

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-04-02**
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FILER

SOUTHWALL TECHNOLOGIES INC /DE/

CIK: **813619** | IRS No.: **942551470** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
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Business Address
1029 CORPORATION WAY
PALO ALTO CA 94303
4159629111

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 [NO FEE REQUIRED]

For the quarterly period ended April 2, 1995

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File Number: 0-15930

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)

1029 Corporation Way, Palo Alto, California

94303

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (415) 962-9111

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 X No
---- ----

As of April 2, 1995 there were 5,846,745 shares of the Registrant's Common Stock outstanding.

This report, including all attachments, contains 12 pages.

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SOUTHWALL TECHNOLOGIES INC.

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PART 1 FINANCIAL INFORMATION

Item 1 Financial Statements

CONSOLIDATED BALANCE SHEET
(in thousands, except per share data)

<TABLE>
<CAPTION>

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ASSETS

Current assets:

	April 2, 1995 ----- (Unaudited) <C>	December 31, 1994 ----- <C>
Cash and cash equivalents	\$ 604	\$ 1,144
Short-term investments	3,051	4,051
Accounts receivable, net of allowance for doubtful accounts of \$524 and \$528	4,641	3,720
Inventories	5,117	3,907
Other current assets	803	717
	-----	-----
Total current assets	14,216	13,539

Property and equipment, net	16,078	15,994
Other assets	1,866	1,839
	-----	-----
Total Assets	\$ 32,160	\$ 31,372
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,298	\$ 2,419
Accrued compensation	1,375	1,293
Other accrued liabilities	1,886	1,643
Current portion of long-term debt	36	82
	-----	-----
Total current liabilities	6,595	5,437
Long-term debt	2,650	2,650
Deferred income taxes	297	297
	-----	-----
Total liabilities	9,542	8,384
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.001 par value, 20,000 shares authorized:		
Issued and outstanding: 6,917 and 6,917	7	7
Capital in excess of par value	47,273	47,273
Accumulated deficit	(20,342)	(19,972)
Less cost of treasury stock of 1,070 and 1,070	(4,320)	(4,320)
	-----	-----
Total stockholders' equity	22,618	22,988
	-----	-----
Total liabilities and stockholders' equity	\$ 32,160	\$ 31,372
	=====	=====

</TABLE>

See accompanying notes to financial statements.

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SOUTHWALL TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended	
	April 2, 1995	April 3, 1994
	-----	-----
<S>	<C>	<C>
Net product sales	\$6,691	\$4,421
License revenues	10	58
	-----	-----
Net revenues	\$6,701	\$4,479
	-----	-----
Costs and expenses:		
Cost of product sales	4,602	3,444
Research & development	625	529

Selling, general and administrative	1,844	1,172
	-----	-----
Total costs and expenses	7,071	5,145
	-----	-----
Income (loss) from operations	(370)	(666)
Interest income	54	85
Interest expense	(54)	(13)
	-----	-----
Net income (loss)	\$ (370)	\$ (594)
	=====	=====
Net income (loss) per share	\$ (.06)	\$ (.10)
	=====	=====
Weighted average shares of common stock and common stock equivalents	5,847	5,804
	=====	=====

</TABLE>

See accompanying notes to financial statements.

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SOUTHWALL TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)
(Unaudited)

<TABLE>
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	Three Months Ended	
	April 2, 1995	April 3, 1994
	-----	-----
	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ (370)	\$ (594)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	499	518
Decrease (increase) in accounts receivable	(921)	(533)
Decrease (increase) in inventories	(1,210)	(480)
Decrease (increase) in other current assets	(86)	24
(Decrease) increase in accounts payable and accrued liabilities	1,204	566
	-----	-----
Cash provided by (used in) operating activities	(884)	(499)
	-----	-----
Cash flows from investing activities:		
Decrease (increase) in short-term investments	1,000	0
Expenditures for property and equipment and other assets	(610)	(221)
	-----	-----
Net cash provided by (used in) investing activities	390	(221)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of stock	0	0
Increase in(reduction of) long-term debt	(46)	(55)
Purchase of treasury stock	0	0
	-----	-----
Net cash provided by (used in) financing activities	(46)	(55)
	-----	-----

Net increase (decrease) in cash and cash equivalents	(540)	(775)
Cash and cash equivalents, beginning of year	1,144	1,340
Cash and cash equivalents, end of period	\$ 604	\$ 565

</TABLE>

See accompanying notes to financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three Months Ended April 2, 1995
(in thousands)
(Unaudited)

	Common Stock		Capital in excess of par value	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	Shares	Amount				
Balance; December 31, 1994	6,917	\$7	\$47,273	\$(19,972)	\$(4,320)	\$22,988
Net income (loss)				(370)		(370)
Balance; April 2, 1995	6,917	\$7	\$47,273	\$(20,342)	\$(4,320)	\$22,618

</TABLE>

See accompanying notes to financial statements.

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SOUTHWALL TECHNOLOGIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)
(Unaudited)

Note 1 - Interim Period Reporting:

While the information presented in the accompanying condensed financial statements is unaudited, it includes all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the Company's financial position and results of operations, and changes in financial position as of the dates and for the periods indicated.

Certain information and footnote disclosures normally contained in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements contained in the Company's Form 10-K for the year ended December 31, 1994. The results of operations for the interim periods presented are not necessarily indicative of the operating results of the full year.

Note 2 - Inventories:

Inventories are stated at the lower of cost (determined by the first-in, first-

out method) or market. Inventories at April 2, 1995 and December 31, 1994, consisted of the following:

<TABLE>
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	April 2, 1995	December 31, 1994
<S>	<C>	<C>
Raw materials	\$1,887	\$1,299
Work-in-process	1,006	440
Finished goods	2,224	2,168
	-----	-----
TOTAL	\$5,117	\$3,907
	=====	=====

</TABLE>

Item 2 - Management's Discussion and Analysis of Financial Condition and

Results of Operations (in thousands)

Three Months Ended April 2, 1995 and April 3, 1994

Effective September 1, 1994, the Company commenced leasing all the assets formerly owned by Safety Glass, Inc., dba Armour Worldwide Glass, located in Southern California, under a five year operating lease for \$40 per month. A wholly-owned subsidiary, Southwall Worldwide Glass Inc. ("SWG I"), was created to operate the facility and to manufacture the Company's proprietary California Series(TM) solar control laminated glass, as well as bullet resistant, security, custom and standard laminated glass products.

Effective October 31, 1994, the Company acquired Sunflex L.P. ("Sunflex") for \$500, which will only be paid from Sunflex's operating income, if any, over the next four years. Sunflex assembles and markets aftermarket mesh, glass and film anti-reflective filters primarily for personal computer monitors.

The consolidated financial statements for 1995 include the results of operations of SWGI and Sunflex.

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Net product sales increased to \$6.7 million for the first three months of 1995, compared to \$4.4 million for the similar period of 1994. Of this increase, which is primarily volume related, approximately \$.7 million was from the new operations discussed above. In addition, net product sales of energy conservation products increased by approximately \$1.5 million, and net product sales of electronics products increased by approximately \$.3 million, offsetting a decrease of approximately \$.3 million in aerospace product sales.

Cost of product sales for the first quarter of 1995 was 69% of net product sales, compared to 78% for the similar period of 1994. This percentage decrease was primarily attributable to the increase in sales volume and the related improvement in manufacturing efficiencies.

Research and development expenses, as a percent of net product sales, were 9% for the first three months of 1995, compared to 12% for the similar period in 1994. The percentage decrease was primarily attributable to the increase in net product sales. The absolute dollar increase in 1995 is attributable to more new product development.

Selling, general and administrative expense, as a percent of net product sales, increased to 28% in the first three months of 1995, from 27% for the similar period in 1994. The increase from \$1.2 million in 1994 to \$1.8 million in 1995, is attributable to the new operations discussed above, and increased sales and marketing expenses associated with the introduction of new products and expansion into the Pacific Rim.

Interest income, net, decreased in 1995 compared to 1994 due primarily to a decrease in monies invested.

As a result of the factors discussed above, the Company reported a pre-tax loss of (\$.4) million for the first three months of 1995, compared to a pre-tax loss of (\$.6) for the similar period in 1994.

The Company believes that it must continue to increase revenues to achieve profitability. Although the Company is seeking to expand existing applications, to develop new applications and to expand international marketing and sales efforts, there can be no assurance that the Company will be able to increase revenues and become profitable.

Liquidity and Capital Resources

At April 2, 1995, the Company's net working capital was \$7.6 million compared with \$8.1 million at December 31, 1994. The Company has financed itself through cash flow from operations and its existing cash balances.

From December 31, 1994, to April 2, 1995, cash and short-term investments decreased by \$1.5 million, while accounts receivable increased by \$.9 million and inventories increased by \$1.2 million. The increase in accounts receivable is primarily attributable to the increase in net revenues from \$5.7 million in the fourth quarter of 1994 to \$6.7 million in the first quarter of 1995, most of which occurred during the later portion of the quarter. The increase in inventories is primarily due to the fact that inventories at December 31, 1994, were at relatively low levels as a result of a shut down of the Company's production equipment during part of the fourth quarter of 1994 and a planned increase in production during the first quarter of 1995. Further, additions to property and equipment were approximately \$.6 million during the first quarter of 1995.

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The Company anticipates total capital expenditures of approximately \$2.1 million during 1995.

At April 2, 1995, the Company has \$3.7 million of cash and short-term investments and a \$5 million line of credit. As of April 2, 1995, there were no borrowings under this line of credit. Existing working capital and cash generated from operations are expected to be adequate to satisfy the Company's capital and operating requirements at least through 1995.

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PART II OTHER INFORMATION

Item 1 Legal Proceedings

In January 1992, the Company filed a patent infringement suit against Cardinal IG Company, and one of its customers, in the U.S. Federal District Court of San Francisco, California. The suit alleges that Cardinal's LoE(R) glass product violates the Company's U.S. Patent #4,799,745, which covers the structure of particular optical coatings for glass products, including the Company's Heat Mirror XIR solar reflecting film.

In April 1993, Cardinal filed a motion for summary judgment alleging that the LoE(R) coatings do not infringe the Company's patent and that the patent is invalid. On March 2, 1994, the District Court judge entered an order denying Cardinal's motion that the Company's patent was invalid, but granting its motion with respect to noninfringement. The Company has filed an appeal to the noninfringement decision with the Court of Appeals for the Federal Circuit. On March 6, 1995, a hearing of this appeal was held at the Court of Appeals. As of the date of filing this Form 10-Q, the Company has not heard from the Court of Appeals of their decision on the appeal. While it is not possible to predict

the outcome of litigation, the Company believes that the district court's recent summary judgment against Southwall should be overturned and that our patent position should be validated by the appellate court.

The Company is not a party to any other material litigation.

Item 2 Changes in Securities
Not applicable

Item 3 Defaults upon Senior Securities
Not applicable

Item 4 Submission to Matters to a Vote of Security Holders
No matters were submitted to a vote of security holders during the quarter ended April 2, 1995.

Item 5 Other Information
Not applicable

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports of Form 8-K - None

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SIGNATURES

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.

Dated: May 10, 1995

Southwall Technologies Inc.

By: /s/ Martin M. Schwartz

Martin M. Schwartz
President and
Chief Executive Officer

By: /s/ Alfred V. Larrenaga

Alfred V. Larrenaga
Sr. Vice President and
Chief Financial Officer

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