DESWELL INDUSTRIES INC
Form 6-K
March 10, 2011

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

REPORT OF FOREIGN ISSUER

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

For March 10, 2011

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 Third Quarter Results

- Company Announces Third Quarter Dividend of $0.05 Per Share -

FOR IMMEDIATE RELEASE

MACAO (March 10, 2011) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its financial results for the fiscal third quarter ended December 31, 2010.

Net sales for the third quarter ended December 31, 2010 were $24 million, an increase of 10.2% compared to net sales of $21.3 million for the same quarter ended December 31, 2009. Net sales decreased by 12.6% to $11.5 million in the plastic segment and increased by 46.4% to $12.1 million in the Company's electronic and metallic segment. The operating loss in the third quarter of fiscal 2011 was $4.0 million, compared to operating income of $0.3 million for the same quarter of fiscal 2010.

Total gross margin decreased to 14.1% in the third quarter ended December 31, 2010 compared to 19.0% in the same quarter last year. Gross profit margin in the plastic segment decreased to 24.8% of net sales for the third quarter of fiscal 2011 compared to 25.5% of net sales for the same quarter of last fiscal year. The decreased gross margin in the plastic segment was mainly due to an increase in labor costs resulting from a raise in the minimum wage rate and increases in overtime allowance, offsetting a decrease in raw material cost as a percentage of sales during the quarter. Gross profit margin in the electronic and metallic segment decreased to 3.9% of net sales for the third quarter ended December 31, 2010, compared to 8.5% of net sales for the year-ago quarter. The decrease in gross margin in the electronic and metallic segment was mainly attributable to an increase in raw materials cost, resulting from an additional provision for excess materials relating to end-of-life models, and increased labor costs which were driven by increases in the minimum wage rate and headcount, as compared to the prior year quarter.

Management makes an assessment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In this quarter, the company has made a provision of $3.6 million for the impairment of fixed assets.

The Company reported a net loss of $3.6 million for the third quarter ended December 31, 2010 compared to net loss of $0.4 million for the quarter ended December 31, 2009. Basic and diluted net loss per share was ($0.22), (based on 16,195,000 and 16,203,000 weighted average shares outstanding, respectively) compared to basic and diluted net loss per share of ($0.03), (based on 16,003,000 and 16,017,000 weighted average shares outstanding, respectively) for the same quarter ended December 31, 2009.

Net sales for the nine months ended December 31, 2010 were $68.0 million, an increase of 4.8%, compared to sales of $64.9 million for the corresponding period in fiscal 2010. Operating loss for the nine months ended December 31, 2010 was $8.4 million, compared to operating income of $3.0 million for the first nine months of fiscal 2010. The Company reported a net loss of $7.5 million in the first nine months of fiscal 2011, compared to net income of $2.4 million for the nine months ended December 31, 2009. Deswell reported basic and diluted net loss per share of ($0.46) for the first nine months of fiscal 2011, (based on 16,193,000 and 16,201,000 weighted average share outstanding, respectively), compared to income per share of $0.15, (based on 15,892,000 and 15,962,000 weighted average shares outstanding, respectively), for the prior corresponding period.

The Company's financial position remained strong at the end of the third quarter of fiscal year 2011, with $34.8 million in cash and cash equivalents at December 31, 2010 compared to $35.1 million at March 31, 2010. Working capital totaled $59.9 million as of December 31, 2010 versus $59.8 million as of March 31, 2010. Furthermore, the

Company has no long-term or short-term borrowings at December 31, 2010.

Mr. Franki Tse, chief executive officer, commented, “During the quarter we saw a significant improvement in our sales, particularly in the electronics and metal segment, due to strong Christmas demand in the professional audio industry. We have reduced our headcount from 4,100 as of the second quarter end to 2,900 as of this quarter end, but the cost benefit of this significant reduction has been offset by increased labor cost, RMB appreciation, provisioning of excess materials and impairments of fixed assets. Price negotiation with customers are undergoing and we believe it will help us to improve our performance in the coming quarters, although once again the China labor rate increases another 20% on March 1, 2011, the second 20% increase within 10 months. Nonetheless, we have maintained a very strong balance sheet with no short or long term debt, enabling us to declared a third quarter dividend of $0.05 per share for our shareholders. “

Third Quarter Dividends

The Company also announced that on March 10, 2011 its board of directors declared a dividend of $0.05 per share for the fiscal third quarter ended December 31, 2010. The dividend will be payable on April 13, 2011 to shareholders of record as of March 23, 2011.

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 N&J Company, Digidesign Inc., Vtech Telecommunications 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)

ASSETS		December 31, 2010 (Unaudited)		March 31, 2010 (Audited)
Current assets :				
Cash and cash equivalents	$	34,837	$	35,120
Marketable securities		-		5,673
Accounts receivable, net		20,152		14,399
Inventories (note 2)		19,777		15,808
Prepaid expenses and other current assets		2,396		1,844
Total current assets		77,162		72,844
Property, plant and equipment - net		52,484		60,705
Deferred income tax assets		-		70
Goodwill		392		392
Total assets	$	130,038	$	134,011
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$	9,455	$	7,298
Accrued payroll and employee benefits		3,773		2,570
Customer deposits		2,013		883
Other accrued liabilities		1,664		1,905
Deferred income tax liabilities		383		340
Total current liabilities		17,288		12,996
Shareholders' equity				
Common shares nil par value - authorized 30,000,000 shares; issued and outstanding 16,194,810 shares at December 31, 2010 and 16,191,810 shares at March 31, 2010, respectively		50,809		50,803
Additional paid-in capital		7,719		7,719
Accumulated other comprehensive income		5,316		5,316
Retained earnings		48,906		57,177
Total shareholders' equity		112,750		121,015
Total liabilities and shareholders' equity	$	130,038	$	134,011

DESWELL INDUSTRIES, INC.

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

	Quarter ended December 31, 2010	Quarter ended December 31, 2009	Nine months ended December 31, 2010	Nine months ended December 31, 2009
	(Unaudited)		(Unaudited)	
Net sales	$23,534	$21,358	$68,043	$64,947
Cost of sales	20,220	17,308	60,935	54,388
Gross profit	3,314	4,050	7,108	10,559
Selling, general and administrative expenses	3,496	3,897	11,154	11,680
Other income (expenses), net	(3,849)	143	(4,378)	4,083
Operating income (loss) (note 3)	(4,031)	296	(8,424)	2,962
Interest expense	-	-	-	-
Non-operating income, net	486	171	1,067	376
Income (loss) before income taxes	(3,545)	467	(7,357)	3,338
Income taxes	40	904	105	904
Net income (loss)	$(3,585)	$(437)	$(7,462)	$2,434
Net income per share (note 4)				
Basic:				
Net income per share	$(0.22)	$(0.03)	$(0.46)	$0.15
Weighted average number of shares outstanding (in thousands)	16,195	16,003	16,193	15,892
Diluted:				
Net income per share	$(0.22)	$(0.03)	$(0.46)	$0.15
Weighted average number of shares outstanding (in thousands)	16,203	16,017	16,201	15,962

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

(U.S. dollars in thousands)	Nine months ended December 31, 2010	December 31,2009
Cash flows from operating activities :		
Net income (loss)	$ (7,462)	$ 2,434
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	4,880	5,304
Impairment of property, plant and equipment	4,218	(35)
Loss (gain) on sale of property, plant and equipment	(14)	(4,220)
Unrealized holding (gain) loss on marketable securities	-	(169)
Gain on disposal of marketable securities	(853)	-
Stock-based compensation	-	125
Deferred tax	113	325
Changes in operating assets and liabilities :		
Accounts receivable	(5,752)	4,970
Inventories	(3,969)	5,417
Prepaid expenses and other current assets	(552)	526
Income taxes receivable	-	-
Accounts payable	2,157	(757)
Customer deposits and accrued expenses	2,092	(535)
Income taxes payable	-	578
Net cash (used in) provided by operating activities	(5,142)	13,963
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,045)	(929)
Proceeds from sale of property, plant and equipment,	182	7,498
Closing cost on disposal of plant, net of transaction costs	-	(2,123)
Purchase of marketable securities	(6,983)	-
Proceeds from sale of marketable securities	13,509	-
Net cash provided by investing activities	5,663	4,446
Cash flows from financing activities		
Dividends paid	(810)	-
Exercised of stock options	6	696
Net cash (used in) provided by financing activities	(804)	696
Cash effect of exchange rate changes	-	-
Net increase (decrease) in cash and cash equivalents	(283)	19,105
Cash and cash equivalents, at beginning of period	35,120	23,134
Cash and cash equivalents, at end of period	34,837	42,239
Supplementary disclosures of cash flow information :		
Cash paid during the period for :		
Interest	-	-
Income taxes	-	-

DESWELL INDUSTRIES, INC.

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

1. Management's Statement

In the opinion of Management, the accompanying unaudited financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Deswell Industries, Inc. (the Company) at December 31, 2010 and March 31, 2010, the results of operations for the quarter and nine months ended December 31, 2010 and December 31, 2009, and the cash flows for the nine months ended December 31, 2010 and December 31, 2009. The notes to the Consolidated Financial Statements contained in the Form 20-F Annual Report filed on July 29, 2010 under the Securities Exchange Act of 1934 should be read in conjunction with these Consolidated Financial Statements.

2. Inventories

	December 31, 2010	March 31, 2010
Inventories by major categories :		
Raw materials	$ 12,301	$ 10,162
Work in progress	5,022	2,938
Finished goods	2,454	2,708
	$ 19,777	$ 15,808

3. Operating Income

Other operating income was reclassified in the audited consolidated statement of income for the year ended March 31, 2010 for a comparable presentation. Comparative figures for the other operating income on the unaudited statement of income for the quarter and nine months ended December 31, 2009 were reclassified accordingly and presented here for comparative analysis. The reclassification of operating income had no impact on the net income on the unaudited statement of income for the quarter and nine months ended December 31, 2010.

4. Earnings Per Share

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

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

5. Foreign currency translation

Prior to January 1, 2009, the functional currencies of the Company's subsidiaries were Hong Kong dollars and Chinese renminbi. The effects of translating the financial position and results of operations of local currency functional operations into the U.S. dollars were included in a separate component of stockholder's equity as "Accumulated other comprehensive income".

Effective January 1, 2009, the Company's subsidiaries' functional currencies were all changed to the U.S. dollars. The translation adjustments that applied to the Company and that have been accumulated in other comprehensive income until December 31, 2008, have been retained in that account; and nonmonetary assets that Deswell owned at December 31, 2008, the end of the period immediately before the change, were translated in subsequent periods at the exchange rate that was current at the end of that period. And, exchange rate gains and losses on transactions in currencies other than the U.S. dollar are recognized and included in operations for the period in which the exchange rates changed. The change in functional currencies did not have a material effect on the Company's business, results of operations or financial position since the effective date of change and as of December 31, 2010.

DESWELL INDUSTRIES, INC.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

General

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

Quarter Ended December 31, 2010 Compared to Quarter Ended December 31, 2009

Net Sales - The Company's net sales for the quarter ended December 31, 2010 were $23,534,000, an increase of $2,176,000, or 10.2%, as compared to the corresponding period in fiscal 2010. The increase in sales was mainly related to the increase of $3,824,000 in sales from our electronic and metallic segment offsetting the decrease in sales at our plastic segment of $1,648,000. These represent an increase of 46.4% and a decrease of 12.6% respectively, as compared with the net sales from these segments in the corresponding period of the prior fiscal year.

The decrease of net sales in our plastic segment was mainly the result of the decrease in orders from existing customers of $4,397,000 offsetting the increase in orders from existing customers of $2,749,000. About 78% of the sales increase was due to an increase in sales of telephone and automobile accessories and revenue from assembly of LCD products while 65% of the decrease in orders was from the segment's major customer related to plastic component sales of electronic entertainment products. The increase in net sales in the electronic and metallic segment was mainly due to the increase of $5,545,000 in net sales for professional audio equipment from existing customers, offsetting the decrease of $1,369,000 in audio equipment sales from existing customers and $184,000 in distribution sales. The increase in sales revenue was mainly due to the increase in sales orders from existing customers for new models of their products, and orders from new customers.

Gross Profit - The gross profit for the quarter ended December 31, 2010 was $3,314,000, representing a gross profit margin of 14.1%. This compares with the overall gross profit and gross profit margin of $4,050,000 or 19.0% for the quarter ended December 31, 2009.

Gross profit in the plastic segment decreased by $506,000 to $2,841,000 or 24.8% of net sales, for the quarter ended December 31, 2010, as compared to $3,347,000 or 25.5% of net sales, for the quarter ended December 31, 2009. Decrease in gross margin in the plastic segment was mainly due to increased labor cost resulting from a rise in the minimum wage rate and higher overtime allowances, offsetting higher contributions from higher margin sales items, as compared to the same quarter in the prior year.

Gross profits in the electronic & metallic segment decreased by $230,000 to $472,000, or 3.9% of net sales, for the quarter ended December 31, 2010, as compared to $702,000 or 8.5% of net sales, for the same period of last fiscal year. The decrease in gross profit and margin was mainly due to an increase in raw materials costs resulting from provisions of $1,056,000 for excess materials that result from some products coming to end-of-life, increased labor cost as a result of a rise in the minimum wage rate and increases in temporary contract workers, as compared to the same quarter of last fiscal year.

Selling, General and Administrative Expenses – SG&A expenses for the quarter ended December 31, 2010 were $3,496,000, or 14.9% of total net sales, compared to $3,897,000, or 18.2% of total net sales for the quarter ended December 31, 2009. There was a decrease in selling, general and administrative expenses of $401,000 compared to the corresponding period of last year.

The SG&A expenses in the plastic segment decreased by $344,000 to $2,269,000, or 19.8% of net sales, for the quarter ended December 31, 2010 compared to $2,612,000 or 19.9% of net sales for the corresponding period in fiscal 2010. The lower SG&A expense for the quarter was primarily related to a decrease of $266,000 in staff costs, $28,000 in travelling expenses and $49,000 in depreciation, offsetting an increase of $45,000 in insurance, and $65,000 in legal and professional fees, as compared with the year-ago quarter.

SG&A expenses in the electronic and metallic segment decreased by $57,000 to $1,228,000, or 10.2% of net sales, for the quarter ended December 31, 2010 compared to $1,285,000, or 15.6% of net sales for the corresponding period in fiscal 2010. The decrease in SG&A expenses was primarily related to a decrease of $83,000 in staff costs, and $106,000 in government license and registration, offsetting an increase of $74,000 in selling expense and $60,000 in depreciation expense, as compared with the corresponding quarter in the prior year.

Other operating expense - Other operating expense was $3,849,000 for the quarter ended December 31, 2010, as compared to other operating income of $144,000 for the quarter ended December 31, 2009.

On a segment basis, other operating expense attributable to the plastic segment was $3,698,000, as compared to income of $81,000 for the same quarter last year. The decrease in other operating income was mainly due to a provision of $3,600,000 for the impairment of fixed assets upon review by management in the quarter ended December 31, 2010, as compared to a reversal of a provision for doubtful receivables of $99,000 in the corresponding quarter of prior year.

Other operating expense attributable to the electronic and metallic segment was $151,000 in the quarter ended December 31, 2010, as compared to other operating income of $62,000 for the year-ago quarter. The decrease in other operating income was mainly due to increases of $133,000 in provisions for doubtful receivables and $48,000 in exchange loss, as compared to the year-ago quarter.

Operating loss - Operating loss was $4,031,000 for the quarter ended December 31, 2010, as compared with operating income of $296,000 from the corresponding quarter in the prior fiscal year.

On a segment basis, the operating loss in the plastic division was $3,125,000 or negative 27.2% of net sales in the quarter ended December 31, 2010 compared to operating income of $816,000 or 6.2% of net sales in the corresponding period in fiscal 2010. The decrease in operating income in the plastic division was mainly due to the increase in the provision of $3,600,000 for asset impairment in the third quarter of fiscal 2011 as described above.

Operating loss in the electronic & metallic segment was $906,000, or negative 7.5% of net sales in the quarter ended December 31, 2010 compared to an operating loss of $521,000 or negative 6.3% of net sales in the corresponding period in fiscal 2010. The increase in electronic & metallic operating loss was due to lower gross profit margins offsetting the decrease in SG&A expenses as a percentage of net sales as described above.

Non-operating income – Non-operating income for the quarter increased by $315,000 to $486,000 for the quarter ended December 31, 2010 as compared to non-operating income of $171,000 for the year-ago quarter. This is mainly attributable to a realized gain of $540,000 on the sale of marketable securities and brokerage commission fees for $79,000, as compared to a unrealized gain of $102,000 on the revaluation of marketable securities in the year-ago quarter.

Income Taxes – Income tax for the quarter ended December 31, 2010 was comprised of deferred tax provisions of $40,000 for the electronic and metallic segment and no income tax expense for the plastic segment. This is compared to an income tax expense of $578,000 in the plastic segment, part of which was taxable on the gain on sale of the former manufacturing plant in Shekou, Shenzhen, China, and an income tax expense of $109,000 and deferred tax provision of $217,000 incurred by the electronic & metallic segment in the corresponding quarter of the prior fiscal year.

Net Loss – The Company had a net loss of $3,585,000 for the quarter ended December 31, 2010 as compared to a net loss of $437,000 for the quarter ended December 31, 2009. Net loss for the quarter ended December 31, 2010 represented negative 15.2% of net sales, compared to negative 2.0% of net sales in the same quarter of the prior year.

Net loss for the plastic segment for the quarter ended December 31, 2010 totaled $2,651,000, as compared to net income of $296,000 for the corresponding quarter in fiscal 2010. The decrease in net income in the plastic segment was mainly the result of an increase in other operating expense as described above.

Net loss for the electronic & metallic segment for the quarter ended December 31, 2010 was $934,000, as compared to a net loss of $733,000 for the corresponding quarter in fiscal 2010. The increase in net loss of the electronic & metallic segment was mainly the result of decreased gross margin as described above.

Nine Months Ended December 31, 2010 Compared to Nine Months Ended December 31, 2009

Net Sales - The Company's net sales for the nine months ended December 31, 2010 were $68,043,000, an increase of $3,096,000 or 4.8% as compared to the corresponding period in fiscal 2010. The increase was related to an increase in sales revenue of $5,597,000 or 20.7% at our electronic and metallic segment, offsetting the decrease in sales revenue at our plastic segment of $2,501,000 or a decrease of 6.6%, as compared with the respective net sales from these segments in the corresponding period of the prior fiscal year.

The revenue decrease at the plastic segment was mainly due to a change in product and customer mix. The decrease in net sales was related to decrease of $8,749,000 in orders from one of the segment's major customers related to plastic component sales of electronic entertainment products, offsetting an increase of $5,113,000 from sales for telephone and automobile component parts.

The revenue increase in the electronic and metallic segment was mainly due to an increase of $11,660,000 in orders for professional audio instrument products from existing customers, offsetting the decrease of $4,422,000 in orders from existing customers and $1,641,000 in distribution sales, respectively. The increase in sales revenue was due to the combined effect of sales orders from new customers and increased orders for new product models from existing customers.

Gross Profit - Gross profit for the nine months ended December 31, 2010 was $7,108,000, representing a gross profit margin of 10.4%. This compared with the overall gross profit and gross profit margin of $10,559,000 or 16.3% for the nine months ended December 31, 2009.

Gross profit in the plastic segment decreased by $3,451,000 to $4,388,000 or 12.4% of net sales for the nine months ended December 31, 2010, as compared to $7,840,000 or 20.7% of net sales, for the same period in the prior fiscal year. The decrease in gross profit for the plastic segment was mainly due to increased labor cost resulting from a rise in the minimum wage rate, higher overtime allowances as well as increases in factory overheads, when compared with the same period of last year.

Gross profit in the electronic and metallic segment was $2,720,000 or 8.3% of net sales, for the nine months ended December 31, 2010, as compared to $2,720,000 or 10.0% of net sales, for the same period of last fiscal year. The decrease in gross margin was mainly attributed to increases in labor costs as a result of increases in headcount, a rise in the minimum wage rate, and increases in overtime allowance, as compared with the same period of last fiscal year.

Selling, general and administrative expenses - SG&A expenses for the nine months ended December 31, 2010 were $11,154,000 or 16.4% of total net sales, as compared to $11,680,000 or 18.0% of total net sales for the nine months ended December 31, 2009. Selling, general and administrative expenses decreased by $526,000 or 4.5% in the nine months of fiscal 2011 compared to the corresponding period of last year.

SG&A expenses in the plastic segment decreased by $628,000 to $7,399,000 or 20.9% of net sales, for the nine months ended December 31, 2010 compared to $8,026,000 or 21.2% of net sales, for the corresponding period in fiscal 2010. The decrease was primarily related to decreases of $397,000 in staff costs, $201,000 in government license and registration, $81,000 in entertainment expense and $87,000 in stock compensation costs, offsetting an increase of $137,000 in director remuneration and $149,000 in selling expense, as compared with the same period in prior year.

SG&A expenses in the electronic & metallic segment increased by $101,000 to $3,755,000 or 11.5% of net sales, for the nine months ended December 31, 2010 compared to $3,654,000 or 13.5% of net sales for the corresponding period in fiscal 2010. The increase was primarily related to increases of $140,000 in selling expense and $101,000 in staff costs, offsetting decreases of $38,000 in stock compensation cost and $116,000 in government license and registration, as compared with the corresponding period in prior year.

Other operating expense - Other operating expense was $4,378,000 for the nine months ended December 31, 2010, as compared to other operating income of $4,083,000 in the corresponding nine months of the prior year.

On a segment basis, other operating expense attributable to the plastic segment for the nine months ended December 31, 2010 was $4,314,000, as compared to income of $3,809,000 for the same period in the prior year. The decrease in other operating income was mainly due to an exchange loss of $194,000, a provision for impairment of fixed assets of $4,000,000 during the nine months ended December 31, 2010, as compared to a net gain of $4,200,000 realized from the sale of the former plastic injection manufacturing plant in Shekou, Shenzhen, China, a provision for doubtful receivables of $379,000 and an exchange loss of $81,000 during the corresponding period of the prior year.

Other operating expense attributable to the electronic & metallic segment for the nine months ended December 31, 2010 was $64,000, as compared with income of $273,000 for the corresponding period in the prior year. This was mainly due to an exchange loss of $83,000, a provision of $141,000 for doubtful receivables, as compared to an exchange gain of $54,000 and $191,000 in other operating income during the same period of last fiscal year.

Operating Loss - Operating loss was $8,424,000 for the nine months ended December 31, 2010, as compared to operating income of $2,962,000 from the corresponding nine months in the prior year.

On a segment basis, the operating loss of the plastic segment was $7,324,000, or negative 20.7% of net sales in the nine months ended December 31, 2010, as compared to operating income of $3,623,000 or 9.6% of net sales in the corresponding period in fiscal 2010. The decrease in operating income in the plastic segment was mainly due to the decrease in gross margin as a result of higher labor cost and decrease in other operating income as described above.

The electronic & metallic segment reported an operating loss of $1,100,000, or negative 3.4% of net sales in the nine months ended December 31, 2010 compared to an operating loss of $661,000 or negative 2.4% of net sales in the corresponding period in fiscal 2010. The increase in operating loss was due to the net effect of decrease in gross margin and other operating income, offsetting the decrease in selling, general and administrative expenses as described above.

Non-operating income – Non-operating income for the nine months ended December 31, 2010 increased by $691,000 to $1,067,000 as compared with the year-ago nine months. This is mainly accounted for by the dividend income of $226,000, $853,000 in realized gain on the sale of marketable securities and brokerage commission fees of $89,000, as compared to $112,000 in interest income and $169,000 in unrealized gain on the revaluation of marketable securities during the nine months ended December 31, 2010.

Income Taxes – Income tax for the nine months represented a deferred tax provision of $105,000, as compared to the income tax expense of $688,000 and a deferred tax provision of $217,000 in the corresponding nine months of prior fiscal year.

On a segment basis, there was a net deferred tax benefit of $65,000 in the plastic segment for the nine months ended December 31, 2010, as compared to an income tax expense of $578,000, part of which was taxable on the gain on the sale of the former manufacturing plant in Shekou, Shenzhen, China during the year-ago nine months. The income tax of the electronic & metallic segment was comprised of a deferred tax provision of $170,000 for the nine months ended December 31, 2010, as compared to tax expense of $110,000 and a deferred tax provision of $217,000 in the corresponding nine months of fiscal 2010.

Net Loss – The Company had a net loss of $7,462,000 for the nine months ended December 31, 2010, as compared to net income of $2,434,000 for the nine months ended December 31, 2009. Net loss for the nine months ended December 31, 2010 represented negative 11.0% as a percentage of net sales, compared to 3.8% in the same nine months of the prior year. The decrease in net income was mainly the result of the decreases in gross profit margin as well as in other operating income as described above.

Net loss for the plastic segment for the nine months ended December 31, 2010 totaled $6,292,000, as compared to net income of $3,198,000 for the corresponding nine months of fiscal 2010. The decrease in net income of the plastic segment was mainly the result of decreases in gross margin and in other operating income as described above.

Net loss for the electronic & metallic segment for the nine months ended December 31, 2010 was $1,171,000, compared to a net loss of $765,000 for the corresponding nine months of fiscal 2010. The increase in net loss of the electronic & metallic segment was mainly the result of decreases in gross margin and other operating income as described above.

Liquidity and Capital Resources

Traditionally, 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 December 31, 2010, the Company had a working capital of $59,874,000 and cash and cash equivalents of $34,837,000. This compares to working capital of $59,848,000 and cash and cash equivalents of $35,120,000 at March 31, 2010. The decrease in cash and cash equivalents was mainly attributed to net cash used in operating activities of $5,142,000 and in financing activities of $810,000 for cash dividend payments, and net cash provided by investing activities comprising net proceeds from the sale of marketable securities of $6,526,000 offsetting net purchase of property, plant and equipment in the amount of $863,000 during the nine months ended December 31, 2010.

The Company has generated sufficient funds from its operating activities to finance its operations and there is little need for external financing. The Company has no short-term borrowings or long-term borrowings at December 31, 2010.

As of December 31, 2010, 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:

/s/ Franki Tse
Franki Tse
Chief Executive Officer

Date: March 10, 2011