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DESWELL INDUSTRIES INC
Form 6-K
August 12, 2005

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 August 12, 2005

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 Industries, Inc. Announces First Quarter Results;

4.5% Increase in First Quarter Net Sales;

Company also Announces First Quarter Dividend of \$0.16 Per Share

MACAO--(BUSINESS WIRE)--Aug. 8, 2005--Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal first quarter ended June 30, 2005.

Deswell reported net sales for the first quarter 2005 of \$30.1 million, compared to \$28.8 million for the first quarter 2004, an increase of 4.5%. Operating income totaled \$4.0 million, compared to \$4.8 million for the same quarter in 2004, a decrease of 17.2%. Net income for the quarter decreased 21.1% to \$3.2 million, or \$0.21 per fully diluted share, compared to \$4.0 million, or \$0.28 per fully diluted share, for the comparable period in 2004.

The Company's balance sheet remains strong, with cash and cash equivalents for the quarter totaling \$30.4 million, compared to \$28.1 million on March 31, 2005. Working capital totaled \$60.2 million as of June 30, 2005, up from \$57.6 million as of March 31, 2005. The Company has no long-term or short-term borrowings.

Mr. Richard Lau, chairman and chief executive officer, commented, "We are very pleased with the electronics and metallic division's 29.7% revenue growth in the first quarter. This growth was primarily driven by our continued success manufacturing audio equipment. The decrease in revenue in the plastic division can be primarily attributed to three reasons: First, our business with Vtech decreased by approximately two-thirds as we chose not to take on significantly lower margin business. Second, technical issues involved in another

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customer's models delayed the progress of new model production, resulting in an 80% drop in purchase orders from this customer. Finally, we are still suffering from the increased cost of resin due to high oil prices. Over 50% of this cost could not be passed along to our customers."

Mr. Lau continued, "While the plastic division faced a tough start this year with a 19.6% decrease in revenue, we expect this situation to improve in the third quarter. A substantial amount of molds from new customers and large molds from existing customers will be completed in September and production should commence in October. These new molds are for such items as color printers and vacuum cleaners for two Japanese brand names."

Annual General Meeting

The Company will hold its 2005 Annual General Meeting at 9:30 a.m. on September 19, 2005 at the Wynn Las Vegas Resort, 3131 Las Vegas Blvd South, Las Vegas, Nevada 89109, U.S.A.

First-Quarter Dividends

The Company also announced that on August 8, 2005 its board of directors declared a dividend of \$0.16 per share for the fiscal first quarter 2005. The dividend will be payable on September 5, 2005 to shareholders of record as of August 22, 2005.

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 Digidesign Inc., Vtech Telecommunications Ltd., Epson Precision (H.K.) Ltd., Inter-Tel Incorporated, Line 6 Manufacturing and Peavey Electronics Corporation.

To learn more about Deswell Industries, Inc., please visit the Company's web site at www.deswell.com.

This press release may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this press release are based on current expectations and are subject to change. Actual results may differ materially from the forward-looking statements. Deswell does not undertake to update any such forward-looking statements or to publicly announce developments or events relating to the matters described herein. Uncertainties and risks are described in Deswell's most recently filed SEC documents, such as its most recent form 20-F.

DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(U.S. dollars in thousands, except per share data)

	Quarter ended	
	June 30,	
2005		2004

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Net sales	\$ 30,075	\$ 28,788
Cost of sales	22,435	20,470
	-----	-----
Gross profit	7,640	8,318
Selling, general and administrative expenses	3,654	3,506
	-----	-----
Operating income	3,986	4,812
Interest expense	-	-
Other income, net	(360)	30
	-----	-----
Income before income taxes	3,626	4,842
Income taxes	25	131
	-----	-----
Income before minority interests	3,601	4,711
Minority interests	450	716
	-----	-----
Net income	\$ 3,151	\$ 3,995
	=====	=====
Basic:		
Net income per share (note 3)	\$ 0.21	\$ 0.29
	=====	=====
Weighted average common shares outstanding (in thousands) (note 4)	14,865	13,724
	=====	=====
Diluted:		
Net income per share (note 3)	\$ 0.21	\$ 0.28
	=====	=====
Weighted average common and potential Common shares (in thousands) (note 4)	14,929	14,227
	=====	=====

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

	June 30, 2005 ----	March 31, 2005 ----
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,398	\$ 28,073
Restricted cash	776	1,040
Marketable securities	178	244
Accounts receivable, net	24,469	25,091
Inventories	19,634	21,136
Prepaid expenses and other current assets	5,072	4,761
Income taxes receivable	173	20
	-----	-----
Total current assets	80,700	80,365
Property, plant and equipment - net	56,583	56,133
Goodwill	710	478
	-----	-----
Total assets	\$ 137,993	\$ 139,976
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		

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Accounts payable	\$ 13,849	\$ 16,449
Customer deposits and accrued expenses	6,203	6,015
Income taxes payable	403	325
	-----	-----
Total current liabilities	20,455	22,789
	-----	-----
Deferred income tax	-	-
	-----	-----
Minority interests	7,645	9,420
	-----	-----
Shareholders' equity		
Common stock		
- authorized 30,000,000 shares; issued and outstanding 14,908,730 shares at June 30, 2005 and 14,778,730 at March 31, 2005 (note 4)	41,043	39,068
Additional paid-in capital	6,970	6,970
Retained earnings	61,880	58,729
	-----	-----
Total shareholders' equity	109,893	104,767
	-----	-----
Total liabilities and shareholders' equity	\$ 137,993	\$ 136,976
	=====	=====

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

	Quarter ended	
	June 30,	
	2005	2004
	----	----
Cash flows from operating activities:		
Net income	\$ 3,151	\$ 3,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,581	1,121
Gain on sale of property, plant and equipment	4	9
Minority interests	425	716
Changes in current assets and liabilities:		
Accounts receivable	622	(3,697)
Marketable securities	66	-
Inventories	1,502	(5,761)
Prepaid expenses and other current assets	(311)	(769)
Income taxes receivable	(153)	-
Accounts payable	(2,600)	5,708
Customer deposits and accrued expenses	188	995
In income taxes payable	78	102
	-----	-----
Net cash provided by operating activities	4,553	2,419
	-----	-----
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,033)	(3,624)
Proceeds from disposal of property, plant and equipment	-	6
	-----	-----
Net cash used in investing activities	(2,033)	(3,618)
	-----	-----
Cash flows from financing activities		

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Common stock issued	141	-
Dividends paid to minority shareholders of a subsidiary	(430)	(126)
Distribution to minority shareholders of a subsidiary	(170)	(26)
Decrease/(increase) in restricted cash	264	(1,000)
	-----	-----
Net cash used in financing activities	(195)	(1,152)
	-----	-----
Net (decrease)/increase in cash and cash equivalents	2,325	(2,351)
Cash and cash equivalents, at beginning of period	28,073	30,193
	-----	-----
Cash and cash equivalents, at end of period	30,398	27,942
	=====	=====
Supplementary disclosures of cashflow information:		
Cash paid during the period for:		
Interest	-	-
Income taxes	100	29
	=====	=====
Supplementary disclosures of significant non-cash transactions:		
Issuance of common stock in connection of acquisition of Additional 5% shareholdings of a subsidiary	1,834	-
Excess of acquisition cost over the fair value of acquired net assets of additional 5% shareholdings of a subsidiary	(234)	-
	=====	=====

CONTACT: The Investor Relations Group
 John G. Nesbett
 Jordan Silverstein
 212-825-3210

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

 Richard Lau
 Chief Executive Officer

Date: August 12, 2005