher minimum wage rate, as compared to the same quarter of last fiscal year.

Selling, General and Administrative Expenses – SG&A expenses for the quarter ended September 30, 2013 were \$2,900,000, as compared to \$2,767,000 for the corresponding period of last year. As a percentage of sales, the SG&A expenses were 24.4% for the quarter ended September 30, 2013, as compared to 17.0% for the same quarter of last fiscal year.

The SG&A expenses in the plastic segment increased by \$159,000 to \$1,946,000, or 35.0% of net sales, for the quarter ended September 30, 2013, as compared to \$1,787,000, or 21.2% of net sales for the corresponding period in fiscal 2013. The increase in SG&A expenses was due to increases of \$272,000 in staff costs and welfare, and of \$100,000 in local government taxes and registration charges, offsetting by the decreases of \$56,000 in legal and professional fees, of \$108,000 in selling expenses as well as of \$39,000 in depreciation expense, as compared with the year-ago quarter.

SG&A expenses in the electronic and metallic segment decreased by \$26,000 to \$954,000, or 15.1% of net sales for the quarter ended September 30, 2013, compared to \$980,000, or 12.4% of net sales for the corresponding period in fiscal 2013. The decrease in SG&A expenses for the quarter ended September 30, 2013 was mainly due to the decrease of \$26,000 in selling expenses, as compared with the corresponding quarter in the prior fiscal year.

Other income - Other income was \$336,000 for the quarter ended September 30, 2013, as compared to other income of \$67,000 for the quarter ended September 30, 2012.

On a segment basis, other income attributable to the plastic segment was \$164,000 as compared to other income of \$44,000 for the same quarter last year. The other income for the quarter ended September 30, 2013 was mainly due to increases of \$67,000 in materials sales and of \$89,000 in gain on the disposal of fixed assets, offset by an increase of \$31,000 in provision for doubtful receivables, as compared to the corresponding year-ago quarter.

Other income attributable to the electronic and metallic segment was \$172,000 for the quarter ended September 30, 2013, as compared to other income of \$23,000 for the year-ago quarter. The increase in other income for the quarter ended September 30, 2013 was mainly due to an increase of \$51,000 in materials sales, and a decrease of \$104,000 in provisions for doubtful receivables, as compared to the corresponding quarter of the prior fiscal year.

Operating loss - Operating loss was \$1,519,000 for the quarter ended September 30, 2013, as compared with operating loss of \$75,000 for the corresponding quarter in the prior fiscal year.

On a segment basis, the operating loss in the plastic division was \$1,293,000 or negative 23.3% of net sales in the quarter ended September 30, 2013 compared to an operating loss of \$120,000 or negative 1.4% of net sales in the corresponding period of fiscal 2013. The increase in operating loss in the plastic division was mainly due to a decrease in gross margin and an increase in SG&A expenses as described above.

Operating loss in the electronic and metallic segment was \$226,000, or negative 3.6% of net sales in the quarter ended September 30, 2013 compared to operating income of \$45,000 or 0.6% of net sales in the corresponding period of fiscal 2013. The increase in operating loss in the electronic and metallic segment was mainly due to decreases in gross margin as described above.

Non-operating income – Non-operating income was \$367,000 for the quarter ended September 30, 2013 as compared to non-operating income of \$345,000 for the year-ago quarter. The increase of non-operating expense is mainly attributable to increases of \$21,000 in interest income, of \$71,000 in rental income and of \$35,000 in other income, offsetting the decrease of \$107,000 in income from securities investment, as compared to the year-ago quarter.

Income Taxes – Income tax for the quarter ended September 30, 2013 was comprised of an income tax expense of \$43,000 and a deferred tax provision of \$33,000, as compared to an income tax expense of \$27,000 and a deferred tax provision of \$54,000 in the corresponding quarter of the prior fiscal year.

On a segment basis, there was an income tax expense of \$17,000 and a deferred tax provision of \$33,000 in the plastic segment for the quarter ended September 30, 2013, as compared to a deferred tax provision of \$54,000 in the year-ago quarter. The income tax of the electronic and metallic segment for the quarter ended September 30, 2013 was comprised of an income tax expense of \$26,000, as compared to an income tax expense of \$27,000 in the corresponding quarter of fiscal 2013.

Net Loss – The Company had a net loss of \$1,228,000 for the quarter ended September 30, 2013 as compared to net income of \$189,000 for the quarter ended September 30, 2012. Net loss for the quarter ended September 30, 2013 represented negative 10.3 % of net sales, compared to 1.2 % of net sales in the same quarter of the prior fiscal year.

Net loss for the plastic segment for the quarter ended September 30, 2013 totaled \$1,065,000, as compared to a net income of \$118,000 for the corresponding quarter in fiscal 2013. The increase in net loss was mainly the result of a decrease in gross margin as well as an increase in SG&A expenses for the quarter as described above.

Net loss for the electronic and metallic segment for the quarter ended September 30, 2013 was \$163,000, as compared to a net income of \$71,000 for the corresponding quarter in fiscal 2013. The increase in net loss in the electronic and metallic segment was primarily the result of lower gross margin as described above.

Six Months Ended September 30, 2013 Compared to Six Months Ended September 30, 2012

Net Sales - The Company's net sales for the six months ended September 30, 2013 were \$22,989,000, a decrease of \$7,802,000 or 25.3% as compared to \$30,791,000 in the corresponding period in fiscal 2013. The decrease was related to a decrease in sales revenues of \$4,156,000 in our plastic segment and \$3,646,000 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 a 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 \$4,849,000 in orders from existing customers mainly for printing and office equipment, baby cutlery and gaming products, offsetting an increase of \$693,000 in orders from existing customers mainly for printing products.

The revenue decrease in the electronic and metallic segment was mainly due to a decrease of \$4,536,000 in orders from existing customers for professional audio instrument and metallic products, offsetting an increase of \$890,000 in orders for professional audio instrument and home entertainment products. The decrease in sales orders was mainly attributed to sluggish demand for products resulting from the tepid economic recoveries in Europe and the United States.

Gross Profit - Gross profit for the six months ended September 30, 2013 was \$1,818,000, representing a gross profit margin of 7.9%. This compared with the overall gross profit and gross profit margin of \$4,863,000 or 15.8% for the six months ended September 30, 2012.

Gross profit in the plastic segment decreased by \$1,982,000 to \$994,000 or 8.7% of net sales for the six months ended September 30, 2013, as compared to \$2,976,000 or 19.2% of net sales, for the same period in the prior fiscal year. The decrease in gross margin for the plastic segment was mainly due to increases, as percentage of net sales, in labor costs resulting from a raise in minimum wage rate, and in factory overhead, when compared with the same period of last year.

Gross profit in the electronic and metallic segment decreased by \$1,063,000 to \$824,000 or 7.1% of net sales for the six months ended September 30, 2013, as compared to \$1,887,000 or 12.4% of net sales, for the same period of last fiscal year. The decrease in gross margin was mainly attributed to an increase in labor cost as a percentage of net sales due to a raise in minimum wage rate, 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, 2013 were \$5,479,000 or 23.8% of total net sales, as compared to \$5,346,000 or 17.4% of total net sales for the six months ended September 30, 2012. Selling, general and administrative expenses increased by \$133,000 or 2.5% in the first half of fiscal 2013 compared to the corresponding period of last fiscal year.

SG&A expenses in the plastic segment increased by \$159,000 to \$3,597,000 or 31.7% of net sales for the six months ended September 30, 2013, compared to \$3,438,000 or 22.2% of net sales for the corresponding period in fiscal 2013. The increase was primarily related to the increase of \$313,000 in staff costs and of \$107,000 in director remuneration, offsetting decreases of \$83,000 in legal and professional fees, of \$116,000 in selling expenses and \$87,000 in depreciation, as compared with the same period in the prior fiscal year.

SG&A expenses in the electronic and metallic segment decreased by \$26,000 to \$1,882,000 or 16.2% of net sales for the six months ended September 30, 2013, compared to \$1,908,000 or 12.5% of net sales for the corresponding period in fiscal 2013. The decrease was primarily related to the decrease of \$60,000 in staff costs, of \$28,000 in travelling expenses and of \$6,000 in selling expenses, offsetting increases of \$53,000 in local government tax and charges as

well as \$16,000 in legal and professional fees, when compared to the corresponding period in the prior fiscal year.

Other income - Other income was \$750,000 for the six months ended September 30, 2013, as compared to other operating expenses of \$89,000 in the corresponding six months of the prior fiscal year.

On a segment basis, other income attributable to the plastic segment for the six months ended September 30, 2013 was \$357,000, as compared to expenses of \$9,000 for the same period in the prior fiscal year. The increase in other income was mainly due to increases of \$142,000 in exchange gain, of \$45,000 in income from materials sales and of \$111,000 in gain from disposal of fixed assets, as well as a decrease of \$52,000 in provision for doubtful receivables during the six months ended September 30, 2013, when compared with the same period of prior fiscal year.

Other income attributable to the electronic and metallic segment for the six months ended September 30, 2013 was \$393,000, as compared with other income of \$80,000 for the corresponding period in the prior fiscal year. This increase in other income was mainly due to increases of \$44,000 in exchange gain, of \$76,000 in income from materials sales and of \$40,000 in other income, as well as a decrease of \$139,000 in provision for doubtful receivables during the six months ended September 30, 2013, as compared to the same period of last fiscal year.

Operating Loss - Operating loss was \$2,911,000 for the six months ended September 30, 2013, as compared to operating loss of \$394,000 in the corresponding six months in the prior fiscal year.

On a segment basis, the operating loss of the plastic segment was \$2,246,000, or negative 19.8% of net sales in the six months ended September 30, 2013, as compared to operating loss of \$453,000 or negative 2.9% of net sales in the corresponding period in fiscal 2013. The increase in operating loss in the plastic segment was mainly due to a decrease in gross margin offsetting an increase in other income as described above.

The electronic and metallic segment reported an operating loss of \$665,000 or negative 5.7% of net sales in the six months ended September 30, 2013, compared to an operating income of \$59,000 or 0.4% of net sales in the corresponding period in fiscal 2013. The decrease in operating income was due to a decrease in gross margin as described above.

Non-operating income – Non-operating income for the six months ended September 30, 2013 was \$117,000, as compared to non-operating income of \$788,000 in the year-ago six months. This was primarily due to \$159,000 of income from securities investments, \$304,000 from interest income and \$439,000 in unrealized loss on the revaluation of marketable securities during the six months ended September 30, 2013, as compared to \$472,000 of income from securities investments and \$247,000 from interest income in the same six months of the prior fiscal year.

Income Taxes – Income tax for the six months ended September 30, 2013 represented an income tax expense of \$80,000 and a deferred tax provision of \$74,000, as compared to an income tax expense of \$87,000 and a deferred tax provision of \$78,000 in the corresponding six months of the prior fiscal year.

On a segment basis, there was an income tax expense of \$27,000 and a deferred tax provision of \$74,000 in the plastic segment for the six months ended September 30, 2013, as compared to an income tax expense of \$31,000 and a deferred tax provision of \$78,000 during the year-ago six months. The income tax of the electronic and metallic segment was comprised of an income tax expense of \$53,000 for the six months ended September 30, 2013, as compared to an income tax expense of \$56,000 in the corresponding six months of fiscal 2013.

Net Loss – The Company had a net loss of \$2,948,000 for the six months ended September 30, 2013, as compared to net income of \$229,000 for the six months ended September 30, 2012. Net loss for the six months ended September 30, 2013 represented negative 12.8 % of net sales, compared to 0.7 % in the same six months of the prior fiscal year. The six-month net loss was mainly the result of a decrease in gross margin as described above.

Net loss for the plastic segment for the six months ended September 30, 2013 totaled \$2,275,000, as compared to net income of \$123,000 for the corresponding six months in fiscal 2013. The six-month net loss of the plastic segment was mainly the result of decreases in gross margin and non-operating income as described above.

Net loss for the electronic and metallic segment for the six months ended September 30, 2013 was \$673,000, compared to net income of \$106,000 for the corresponding six months of fiscal 2013. The six-month net loss of the electronic and metallic segment was mainly attributable to a decrease in gross margin as described above.

Liquidity and Capital Resources

The Company relies primarily upon internally generated funds to finance its operations and investments.

As of September 30, 2013, the Company had working capital of \$54,647,000 as compared to \$61,184,000 at September 30, 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, 2013.

As of September 30, 2013, the Company had cash and cash equivalents of \$24,576,000, as compared to \$26,749,000 at September 30, 2012. During the six months ended September 30, 2013, net cash used in operating activities was \$1,751,000. Net cash used in investing activities was \$3,387,000, mainly accounted for by a \$3,392,000 increase in time deposits over three months and \$462,000 in the purchase of fixed assets, offsetting proceeds of \$467,000 from the disposal of fixed assets during the six months ended September 30, 2013. Net cash used in financing activities was comprised mainly of \$1,990,000 in payment for dividends and \$819,000 in repurchase of the Company's common shares, offsetting \$493,000 cash received from the exercise of employee stock options in the six months ended September 30, 2013.

As of September 30, 2013, the Company had no general banking facilities. The Company expects that working capital requirements and capital additions will be funded through internally generated funds.

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 13, 2013