

SOUTHWALL TECHNOLOGIES INC /DE/  
Form 10-Q  
November 13, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 0-15930

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SOUTHWALL TECHNOLOGIES INC.  
(Exact name of registrant as specified in its charter)

Delaware 94-2551470  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

3788 Fabian Way, Palo Alto, California 94303  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (650) 798-1200

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Indicate by check mark whether the registrant (1) 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 (2) has been subject to such filing requirements for the past 90 days. Yes  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 filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).      Yes                       No

As of October 31, 2008, there were 28,706,222 shares of the registrant's Common Stock outstanding.

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SOUTHWALL TECHNOLOGIES INC.

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## PART I. FINANCIAL INFORMATION

## Item 1--Financial Statements:

SOUTHWALL TECHNOLOGIES INC.  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except per share data)

|  | September<br>30,<br>2008 | December<br>31,<br>2007 |
|--|--------------------------|-------------------------|
| <b>ASSETS</b>  |                          |                         |
| Current assets:  |                          |                         |
| Cash and cash equivalents  | \$ 11,673                | \$ 6,492                |
| Restricted cash  | 286                      | 294                     |
| Accounts receivable, net of allowance for doubtful accounts of \$83 at September 30, 2008 and \$66 at December 31, 2007  | 5,232                    | 4,346                   |
| Inventories, net   | 5,944                    | 5,640                   |
| Restricted cash loans  | 1,207                    | -                       |
| Other current assets   | 751                      | 837                     |
| <b>Total current assets</b>  | <b>25,093</b>            | <b>17,609</b>           |
| Property, plant and equipment, net   | 15,596                   | 17,071                  |
| Restricted cash loans  | -                        | 1,242                   |
| Other assets   | 659                      | 1,345                   |
| <b>Total assets</b>  | <b>\$ 41,348</b>         | <b>\$ 37,267</b>        |
| <b>LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>   |                          |                         |
| Current liabilities:   |                          |                         |
| Current portion of long term debt  | \$ 3,965                 | \$ 1,149                |
| Accounts payable   | 1,304                    | 964                     |
| Accrued compensation   | 1,478                    | 1,267                   |
| Other accrued liabilities  | 5,268                    | 6,350                   |
| <b>Total current liabilities</b>   | <b>12,015</b>            | <b>9,730</b>            |
| Term debt  | 4,930                    | 8,277                   |
| Other long term liabilities  | 2,594                    | 2,567                   |
| <b>Total liabilities</b>   | <b>19,539</b>            | <b>20,574</b>           |
| Commitments and contingencies (Note 6)   |                          |                         |
| Series A 10% cumulative convertible preferred stock, \$0.001 par value; \$1.00 stated value; 5,000 shares authorized, 4,893 shares outstanding at September 30, 2008 and December 31, 2007, respectively (Liquidation preference: \$6,644 and \$6,277 at September 30, 2008 and December 31, 2007, respectively) | 4,810                    | 4,810                   |
| Stockholders' equity:  |                          |                         |
| Common stock, \$0.001 par value per share; 50,000 shares authorized, 28,692 shares and 27,820 shares outstanding at September 30, 2008 and December 31, 2007, respectively   | 29                       | 28                      |

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|  |           |           |
|--|-----------|-----------|
| Capital in excess of par value   | 78,376    | 78,290    |
| Accumulated other comprehensive income: Accumulated translation adjustment | 4,405     | 4,776     |
| Accumulated deficit  | (65,811)  | (71,211)  |
| Total stockholders' equity   | 16,999    | 11,883    |
| Total liabilities, preferred stock and stockholders' equity                | \$ 41,348 | \$ 37,267 |

See accompanying notes to unaudited condensed consolidated financial statements.

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SOUTHWALL TECHNOLOGIES INC.  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (in thousands, except per share data)

|                  | Three months ended |          | Nine months ended |               |
|------------------|--------------------|----------|-------------------|---------------|
|                  | September          |          | September 30,     | September 30, |
|                  | September 30,      | 30,      | September 30,     | September 30, |
|                  | 2008               | 2007     | 2008              | 2007          |
| Net revenues     | \$ 10,632          | \$ 9,249 | \$ 34,887         | \$ 29,005     |
| Cost of revenues |                    |          |                   |               |