

DESWELL INDUSTRIES INC  
Form 20-F  
August 02, 2011  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**FORM 20-F**

(Mark one)

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2011

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33900

**DESWELL INDUSTRIES, INC.**

British Virgin Island

(Exact name of registrant as specified in its charter)  
Herman Wong, Chief Financial Officer,

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(Jurisdiction of incorporation or organization)

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17B, Edificio Comercial Rodrigues

599 Avenida da Praia Grande, Macao

599 Avenida da Praia Grande, Macao

Special Administrative Region, PRC

Special Administrative Region, PRC

(Address of Principal Executive Offices)

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: Common shares, no par value

Securities registered pursuant to Section 12(g) of the Act: NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

As of March 31, 2011, there were 16,194,810 common shares of the registrant outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to

Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes  No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes<sup>(1)</sup>

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated

Accelerated filer

Non-accelerated filer

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Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked, indicate by check mark which financial statement item the registrant has elected to follow: Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(1) Interactive data filing is not required of registrant until its Annual Report on Form 20-F for the year ending March 31, 2012

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**INTRODUCTION**

This Annual Report on Form 20-F contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to those discussed in the section entitled Risk Factors under ITEM 3. Key Information.

Readers should not place undue reliance on forward-looking statements, which reflect management's view only as of the date of this Report. The Company undertakes no obligation to revise these forward-looking statements to reflect subsequent events or circumstances. Readers should also carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

Except where the context otherwise requires and for purposes of this Annual Report only:

we, us, our company, our, the Company or Deswell refers to Deswell Industries, Inc. and, in the context of describing operations, also include our operating subsidiaries;

shares refer to our common shares, no par value;

China or PRC refers to the People's Republic of China, excluding Taiwan, Hong Kong and Macao;

Hong Kong refers to the Hong Kong Special Administrative Region of the People's Republic of China;

Macao refers to the Macao Special Administrative Region of the People's Republic of China;

all references to renminbi, RMB or yuan are to the legal currency of China, of which the yuan is the base unit;

all references to HK dollars or HK\$ are to the legal currency of Hong Kong;

all references to MOP\$ are to the legal currency of Macao; and

all references to U.S. dollars, dollars, \$ or US\$ are to the legal currency of the United States.

**FINANCIAL STATEMENTS AND CURRENCY PRESENTATION**

The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in the United States of America and publishes such statements in United States dollars. See Report of Independent Registered Public Accounting Firm included elsewhere herein. The Company publishes its financial statements in United States dollars as the Company is incorporated in the British Virgin Islands, where the currency is the U.S. dollar. Moreover, the functional currency of the Company's subsidiaries has been changed from the Hong Kong dollar or Chinese RMB to the US dollar since January 1, 2009.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable.

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**Item 3. KEY INFORMATION**

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Report. The selected income statement data for each of the three fiscal years in the period ended March 31, 2011, and the balance sheet data as of March 31, 2010 and 2011 are derived from our audited consolidated financial statements included in this Report. The selected income statement data for the years ended March 31, 2007 and 2008, and the balance sheet data as of March 31, 2007, 2008 and 2009 are derived from our audited consolidated financial statements, which are not included in this Report.

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<b>Income Statement Data:</b>	<b>(in thousands except per share and statistical data)</b>				
	<b>Year ended March 31,</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Net sales	\$ 136,779	\$ 143,806	\$ 131,738	\$ 81,614	\$ 84,022
Cost of sales	105,506	117,373	111,570	68,958	74,474
Gross profit	31,273	26,433	20,168	12,656	9,548
Selling, general and administrative expenses	18,957	19,601	19,291	15,505	13,941
Other income (expenses), net	1,376	1,838	(132)	4,594	(4,435) <sup>(2)</sup>
Operating income (loss)	13,692	8,670	745	1,745	(8,828) <sup>(2)</sup>
Non-operating income, net	547	521	168	444	1,096
Income (loss) before income taxes	14,239	9,191	913	2,189	(7,732)
Income taxes	1,239	104	(282)	690	382
Net income (loss)	13,000	9,087	1,195	1,499	(8,114)
Net income (loss) attributable to non-controlling interests	833	228	-	-	-
Net income (loss) attributable to Deswell Industries, Inc.	\$ 12,167	\$ 8,859	\$ 1,195	\$ 1,499	\$ (8,114)
Basic earnings (loss) per share <sup>(3)</sup>	\$ 0.81	\$ 0.57	\$ 0.08	\$ 0.09	\$ (0.50)
Average number of shares outstanding basic <sup>(3)</sup>	14,956	15,517	15,791	15,965	16,193
Diluted earnings (loss) per share <sup>(3)</sup>	\$ 0.81	\$ 0.57	\$ 0.08	\$ 0.09	\$ (0.50)
Average number of shares outstanding diluted <sup>(3)</sup>	15,048	15,566	15,805	16,039	16,193
<b>Statistical Data:</b>					
Gross margin	22.9%	18.4%	15.3%	15.5%	11.4%
Operating margin	10.0%	6.0%	0.6%	2.1%	-10.5%
Dividends per share	\$ 0.65	\$ 0.61	\$ 0.24	\$ 0.10	\$ 0.10
<b>Balance Sheet Data:</b>			<b>At March 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Working capital	\$ 58,672	\$ 54,751	\$ 52,605	\$ 59,848	\$ 59,689
Total assets	141,210	140,407	137,482	134,011	127,159
Long-term debt, less current portion	-	-	-	-	-
Total debt	-	-	-	-	-
Shareholders' equity	111,655	121,257	120,307	121,015	111,287

- (1) Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America and are stated in U.S. dollars. See Financial Statements and Currency Presentation.
- (2) Other expenses, net and operating loss for the year ended March 31, 2011 include a non-cash impairment charge to property, plant and equipment used in the Company's plastic segment of \$4,474,000. See Notes 2 and 6 of notes to consolidated financial statements included later in this report.
- (3) Basic earnings (loss) per share excludes dilution from potential common shares and is computed by dividing income (loss) attributable to Deswell shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution from potential common shares.





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### **Risk Factors**

We may from time to time make written or oral forward-looking statements. Written forward-looking statements may appear in this document and other documents filed with the Securities and Exchange Commission, in press releases, in reports to shareholders, on our website, and other documents. The Private Securities Reform Act of 1995 contains a safe harbor for forward-looking statements on which we rely in making such disclosures. In connection with this safe harbor, we are hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by us or on our behalf. Any such statement is qualified by reference to the following cautionary statements:

**Historically we have been dependent on a few major customers that accounted for a substantial percentage of our sales. The significant decrease in orders from major customers materially and adversely affected our results of operations in our year ended March 31, 2011. Our sales will continue to decline and our financial results will suffer further if our major customer during fiscal 2011 ceases, or substantially reduces, its orders unless we can increase sales to new or existing customers.**

Historically, and particularly before fiscal 2011, a substantial percentage of our sales were to a small number of major customers that each accounted for more than 10% of our net sales. During the years ended March 31, 2009 and 2010, our major customers together accounted for 41.3% and 42.0% of our total net sales, respectively. In the year ended March 31, 2011, however, our sales to 10% or greater customers were limited to VTech Telecommunications Limited, which accounted for 14.6% of net sales.

Our sales are based on purchase orders and we have no long-term contracts with any of our customers and the percentage of sales to any of our customers has fluctuated in the past and may fluctuate in future. Substantial decreases in sales to, or the loss of major customers, have adversely impacted our sales and financial performance. For example, N&J Company Ltd., our largest customer in both fiscal 2009 and 2010, accounting for 19.2% and 28.6% of our total sales during the years ended March 31, 2010 and 2009, respectively, reduced the volume of its orders during the year ended March 31, 2011 to less than 10% of our total sales. Similarly, Digidesign, Inc., our largest customer in fiscal 2008, and one of our major customers in both fiscal 2009 and 2010, accounting for 12.0% and 12.7% of our total sales during the years ended March 31, 2010 and 2009, respectively, reduced the volume of its orders during the year ended March 31, 2011 to less than 10% of our total sales. These reductions in sales to our major customers were a principal contributing factor to the decreases in our total sales over the last three fiscal years and our operating and net losses during the year ended March 31, 2011—the only year we have suffered such losses since becoming a public company in 1995.

We cannot assure you that present or future customers will not cease using us as the source of the injection-molded plastic parts and components we manufacture, for electronic manufacturing services of electrical products and subassemblies or for metallic molds and accessories or significantly change, reduce or delay the amount of products and services ordered from us. Our sales will continue to decline and our financial results will suffer further if VTech ceases, or substantially reduces, its orders unless we can increase sales to new or existing customers.

**Because of the impact on our injection molded plastics business of the world-wide economic slowdown, we recorded non-cash impairment charges to property, plant and equipment used in that segment of \$4.5 million during the year ended March 31, 2011, more than doubling the total operating loss we would have otherwise reported for the year. Unless our operating results improve substantially in future periods, we may be required to write down our long-lived assets further and thereby incur significant additional impairment charges.**

At March 31, 2011, we had approximately \$51.0 million of long-lived assets on our balance sheet after recording a provision for impairment of \$4.5 million to property, plant and equipment we use in our injection molded plastics business. The valuation of our long-lived assets requires us to make assumptions about