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Maxwell Technologies Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions).

We will take the first question from Steve Sanders from Stephens Incorporated.

Steve Sanders - Stephens Incorporated

Just a couple of follow-on, on the China side; on the contract manufacturers, how are they doing in their ramp and in the quality control and just trying to get a sense of how well positioned they are to meet significant potential incremental orders on the bus side?

David Schramm

Yes, that's a good question. Building industries in Shenzhen, China has for the last 20 years they making part for Seagate and also for Western Digital. So, they got a quality acumen, as to what you do with hard disk drive business, which was one of the reasons we chose them. They've got a completely trained workforce. They are ISO certified. Their quality system is equivalent to ours based on the audit, we've had from various customers. We are a small portion of their business. They have space to improve the utilization. They have extra space to add capacity and I'll be going over there in about another month to discuss with them how we end up putting a second plan deal?

Steve Sanders - Stephens Incorporated

Okay, so bottom line, you're very comfortable with how they're doing?

David Schramm

Very comfortable with how they're doing, the quality, the yield has been there. We've moved the module assembly that was in Santiago and again it's very important to understand all the technology that goes into the ultracap is in how we make the electrode and how we put that package together, the interfaces if you will. So, what we have, our partners in China doing from a contract manufacturing standpoint, is nothing more than putting these together. So, we have outsourced the hands part, not the head part.

Steve Sanders - Stephens Incorporated

Okay and then do the China bus orders meets your margin expectation, your current margin expectations for the ultracapacitor business or was there an element of discounting to get the volumes in there?

David Schramm

There was no strategic pricing involved in this, Steve. These were done at a profit.

Steve Sanders - Stephens Incorporated

All right, great to hear and then more broadly, as I think about scaling up volumes in the ultracap business and I think about the electrode manufacturing, the cells, the module assembly. What are the challenges for you in terms of striking the balance between margin improvement and being positioned to serve, what could be a lot of different opportunities popping up over the next year or two?

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