

SOUTHWALL TECHNOLOGIES INC /DE/
Form DEF 14A
May 01, 2007

**SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

SOUTHWALL TECHNOLOGIES INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 1. Title of each class of securities to which transaction applies:
 2. Aggregate number of securities to which transaction applies:
 3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 4. Proposed maximum aggregate value of transaction:
 5. Total fee paid:

Fee paid previously with preliminary materials:

- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
 1. Amount previously paid:

- 2. Form, Schedule or Registration Statement No.:
- 3. Filing Party:
- 4. Date Filed:

SOUTHWALL TECHNOLOGIES INC.
3788 Fabian Way
Palo Alto, California 94303

April 30, 2007

Dear Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders, which will be held on May 24, 2007, at 8:30 a.m. local time, at our principal executive offices at 3788 Fabian Way, Palo Alto, California.

The following Notice of Annual Meeting of Stockholders and Proxy Statement describe the items to be considered by the stockholders and contain certain information about us and our officers and directors.

Please sign and return the enclosed proxy card as soon as possible in the envelope provided, or vote by Internet or telephone, so that your shares can be voted at the meeting in accordance with your instructions. Even if you plan to attend the meeting, we urge you to sign and promptly return the proxy card, or vote by Internet or telephone. You may revoke it at any time before it is exercised at the meeting or vote your shares personally if you attend the meeting.

Thank you in advance for your participation and prompt attention. We look forward to seeing you.

Sincerely,

R. Eugene Goodson
President and Chief Executive Officer

SOUTHWALL TECHNOLOGIES INC.

3788 Fabian Way
Palo Alto, California 94303

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 24, 2007

To the stockholders of Southwall Technologies Inc.:

The Board of Directors of Southwall Technologies Inc. has called an annual meeting to seek stockholder approval of the matters listed below.

Each of the matters submitted to our stockholders at the annual meeting is described in more detail in the accompanying proxy statement. We encourage you to read the proxy statement in its entirety. The details of the annual meeting are as follows:

Date: May 24, 2007.

Time: 8:30 a.m., local time.

Place: Our principal executive offices at 3788 Fabian Way, Palo Alto, California.

Items of Business: At the annual meeting, you and our other stockholders will be asked to:

1. elect directors to serve for the ensuing year;
2. approve the Company's 2007 Long-Term Incentive Plan;
3. ratify the appointment of Burr, Pilger & Mayer LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007; and
4. transact such other business as may properly come before the meeting or any adjournment.

Record Date: You may vote at the annual meeting if you were a stockholder of record at the close of business on April 17, 2007.

Proxy Voting: Your vote is important. You may vote on these matters in person or by proxy. We ask that you complete and return the enclosed proxy card promptly, whether or not you plan to attend the annual meeting, in the enclosed addressed, postage-paid envelope, or vote by Internet or telephone, so that your shares will be represented and voted at the annual meeting in accordance with your wishes. You can revoke your proxy at any time prior to its exercise by written notice received by us, by delivering to us a duly executed proxy bearing a later date, or by attending the annual meeting and voting your shares in person.

This notice, the attached proxy statement and form of proxy card are first being mailed to our stockholders beginning on or about May 1, 2007.

By Order of the Board of Directors,

Sylvia Kamenski
Secretary

Palo Alto, California
April 30, 2007

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SOUTHWALL TECHNOLOGIES INC.

**3788 Fabian Way
Palo, Alto, California 94303**

**PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS**

To Be Held on May 24, 2007

This proxy statement contains information about the 2007 Annual Meeting of Stockholders of Southwall Technologies Inc. ("Southwall" or the "Company"). The meeting will be held on May 24, 2007, beginning at 8:30 a.m., local time, at our principal executive offices at 3788 Fabian Way, Palo Alto, California.

This proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors for use at the annual meeting and at any adjournment of that meeting. All proxies will be voted in accordance with the instructions they contain. If no instruction is specified on a proxy, it will be voted in favor of Proposals 1, 2 and 3 set forth in the notice of the meeting. A stockholder may revoke any proxy at any time before it is exercised by giving our corporate secretary written notice to that effect.

Our Annual Report to Stockholders for the fiscal year ended December 31, 2006 is being mailed to stockholders with the mailing of these proxy materials on or about May 1, 2007. The Annual Report does not constitute any part of this proxy statement.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

We have included the following discussion of the matters to be presented at the annual meeting to provide summary answers to some of the questions that you might have about the annual meeting and the proposals to be presented to our stockholders at the annual meeting. You are encouraged to read the entire proxy statement. The information below is qualified in its entirety by the full text of this proxy statement.

What is the purpose of the annual meeting?

At the annual meeting, stockholders will consider and vote on the following matters:

1. The election of directors to serve for the ensuing year.
2. The approval of the Company's 2007 Long-Term Incentive Plan.
3. The ratification of the selection of Burr, Pilger & Mayer LLP as our independent registered public accounting firm for the year ending December 31, 2007.

The stockholders will also act on any other business that may properly come before the meeting.

Who may vote at the annual meeting?

Only holders of our common stock at the close of business on the record date, April 17, 2007, are entitled to receive notice of, and to vote their shares at, the annual meeting. As of the record date, there were issued and outstanding 27,139,035 shares of common stock. Shares of our Series A 10% Cumulative Preferred Stock, or the Series A shares, are not entitled to vote on the matters to be presented at the meeting.

How many votes do I have?

At the annual meeting, you will be entitled to one vote for each share of common stock you held on the record date.

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Is my vote important?

Your vote is important regardless of how many shares you own. Please take time to vote. Take a moment to read the instructions below.

How do I vote?

You can vote your shares in four ways. You can vote by mail, over the Internet, by telephone, or in person at the meeting.

You may vote by mail. You may vote by completing and signing the proxy card that accompanies this proxy statement and promptly mailing it in the enclosed postage-prepaid envelope. You do not need to put a stamp on the enclosed envelope if you mail it in the United States. The shares you own will be voted according to the instructions on the proxy card you mail. If you return the proxy card but do not give any instructions on a particular matter described in this proxy statement, the shares you own will be voted in accordance with the recommendations of our Board of Directors. The Board of Directors recommends that you vote FOR Proposals 1, 2 and 3.

You may vote over the Internet. If you have Internet access, you may vote your shares from any location in the world by following the “Vote by Internet” instructions set forth on the enclosed proxy card.

You may vote by telephone. You may vote your shares by following the “Vote by Telephone” instructions set forth on the enclosed proxy card.

You may vote in person. If you attend the meeting, you may vote by delivering your completed proxy card in person or you can vote by completing a ballot. Ballots will be available at the meeting.

May I revoke my proxy?

Yes. Even if you complete and return a proxy, you may revoke it at any time before it is exercised by taking one of the following actions:

- send written *notice* that you wish to revoke your proxy to Sylvia Kamenski, our corporate Secretary, at our address set forth in the Notice of Annual Meeting appearing before this proxy statement;
- send us *another* signed proxy with a later date; or
- attend the annual meeting, notify Ms. Kamenski that you are present, and then vote in person.

If, however, you elect to vote in person at the annual meeting and a broker or other nominee holds your shares, you must bring to the annual meeting a legal proxy from the broker or other nominee authorizing you to vote the shares.

What if a broker holds my shares in “street name”?

If your shares are held in “street name” by a bank or other nominee, your bank or nominee, as the record holder of your shares, is required to vote your shares according to your instructions. You should instruct your broker or other nominee to vote your shares by following the procedure provided by your broker or other nominee. Even if you do not give your broker or other nominee instructions as to how to vote on the other proposals described in this proxy statement, your broker or other nominee may be entitled to use its discretion in voting your shares in accordance with industry practice and applicable law. You may also attend the annual meeting and vote in person. If you elect to vote

in person, however, you must bring to the annual meeting a legal proxy from the broker or other nominee authorizing you to vote the shares.

How many shares must be present in person or by proxy to transact business at the annual meeting?

Our by-laws require that shares representing a majority of the votes entitled to be cast by the holders of common stock outstanding on the record date be present in person or by proxy at the annual meeting to constitute a quorum to transact business with regard to each of the proposals. Shares as to which holders abstain from voting as to a particular matter and broker non-votes will be counted in determining whether there is a quorum of stockholders present at the annual meeting.

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How many votes are required to approve the proposals?

The votes necessary to approve each of the proposals is as follows:

- *Election of Directors.* The six nominees receiving the highest number of votes cast at the annual meeting will be elected, regardless of whether that number represents a majority of the votes cast.
- *Other Matters.* The affirmative vote of a majority of the total number of shares cast at the meeting is needed to approve other matters to be voted on at the meeting, including the approval of the Company's Long-Term Incentive Plan and the ratification of the independent registered public accounting firm.

Abstentions and broker non-votes will not be counted as votes in favor of a proposal, and will also not be counted as votes cast or shares voting on such proposal. Accordingly, abstentions and broker non-votes will have no effect on the outcome of voting with respect to Proposal 1 (election of directors), Proposal 2 (approval of the Company's Long-Term Incentive Plan) or Proposal 3 (ratification of independent registered public accounting firm), because each of those proposals requires an affirmative vote of a plurality, in the case of Proposal 1, and a majority, in the case of Proposal 2 and Proposal 3, of the shares voting on such matter.

Who will count the votes?

The votes will be counted, tabulated and certified by our transfer agent and registrar, Computershare Trust Company, N.A. A representative of Computershare Trust Company, N.A. will serve as inspector of elections at the meeting.

What if additional proposals are presented at the annual meeting?

If other proposals are properly presented at the annual meeting for consideration, the persons named in the proxy card that accompanies this proxy statement will have the discretion to vote on those proposals for you. As of the date of the mailing of this proxy statement, we do not know of any other proposals to be presented at the annual meeting.

Will any other business be conducted at the meeting or will other matters be voted on?

The Board of Directors does not know of any other matters that may come before the meeting. If any matter properly comes before the meeting, the persons named in the proxy card that accompanies this proxy statement will exercise their judgment in deciding how to vote, or otherwise act, at the meeting with respect to that matter or proposal.

Where can I find the voting results?

We will report that voting results in our quarterly report on Form 10-Q for the second quarter of 2007, which we expect to file with the Securities and Exchange Commission, or the SEC, on or before August 14, 2007.

How and when may I submit a stockholder proposal for the 2008 annual meeting?

If you are interested in submitting a proposal for inclusion in the proxy statement for the 2008 annual meeting, you need to follow the procedures outlined in Rule 14a-8 of the Securities Exchange Act of 1934. To be eligible for inclusion, your stockholder proposal intended for inclusion in the proxy statement for the 2008 annual meeting of the stockholders must be received by us at our principal corporate offices in Palo Alto, California as set forth below no later than December 31, 2007.

If a stockholder wishes to present a proposal before the 2008 annual meeting of stockholders, but does not wish to have the proposal considered for inclusion in the proxy statement and proxy card, the stockholder must also give written notice to us at the address written below. If a stockholder fails to provide timely notice of a proposal to be presented at the 2008 annual meeting of stockholders by no later than March 16, 2008, the proxies designated by our Board of Directors will have discretionary authority to vote on that proposal.

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Any proposals or notices should be sent to:

Southwall Technologies Inc.
3788 Fabian Way
Palo Alto, California 94303
Attention: Secretary

Who will bear the costs of soliciting these proxies?

We will bear the costs of solicitation of proxies. Brokers, custodians and fiduciaries will be requested to forward proxy soliciting material to the owners of shares of our common stock they hold in their names. We will reimburse banks and brokers for their reasonable out-of-pocket expense incurred in connection with the distribution of proxy materials.

How can I obtain an Annual Report on Form 10-K?

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, is available on our website at www.southwall.com. If you would like a copy of our Annual Report, we will send you one without charge. Please contact:

Southwall Technologies Inc.
3788 Fabian Way
Palo Alto, California 94303
Attention: Investor Relations
Telephone: (650) 798-1200

Whom can I contact for more information regarding the proxy materials or voting my shares?

If you have any additional questions about the proposals in this proxy statement, you should contact Sylvia Kamenski, our Vice President, Finance, by telephone at (650) 798-1200 or by e-mail to skamenski@southwall.com.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of our proxy statement and annual report to stockholders may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you if you contact us at the following address or telephone number: Investor Relations, Southwall Technologies Inc., 3788 Fabian Way, Palo Alto, California 94303, Telephone: (650) 798-1200. If you want to receive separate copies of the proxy statement or annual report to stockholders in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address or telephone number.

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BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth material information regarding beneficial ownership of our common stock as of February 16, 2007, by:

- Each person who we know to own beneficially more than 5% of our common stock;
- Each of our current and former executive officers, for whom compensation information is provided elsewhere in this proxy statement;
 - Each director and nominee for director; and
 - all executive officers and directors as a group.

Except as noted below, the address of each person listed on the table is c/o Southwall Technologies Inc., 3788 Fabian Way, Palo Alto, California 94303, and each person has sole voting and investment power over the shares shown as beneficially owned, except to the extent authority is shared by spouses under applicable law. Beneficial ownership is determined in accordance with the rules of the SEC. The information below regarding persons beneficially owning more than 5% of our common stock is based solely on public filings made by such persons with the SEC through February 16, 2007.

Name and Address	Common Stock Beneficially Owned	Percent of Outstanding Shares(1)
Needham Investment Management, LLC (2) 445 Park Avenue New York, New York 10022	1,428,000	5.3%
Needham & Company, LLC 445 Park Avenue New York, New York 10022	2,009,807	7.4%
Needham Capital Management (Bermuda) L.L.C. (3) 445 Park Avenue New York, New York 10022	1,593,467	5.8%
Needham Capital Management, L.L.C. (4) 445 Park Avenue New York, New York 10022	9,550,838	31.9%
Dolphin Direct Equity Partners, L.P. (5) 129 East 17th Street New York, New York 10003	6,258,062	21.8%
William A. Berry (6)	74,662	*
George Boyadjieff (7)	473,929	1.7%
Jami K. Dover Nachtsheim (6)	72,692	*
Peter E. Salas (6)	15,000	*
Andre R. Horn (6)	65,000	*
Thomas G. Hood (8)	880,263	3.2%
R. Eugene Goodson	11,000	*
Sylvia Kamenski (9)	75,661	*
Wolfgang Heinze (10)	376,761	1.4%
Dennis Capovilla (11)	404,606	1.5%
Neil Bergstrom (12)	234,448	*

All current officers and directors as a group (11 persons) (13)	2,081,124	7.7%
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* Less than 1%

- (1) The number of shares of common stock deemed outstanding consists of (i) 27,139,035 shares of common stock outstanding as of February 16, 2007, and (ii) shares of common stock issuable pursuant to outstanding Series A shares, options or warrants held by the respective persons or group that are exercisable within 60 days of February 16, 2007, as set forth below.
- (2) Consists of shares of common stock owned by private investment partnerships and registered investment companies with respect to which Needham Investment Management, LLC is a general partner or investment adviser and, therefore, may be deemed to own. Needham Investment Management, LLC disclaims beneficial ownership of these shares.
- (3) Consists of 804,063 shares of common stock and 332,704 shares of common stock issuable upon conversion of Series A shares owned by Needham Capital Partners III (Bermuda), L.P. and 323,045 shares of common stock and 133,655 shares of common stock issuable upon conversion of Series A shares owned by Needham Capital Partners II (Bermuda), L.P., with respect to which, in each case, Needham Capital Management (Bermuda) L.L.C. is a general partner and, therefore, may be deemed to own. Needham Capital Management (Bermuda) L.L.C. disclaims beneficial ownership of these shares.
- (4) Consists of 2,304,511 shares of common stock and 953,557 shares of common stock issuable upon conversion of Series A shares owned by Needham Capital Partners II, L.P.; 4,034,378 shares of common stock and 1,669,338 shares of common stock issuable upon conversion of Series A shares owned by Needham Capital Partners III, L.P.; and 416,652 shares of common stock and 172,402 shares of common stock issuable upon conversion of Series A shares owned by Needham Capital Partners IIIA, L.P., with respect to which, in each case, Needham Capital Management, L.L.C. is a general partner and, therefore, may be deemed to own. Needham Capital Management, L.L.C. disclaims beneficial ownership of these shares
- (5) Includes 1,630,883 shares of common stock issuable upon conversion of Series A shares that were issued pursuant to an investment agreement.
- (6) Includes options to purchase 1,429 shares that are exercisable within 60 days of February 16, 2007.
- (7) Includes options to purchase 17,143 shares that are exercisable within 60 days of February 16, 2007.
- (8) Includes options to purchase 758,393 shares that are exercisable within 60 days of February 16, 2007.
- (9) Includes options to purchase 2,679 shares that are exercisable within 60 days of February 16, 2007.
- (10) Includes options to purchase 10,714 shares that are exercisable within 60 days of February 16, 2007.
- (11) Includes options to purchase 5,357 shares that are exercisable within 60 days of February 16, 2007.
- (12) Includes options to purchase 8,482 shares that are exercisable within 60 days of February 16, 2007.
- (13) Includes options to purchase an aggregate of 62,055 shares that are exercisable within 60 days of February 16, 2007.

PROPOSAL 1
ELECTION OF DIRECTORS

There are currently six members of our Board of Directors. The Board has fixed the number of directors for the ensuing year at six and has nominated for such positions the six people listed below. The persons named in the enclosed proxy card as proxies will vote to elect each of the nominees unless you withhold authority to vote for the election of one or more nominees by marking the proxy card to that effect. Each of the six nominees has agreed to serve, but if any of them shall become unable or unwilling to serve, the proxies, unless authority has been withheld as to such nominee, may be voted for election of a substitute nominee designated by our Board of Directors or the Board may reduce the number of directors. Proxies may not be voted for more than six persons.

There are no family relationships among any of our executive officers or directors.

The following information as of the date of this proxy statement is furnished with respect to each nominee for election as a director. The information presented includes information each director and nominee has given us about his or her age, all positions he or she holds with us, his or her principal occupation and business experience during the past five years, and the names of other publicly-held companies of which he or she serves as a director. Information about the number of shares of common stock and preferred stock beneficially owned by each director or nominee, directly and indirectly, as of February 16, 2007, appears above under the heading "Security Ownership of Certain Beneficial Owners and Management."

Name	Age
William A. Berry (1)	69
George Boyadjieff, Chairman (3)	68
R. Eugene Goodson	72
Andre R. Horn (1)(2)	78
Jami K. Dover Nachtsheim (1)(2)	48
Peter E. Salas (2)(3)	52

(1) Member of the Audit Committee.

(2) Member of the Nominating and Corporate Governance Committee.

(3) Member of the Compensation Committee.

Mr. Berry has served on our Board of Directors since May 2003. Since April 1996, Mr. Berry retired from EPRI, the Electric Power Research Institute, a non-profit energy research organization providing science and technology-based solutions to global energy companies, in December 2003. While at EPRI, Mr. Berry served as Chief Financial Officer from April 1996 to July 2003. From August 2003 to December 2003, Mr. Berry served as Special Projects Manager. From 1992 to March 1996, Mr. Berry was the Senior Vice President and Chief Financial Officer of Compression Labs, Inc., a manufacturer of visual communications systems based on digital technology, and from 1989 to 1992 was the President of Optical Shields, Inc. Mr. Berry worked at Raychem Corporation from 1967 until 1988, where he was a Corporate Vice President and Chief Administrative Officer from 1985 to 1988. He is a director of FAFCO, Inc., a manufacturer of solar pool heating systems. Mr. Berry holds a BS in industrial engineering and an MBA from Stanford University.

Mr. Boyadjieff joined our Board of Directors as Chairman in December 2003. From August 9, 2006 to October 31, 2006, Mr. Boyadjieff served as our interim Chief Executive Officer. Mr. Boyadjieff was the Chief Executive Officer of Varco International, Inc., a diversified oil service company, from 1991 through 2002, and the chairman of the Board of Directors of Varco from 1998 through 2003. Mr. Boyadjieff retired from active leadership of Varco in 2003. Mr. Boyadjieff holds a BS and an MS in mechanical engineering from the University of California at Berkeley.

Dr. Goodson served as Southwall's Chief Operating Officer from September 18, 2006 through October 31, 2006 and has served as Chief Executive Officer and President of Southwall since November 1, 2006. Dr. Goodson joined our Board of Directors in April 2006. Dr. Goodson has been the Chief Executive Officer and President of Williams Controls Inc. (OTCBB: WMCO), a manufacturer of electronic throttle controls, from July 2002 until October 2004, and the Chairman of the Board of Williams Controls since October 2004. From 1990 to 1997, Dr. Goodson was the Chairman and Chief Executive Officer of Oshkosh Truck Corporation, a developer and producer of heavy-duty on and off road trucks. After retiring from Oshkosh in 1998, Dr. Goodson became an Adjunct Professor at the University of Michigan Business School, teaching operations management. He was a director of the Executive Officer Association of American Industrial Partners, a private equity firm, from 1998 to 2005.

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Mr. Horn was appointed to our Board of Directors in February of 2006. Mr. Horn retired in 1985 as Chairman of Joy Manufacturing Co. in Pittsburgh, Pennsylvania, now known as Joy Global Inc., a manufacturer of heavy equipment. Mr. Horn served as the Chairman of Needham & Co., Inc. (“Needham”), from which position he retired in 1991, and was elected Chairman *Emeritus* of Needham. Mr. Horn is currently a director of Needham. Needham and its affiliates are the beneficial owners of approximately 42.4% of the Company’s outstanding capital stock as set forth under the heading “Security Ownership of Certain Beneficial Owners and Management.” Mr. Horn is currently a director and Chairman of the Board of REMEC, Inc., a San Diego, California manufacturer of microwave components for communications and defense electronics, which is in the process of liquidation. Mr. Horn holds a BA in Mathematics from the University of Paris and is a graduate from the Ecole des Hautes Etudes Commerciales.

Ms. Nachtsheim has been a member of our Board of Directors since April 2003. Ms. Nachtsheim retired in June 2000 after 20 years with Intel Corporation, a semiconductor chipmaker. Ms. Nachtsheim served in a variety of positions at Intel, most recently as Corporate Vice President of the Sales and Marketing Group and Director of Worldwide Marketing, from 1998 until her retirement. From January 2003 to December 2003, Ms. Nachtsheim served on the Board of Directors of Vixel Corporation, a creator of disruptive storage networking technologies. Ms. Nachtsheim is a graduate of Arizona State University with a BA in Business Management.

Mr. Salas was appointed to our Board of Directors in November of 2005. Mr. Salas has been President of Dolphin Asset Management Corporation and its related companies (“Dolphin”) since he founded it in 1988. Dolphin and its affiliates are the beneficial owners of approximately 22.0% of the Company’s outstanding capital stock, as set forth under the heading “Security Ownership of Certain Beneficial Owners and Management.” Prior to founding Dolphin, he was with J.P. Morgan Investment Management, Inc. for ten years. Mr. Salas is currently a director and Chairman of the Board of both Tengasco, Inc. (AMEX: TGC), an independent oil and gas producer, and of ACT Teleconferencing, Inc. (OTC: ACTT), a global teleconferencing provider. He is also a director of Williams Controls, Inc. (OTCBB: WMCO), a manufacturer of electronic throttle controls, and Boston Restaurant Associates, Inc. (OTCBB: BRAI), a restaurant company in the New England. Mr. Salas received an A.B. degree from Harvard in 1978.

The Board of Directors recommends a vote “FOR” the election of all of the above nominees that are nominated for election as directors.

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CORPORATE GOVERNANCE

General

We believe that good corporate governance is important to ensure that Southwall is managed for the long-term benefit of its stockholders and are committed to having sound corporate governance principles. During the past year, we continued to review our corporate governance policies and practices and to compare them to those suggested by various authorities in corporate governance and the practices of other public companies. We have also continued to review the provisions of the Sarbanes-Oxley Act of 2002, the new and proposed rules of the SEC and the Nasdaq listing standards. As noted below, we have attempted to continue to comply with Nasdaq listing standards relating to corporate governance even though we are no longer listed on Nasdaq.

You can request copies of the current charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct and Ethics, by writing to:

R. Eugene Goodson
Chief Executive Officer
c/o Southwall Technologies Inc.
3788 Fabian Way
Palo Alto, CA 94303
Phone: (650) 798-1200

Determination of Independence

Our Board of Directors has determined that none of Messrs. Berry, Horn or Salas or Ms. Nachtsheim has a material relationship with us (either directly or as a partner, shareholder or officer of an organization that has a relationship with us) and that each of these directors is “independent” within the meaning of Nasdaq’s director independence standards. In addition, our Board of Directors has determined that each of the members of each of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee has no material relationship with us (either directly or as a partner, shareholder or officer of an organization that has a relationship with us) and is “independent” within the meaning of Nasdaq’s director independence standards, other than Mr. Boyadjieff, who served as our interim Chief Executive Officer from August 9, 2006 until October 31, 2006.

Director Candidates

Our stockholders may recommend director candidates for inclusion by the Board of Directors in the slate of nominees that the Board recommends to our stockholders for election. The qualifications of recommended candidates will be reviewed by our Nominating and Corporate Governance Committee. If the Board determines to nominate a stockholder-recommended candidate and recommends his or her election as a director by the stockholders, the name will be included in our proxy card for the stockholders meeting at which his or her election is recommended.

Stockholders may recommend individuals for the Nominating and Corporate Governance Committee to consider as potential director candidates by submitting their names and background to the “Southwall Technologies Inc. Nominating and Corporate Governance Committee” c/o Southwall Technologies Inc., 3788 Fabian Way, Palo Alto, California 94303, Attention: Secretary. The Nominating and Corporate Governance Committee will consider a recommendation only if appropriate biographical information and background material is provided on a timely basis. The process followed by the Nominating and Corporate Governance Committee to identify and evaluate candidates includes requests to Board members and others for recommendations, meetings from time to time to

evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the Nominating and Corporate Governance Committee and the Board. Assuming that appropriate biographical and background material is provided for candidates recommended by stockholders, the Nominating and Corporate Governance Committee will evaluate those candidates by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members.

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In considering whether to recommend any candidate for inclusion in the Board's slate of recommended director nominees, including candidates recommended by stockholders, the Nominating and Corporate Governance Committee will apply the criteria set forth in Southwall's Corporate Governance Guidelines. These criteria include the candidate's integrity, business acumen, age, experience, commitment, diligence, conflicts of interest and the ability to act in the interest of all stockholders. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. We believe that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. We have not paid, to date, any third party a fee to assist in evaluating and identifying nominees. During 2006, Dr. Goodson was recommended to us as a candidate for the Board by Needham and Dolphin. Needham and Dolphin are each beneficial owners of more than 5% of our common stock.

Communications from Stockholders and Other Interested Parties with the Board

The Board of Directors will give appropriate attention to written communications on issues that are submitted by stockholders and other interested parties, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by committee charters, the Chairman of the Nominating and Corporate Governance Committee will, with the assistance of our legal counsel, (1) be primarily responsible for monitoring communications from stockholders and other interested parties and (2) provide copies or summaries of such communications to the other directors as he or she considers appropriate.

Communications will be forwarded to all directors if they relate to substantive matters and include suggestions or comments that the Chairman of the Nominating and Corporate Governance Committee considers to be important for the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to personal grievances and matters as to which we tend to receive repetitive or duplicative communications. Stockholders and other interested parties who wish to send communications on any topic to the Board should address such communications to:

Ms. Jami K. Dover Nachtsheim
Chair of the Nominating and Corporate Governance Committee
c/o Secretary
c/o Southwall Technologies Inc.
3788 Fabian Way
Palo Alto, CA 94303

Board of Directors Meetings and Committees

The Board of Directors has responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The Board's primary responsibility is to oversee the management of the company and, in so doing, serve the best interests of the company and its stockholders. The Board selects, evaluates and provides for the succession of executive officers and, subject to stockholder election, directors. It reviews and approves corporate objectives and strategies, and evaluates significant policies and proposed major commitments of corporate resources. It participates in decisions that have a potential major economic impact on us. Management keeps the directors informed of company activity through regular written reports and presentations at Board and committee meetings.

The Board of Directors met ten times in 2006. During 2006, each of our directors attended 75% or more of the total number of meetings of the Board of Directors and the committees of which such director was a member. The Board has standing Audit, Compensation and Nominating and Corporate Governance Committees. Each committee has a

charter that has been approved by the Board. Each committee must review the appropriateness of its charter and perform a self-evaluation at least annually. Dr. Goodson is the only director who is currently also an employee of Southwall. He does not participate in any meetings at which his compensation is evaluated. Mr. Boyadjieff was CEO/President from August 9, 2006 to October 31, 2006, and during that time did not participate in any meetings at which his compensation is evaluated. All members of all committees are non-employee directors.

Executive sessions of non-management directors will be held at least three times per year, and during 2006, there were five such sessions. The sessions are scheduled and chaired by Mr. Boyadjieff. Any non-management director can request that an additional executive session be scheduled.

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It is our current policy to have the Chairman of the Board and the Chief Executive Officer attend the annual meetings of stockholders. Two of our directors, the Chairman and the Chief Executive Officer, attended the 2006 annual meeting of stockholders.

Audit Committee

The current members of our Audit Committee are Messrs. Berry (Chairman) and Horn and Ms. Nachtsheim. Each of Messrs. Berry and Horn and Ms. Nachtsheim qualifies as an “audit committee financial expert” under SEC rules. Each of Messrs. Berry and Horn and Ms. Nachtsheim is an “independent director” under the Nasdaq rules governing the qualifications of the members of audit committees. In addition, our Board of Directors has determined that each member of the Audit Committee is financially literate. None of Messrs. Berry and Horn and Ms. Nachtsheim serve on the audit committees of more than two other public companies. The Audit Committee met four times during 2006. The responsibilities of our Audit Committee and its activities during 2006 are described in the Report of the Audit Committee contained below in this proxy statement.

Compensation Committee

The current members of the Compensation Committee are Messrs. Salas (Chairman) and Boyadjieff. The Board has determined that Mr. Salas is independent as defined under Nasdaq rules. Because he served as our interim Chief Executive Officer during a portion of 2006, Mr. Boyadjieff is not independent in accordance with the Nasdaq rules. Our Compensation Committee held nine meetings during 2006. The Compensation Committee evaluates and sets the compensation of our Chief Executive Officer and makes recommendations to our Board of Directors regarding the salaries and bonuses of our other executive officers. The Compensation Committee also oversees the evaluation of management by the Board of Directors. The Compensation Committee also grants stock options and other stock incentives (within guidelines established by our Board of Directors) to our officers and employees.

Nominating and Corporate Governance Committee

The current members of the Nominating and Corporate Governance Committee are Ms. Nachtsheim (Chair) and Messrs. Horn and Salas. The Board has determined that each of Ms. Nachtsheim and Messrs. Horn and Salas is independent as defined under Nasdaq rules. The purpose of the Nominating and Corporate Governance Committee is to identify individuals qualified to become Board members, recommend to the Board the persons to be nominated by the Board for election as directors at the annual meeting of stockholders, develop and recommend to the Board a set of corporate governance principles and oversee the evaluation of the Board. The Nominating and Corporate Governance Committee is authorized to retain any such advisers or consultants. For information relating to nominations of directors by our stockholders, see “Director Candidates” above. Our Nominating and Corporate Governance Committee met six times in 2006.

Audit Committee’s Pre-approval Policy and Procedures

Our Audit Committee pre-approves all services, including both audit and non-audit services, provided by our independent registered public accounting firm for the purpose of maintaining the independence of our independent registered public accounting firm. For audit services, each year the independent registered public accounting firm provides us with an engagement letter outlining the scope of the audit services proposed to be performed during the year, which must be formally accepted by the Audit Committee before the audit commences. The independent registered public accounting firm also submits an audit services fee proposal, which also must be approved by the Audit Committee before the audit commences.

Each year, management also submits to the Audit Committee a list of non-audit services that it recommends the independent registered public accounting firm be engaged to provide and an estimate of the fees to be paid for each. Management and the independent registered public accounting firm must each confirm to the Audit Committee that the performance of the non-audit services on the list would not compromise the independence of the independent registered public accounting firm and would be permissible under all applicable legal requirements. The Audit Committee must approve both the list of non-audit services and the budget for each such service before commencement of the work. Management and the independent registered public accounting firm report to the Audit Committee at each of its regularly scheduled meetings as to the non-audit services actually provided by the independent registered public accounting firm and the approximate fees incurred by us for those services.

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During 2006, no services were provided to us by Burr, Pilger & Mayer LLP, our independent registered public accounting firm, or any other accounting firm other than in accordance with the pre-approval policies and procedures described above.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees our financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. The primary duties and responsibilities of the Audit Committee are to: (1) select and approve our independent registered public accounting firm; (2) serve as an independent and objective party to monitor our financial reporting process and internal control systems; (3) review and appraise the audit efforts of our independent registered public accounting firm and internal audit department; (4) review the independent registered public accounting firm's fee; and (5) provide an open avenue of communication among the independent registered public accounting firm, financial and senior management and the Board of Directors.

During 2006, the Audit Committee consisted of three members, Messrs. Boyadjieff, Berry and Horn. When Mr. Boyadjieff became interim Chief Executive Officer of the Company, he resigned from the Audit Committee and Ms. Nachtsheim was appointed as his replacement on the Audit Committee. The Board of Directors has determined that the members of the Audit Committee satisfy the requirements of Nasdaq as to independence, financial literacy and expertise. In addition, the Board of Directors has determined that Mr. Berry is an audit committee financial expert as defined by the SEC and has the requisite financial sophistication to satisfy the requirements of Nasdaq. The Audit Committee operates under a written charter, approved by the Board of Directors, which was last amended in April 2004.

In fulfilling its oversight responsibilities regarding the 2006 financial statements, the Audit Committee reviewed with management the audited financial statements in the Annual Report, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Audit Committee's review included discussion with the independent registered public accounting firm of matters required to be discussed pursuant to Statement of Auditing Standards No. 61 (Codification of Statements on Auditing Standards), including the process used by management in formulating particularly sensitive accounting estimates and the basis for the conclusions of the independent registered public accounting firm regarding the reasonableness of those estimates.

The Audit Committee reviewed with the independent registered public accounting firm, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgment as to the quality, not just the acceptability, of Southwall's accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards. In addition, the Audit Committee has discussed with the independent registered public accounting firm their independence from management and Southwall, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and received by the Committee.

The Audit Committee discussed with Southwall's independent registered public accounting firm the overall scope and plans for their audits in 2007. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, the evaluations of Southwall's internal controls, and the overall quality of Southwall's financial reporting. The Audit Committee held four meetings during 2006.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the SEC.

The Audit Committee

William A. Berry (Chairman)

Jami K. Dover Nachtsheim

Andre R. Horn

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COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Program

The Compensation Committee (for purposes of this analysis, the “Committee”) of the Board has responsibility for establishing, implementing and continually monitoring adherence with Southwall’s compensation philosophy. The Committee ensures that the total compensation paid to our executive officers is fair, reasonable and competitive. The members of the Committee are Mr. Peter Salas (Chairman) and Mr. George Boyadjieff. Mr. Salas is considered an independent member of the Board under Nasdaq rules and regulations. Because he served as our interim Chief Executive Officer during a portion of 2006, Mr. Boyadjieff is not independent in accordance with the Nasdaq rules. Our Compensation Committee held nine meetings during 2006. Messrs. Salas and Boyadjieff were chosen to serve on the Committee because of their status as independent directors and their experience in compensation matters. Ms. Nachtsheim ceased to be a member of the Compensation Committee when she became a member of the Audit Committee. Dr. Goodson ceased to be a member of the Compensation Committee when he became the Chief Operating Officer of the Company on September 18, 2006.

The Compensation Committee charter, which was created in April 2004, can be found at www.southwall.com. The Committee charter can be revised by the approval of the Board and gives the Committee authority to determine or recommend to the Board for determination the Chief Executive Officer’s and other executive officers’ compensation. The Committee charter also gives the Committee authority to hire outside consultants to provide assistance in determining market levels of executive compensation. The Committee did not retain an outside compensation consultant in 2006 or 2007 as part of the process in determining executive compensation.

The Committee met nine times in 2006. The Company’s Chief Executive Officer attended three of these meetings and the Company’s Vice President, Finance attended five of these meetings. Each member of the Committee gets paid \$750 for each meeting attended in person or \$500 for each committee meeting held via teleconference. As Chairman of the Compensation Committee, Mr. Salas was paid a retainer of \$9,750 in 2006.

Throughout this proxy statement, any individual who served as our Chief Executive Officer or Vice President, Finance during fiscal 2006, as well as the other individuals included in the Summary Compensation Table below, are referred to as the “named executive officers”.

Compensation Philosophy and Objectives

The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by our company, and which aligns executives’ interests with those of the stockholders by rewarding performance above established goals, with the ultimate objective of improving stockholder value. The Committee evaluates both performance and compensation to ensure that we maintain our ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of our peer companies. To that end, the Committee believes executive compensation packages provided by Southwall to its executives, including the named executive officers, should include both cash and stock-based compensation that reward performance as measured against established goals.

Role of Executive Officers in Compensation Decisions

The Committee makes or recommends to the Board all compensation decisions for the Company’s executive officers and approves recommendations from the Board of Directors regarding equity awards to all elected officers of the Company. Decisions regarding the compensation of non-executive officers are made by the functional Vice

Presidents.

The Chief Executive Officer annually reviews the performance of each executive officer (other than the Chief Executive Officer whose performance is reviewed by the Committee). The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are made by the Committee.

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Setting Executive Compensation

Based on the foregoing objectives, the Committee has structured Southwall's annual and long-term incentive-based cash and non-cash executive compensation to motivate executives to achieve the business goals set by the company and reward the executives for achieving such goals.

In determining the particular elements of compensation that will be used to implement our overall compensation policies, the Committee takes into consideration a number of factors related to our performance, such as our earnings per share, profitability, revenue growth and operational performance, as well as competitive practices among our peer group. The Committee compares each element of compensation given to executive officers against a peer group of publicly-traded companies which consists of companies against which the Committee believes Southwall competes for talent (the "Compensation Peer Group"). The companies comprising the Compensation Peer Group, which are periodically reviewed and updated by the Committee, for 2006 consisted of 20 public companies, 19 located in Northern California and one in Colorado, with annual revenues between approximately \$40 million and \$420 million, with ten of such companies with revenues between approximately \$40 million and \$60 million.

Data on the compensation practices of the above-mentioned peer group generally is gathered through searches of publicly available information, including publicly available databases. Publicly available information does not typically include information regarding target cash compensation, so we rely upon compensation surveys (prepared by Assets Unlimited, an external compensation consultant) to benchmark target cash compensation levels against the above peer group. Peer group data is gathered with respect to base salary, bonus targets and all equity awards (including stock options, performance shares, restricted stock and long-term, cash-based awards). It does not include deferred compensation benefits or generally available benefits, such as 401(k) plans or health care coverage. We compete with many larger companies for top executive-level talent. Because of the competitive marketplace for talent, the Committee generally sets compensation for its executive officers at approximately the midpoint of compensation paid to similarly situated executives of the companies comprising the Compensation Peer Group. Variations to this objective may occur as dictated by the experience level and performance of the individual and market factors.

Compensation Components

For the fiscal year ended December 31, 2006, the principal components of compensation for the named executive officers were: (i) base salary, (ii) bonuses, (iii) long-term equity incentive compensation, (iv) retirement benefits provided under a 401(k) plan and (v) perquisites and other generally available benefit programs. We have selected these elements because each is considered useful and/or necessary to meet one or more of the principal objectives of our compensation policy. For instance, base salary and bonus target percentage are set with the goal of attracting employees and adequately compensating and rewarding them on a day-to-day basis for the time spent and the services they perform, while our equity programs are geared toward providing an incentive and reward for the achievement of long-term business objectives and retaining key talent. We believe that these elements of compensation, when combined, are effective, and will continue to be effective, in achieving the objectives of our compensation program.

Base Salary

We provide executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Base salary ranges for executive officers are determined for each executive based on his or her position and responsibility by using market data. Base salary ranges are designed so that salary opportunities for a given position will be at the midpoint of the base salary established for each range.

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During its review of base salaries for executives, the Committee primarily considers:

- market data provided by our outside consultants;
- internal review of the executive's compensation, both individually and relative to their executive officers; and
- individual performance of the executive.

Salary levels are typically considered annually as part of the company's performance review process as well as upon a promotion or other change in job responsibility. Merit based increases to salaries of executive officers are based on the Committee's assessment of the individual's performance. There were no salary increases for executive officers in 2006.

Bonuses

Bonuses also are paid in order to motivate the achievement of Southwall's business goals. Bonuses are intended to reflect an individual's accomplishment of both corporate and functional objectives, with substantially greater weight being given to achievement of corporate rather than functional objectives. In particular, approximately 70% of an executive's target bonus is based on achieving corporate objectives and is paid in cash (the "Cash Portion") and the balance on achieving the executive's functional objectives, such as profitability improvement, asset management, market position, product leadership and key products, and is paid in stock (the "Stock Portion"). These functional objectives are evaluated on a subjective basis without specific weighting among them. Achievement of the targeted goals under the bonus plan are intended to result in total cash compensation for that is competitive with Southwall's peer group, which the Committee believes is an appropriate range to enable us to attract and retain key personnel and to motivate the executives to meet our business goals.

Neither Mr. Boyadjieff nor Mr. Goodson participated in the 2006 executive bonus plan. For 2006, our other named executive officers were eligible to receive a bonus calculated as a percentage of their respective base annual salaries as follows: Mr. Hood—50%; Ms. Kamenski—20%; Mr. Heinze—30%; Mr. Capovilla—50%; and Mr. Bergstrom—30%. The actual amounts payable could have exceeded such percentages of base salary if the net income target described below had been exceeded. For 2006, the corporate objective for executive bonus plan, which determines the Cash Portion, was tied to a net income after taxes target of \$2.975 million.