

SOUTHWALL TECHNOLOGIES INC /DE/
Form 10-Q
November 13, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 2006

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

SOUTHWALL TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-2551470

(I.R.S. Employer Identification Number)

3788 Fabian Way, Palo Alto, California

(Address of principal executive offices)

94303

(Zip Code)

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

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 November 1, 2006, there were 26,957,001 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 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,032	\$ 6,600
Restricted cash	206	402
Accounts receivable, net of allowance for doubtful accounts of \$170 at September 30, 2006 and \$208 at December 31, 2005	4,804	6,780
Inventories, net	5,241	5,879
Other current assets	1,492	982
Total current assets	16,775	20,643
Property, plant and equipment, net	16,689	16,857
Restricted cash loans	1,063	995
Other assets	1,161	1,146
Total assets	\$ 35,688	\$ 39,641
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long term debt	\$ 1,030	\$ 1,317
Line of credit	2,996	2,996
Accounts payable	1,543	1,402
Accrued compensation	1,109	1,161
Other accrued liabilities	6,300	5,076
Total current liabilities	12,978	11,952
Term debt	8,544	8,790
Government grants advanced	206	396
Other long term liabilities	2,531	2,564
Total liabilities	24,259	23,702
Commitments and contingencies (Note 5)		
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, 2006 and December 31, 2005, respectively (Liquidation preference: \$5,749 and \$5,383 at September 30, 2006 and December 31,	4,810	4,810

2005, respectively)

Stockholders' equity:

Common stock, \$0.001 par value per share;

50,000 shares authorized, 26,957 shares and

26,793 shares outstanding at September 30, 2006

and December 31, 2005, respectively

	27	27
Capital in excess of par value	78,050	77,828
Accumulated other comprehensive income:		
Accumulated translation adjustment	3,236	2,532
Accumulated deficit	(74,694)	(69,258)
Total stockholders' equity	6,619	11,129

Total liabilities, preferred stock and stockholders' equity

\$	35,688	\$	39,641
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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 30, 2006	October 2, 2005	September 30, 2006	October 2, 2005
Net revenues	\$ 9,597	\$ 12,025	\$ 30,968	\$ 42,844
Cost of revenues	5,667	7,921	19,301	28,979
Gross profit	3,930	4,104	11,667	13,865
Operating expenses:				
Research and development	1,659	1,334	5,376	3,047
Selling, general and administrative	4,674			