

SOUTHWALL TECHNOLOGIES INC /DE/
Form 10-Q/A
February 06, 2008

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

FORM 10-Q/A

(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, 2007

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 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 15, 2007, there were 27,819,622 shares of the registrant's Common Stock outstanding.

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EXPLANATORY NOTE

This amendment on Form 10-Q/A (“Form 10-Q/A”) to the Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2007 initially filed with the Securities and Exchange Commission on November 14, 2007 (“the Original Filing”) clarifies the Company’s disclosure regarding (i) tax information, (ii) accounts receivable, (iii) future payment obligation to include interest, and the subsequent termination of a material contract. This Form 10-Q/A amends Item 2. Managements Discussion and Analysis of Financial Conditions and Results of Operations. In addition the Original Filing has been amended to contain currently dated certifications form the Company’s Principal Executive Officer and Principal Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act (See Exhibits 31 and 32).

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, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,775	\$ 5,524
Restricted cash	657	209
Accounts receivable, net of allowance for doubtful accounts of \$88 at September 30, 2007 and \$102 at December 31, 2006	5,764	3,608
Inventories, net	5,971	5,598
Other current assets	781	1,064
Total current assets	17,948	16,003
Property, plant and equipment, net	17,045	17,232
Restricted cash loans	1,196	1,111
Other assets	1,330	1,155
Total assets	\$ 37,519	\$ 35,501

LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long term debt	\$ 1,118	\$ 1,059
Line of credit	3,000	2,996
Accounts payable	1,411	955
Accrued compensation	863	859
Government grants advanced	234	-
Other accrued liabilities	6,306	6,448
Total current liabilities	12,932	12,317
Term debt	8,288	8,568
Government grants advanced	-	220
Other long term liabilities	2,619	2,550
Total liabilities	23,839	23,655

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, 2007 and December 31, 2006, respectively (Liquidation preference: \$6,154 and \$5,788 at September 30, 2007 and December 31, 2006, respectively)	4,810	4,810
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Stockholders' equity:

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Common stock, \$0.001 par value per share; 50,000 shares authorized, 27,820 shares and 27,139 shares outstanding at September 30, 2007 and December 31, 2006, respectively

	28	27
Capital in excess of par value	78,345	78,081
Accumulated other comprehensive income: Accumulated translation adjustment	4,321	3,696
Accumulated deficit	(73,824)	(74,768)
Total stockholders' equity	8,870	7,036
Total liabilities, preferred stock and stockholders' equity	\$ 37,519	\$ 35,501

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, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Net revenues	\$ 9,249	\$ 9,597	\$ 29,005	\$ 30,968
Cost of revenues	6,070	5,667	18,673	19,301
Gross profit	3,179	3,930	10,332	11,667
Operating expenses:				
Research and development	934	1,659	3,173	5,376
Selling, general and administrative	2,122	4,674	6,932	9,761
Impairment charge (recoveries) for long-lived assets	(17)	(325)	(25)	(117)
Restructuring charges	-	263	-	974
Total operating expenses	3,039	6,271	10,080	15,994
Income (loss) from operations	140	(2,341)	252	(4,327)
Interest expense, net	(191)	(169)	(471)	(550)
Other income (expenses), net	513	(18)	1,561	161
Income (loss) before provision for income taxes	462	(2,528)	1,342	(4,716)
Provision for income taxes	212	193	398	719
Net income (loss)	250	(2,721)	944	(5,435)
Deemed dividend on preferred stock	122	123	366	367
Net income (loss) attributable to common stockholders	\$ 128	\$ (2,844)	\$ 578	\$ (5,802)
Net income (loss) per share:				
Basic	\$ 0.00	\$ (0.11)	\$ 0.02	\$ (0.22)
Diluted	\$ 0.00	\$ (0.11)	\$ 0.02	\$ (0.22)
Shares used in computing net income (loss) per share:				
Basic	27,820	26,957	27,493	26,907
Diluted	28,867	26,957	28,313	26,907

See accompanying notes to unaudited condensed consolidated financial statements.

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SOUTHWALL TECHNOLOGIES INC.
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)

	Nine months ended	
	September 30, 2007	September 30, 2006
Cash flows from operating activities:		
Net income (loss)	\$ 944	\$ (5,435)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred income tax	(56)	54
Impairment charge (recoveries) from long-lived assets	(25)	(117)
Depreciation and amortization	2,087	1,836
Stock compensation	273	487
Change in assets and liabilities:		
Accounts receivable, net	(2,129)	1,982
Inventories, net	(373)	638
Other current and non current assets	161	(524)
Accrued liabilities—deferred rent	0	(1,192)
Accounts payable and accrued liabilities	10	2,123
Net cash provided by (used in) operating activities	892	(148)
Cash flows from investing activities:		
Restricted cash	(417)	181
Proceeds from sale of property, plant and equipment	25 422	
Expenditures for property, plant and equipment	(635)	(781)
Net cash used in investing activities	(1,027)	(178)
Cash flows from financing activities:		
Proceeds from exercise of stock options	357	32
Repayments of term debt	(837)	(1,133)
Payments on line of credit	(2,996)	0
Borrowings on line of credit	3,000	0
Investment credit in Germany	(3)	(219)
Net cash used in financing activities	(479)	(1,320)
Effect of foreign exchange rate changes on cash	(135)	78
Net decrease in cash and cash equivalents	(749)	(1,568)
Cash and cash equivalents, beginning of period	5,524	6,600
Cash and cash equivalents, end of period	\$ 4,775	\$ 5,032
Supplemental cash flow disclosures:		

Interest paid	\$	670	\$	725
Income taxes paid	\$	398	\$	719
Supplemental schedule of non-cash investing and financing activities:				
Dividends accrued	\$	366	\$	367

See accompanying notes to unaudited condensed consolidated financial statements.

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SOUTHWALL TECHNOLOGIES INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1--Interim Period Reporting:

The accompanying interim condensed consolidated financial statements of Southwall Technologies Inc. (“Southwall” or the “Company”) are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary to present fairly the financial position, results of operations and cash flows of Southwall and its subsidiaries for all periods presented. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The Company suggests that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission on April 2, 2007. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any future periods..

Note 2—Inventories, Net:

Inventories are stated at the lower of cost (determined by the average cost method) or market. Cost includes materials, labor and manufacturing overhead. The Company establishes provisions for excess and obsolete inventories to reduce such inventories to their estimated net realizable value. Such provisions are charged to cost of revenues. At September 30, 2007 and December 31, 2006, inventories consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Raw materials	\$ 3,111	\$ 3,850
Work-in-process	1,254	221
Finished goods	1,606	1,527
	\$ 5,971	\$ 5,598

Note 3--Net Income (Loss) Per Share:

Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) for the period. Diluted net income (loss) per share gives effect to all dilutive common shares potentially outstanding during the period, including stock options, warrants to purchase common stock and convertible preferred stock.

The Company excludes options from the computation of diluted weighted average shares outstanding if the exercise price of the options is greater than the average market price of the shares because the inclusion of these options would be anti-dilutive to earnings per share. The company also excludes preferred shares convertible into common stock from the computation of diluted weighted average shares outstanding, per SFAS 128, “Earnings Per Share”, when the effect would be antidilutive. At September 30, 2007, 4,893,000 shares were excluded as their effect was antidilutive when combined with the effect of potential common shares.

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In net loss periods, the basic and diluted weighted average shares of common stock and common stock equivalents are the same because inclusion of common stock equivalents would be anti-dilutive. For the third quarter of 2007, a net income period, there were 5,238,000 options outstanding of which 2,403,000 were excluded from the net income per share calculation as they were anti-dilutive because the option prices were higher than the average market value during the three-month period ended September 30, 2007.

The company has accrued a deemed dividend on preferred stock of \$122,000 and \$366,000 for the three and nine-month periods ended September 30, 2007 and September 30, 2006, respectively. Per SFAS 128, the dilutive effect of convertible securities shall be reflected in diluted EPS by application of the if-converted method. Under this method, if an entity has convertible preferred stock outstanding, the preferred dividends applicable to convertible preferred stock shall be added back to the numerator unless their effect is antidilutive. Tables summarizing net income (loss) attributable to common stockholders, for diluted net income (loss) per share, and shares outstanding are shown below (in thousands):

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2007	2006	2007	2006
Net income (loss) attributable to common stockholders-basic	\$ 128	\$ (2,844)	\$ 578	\$ (5,802)
Add: Deemed dividend on preferred stock	122	123	366	367
Net income (loss) attributable to common stockholders-diluted	\$ 250	\$ (2,721)	\$ 944	\$ (5,435)
Weighted average common shares outstanding-basic	27,820	26,957	27,493	26,907
Dilutive effect of warrants	356	-	355	-
Dilutive effect of stock options	691	-	465	-
Weighted average common shares outstanding - diluted	28,867	26,957	28,313	26,907

Note 4 – Product Reporting:

The total net revenues for the automotive glass, electronic display, window film and architectural product lines for the three and nine- month periods ended September 30, 2007 and September 30, 2006 were as follows (in thousands):

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2007	2006	2007	2006
Automotive glass	\$ 3,763	\$ 3,019	\$ 11,162	\$ 9,726
Electronic display	46	2,564	2,597	8,325
Window film	4,036	2,424	10,629	8,880
Architectural	1,404	1,590	4,617	4,037
Total net revenues	\$ 9,249	\$ 9,597	\$ 29,005	\$ 30,968

The following is a summary of net revenues by geographic area (based on the location of the Company's customers) for the three and nine- month periods ended September 30, 2007 and September 30, 2006. (in thousands):

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2007	2006	2007	2006

United States	\$	2,446	\$	3,231	\$	7,410
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