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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarter ended June 30, 2004

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 1-15477

MAXWELL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**95-2390133** **(I.R.S. Employer Identification No.)**
9244 Balboa Avenue **San Diego, California** **(Address of principal executive offices)**	**92123** **(Zip Code)**

(858) 503-3300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). YES ☒ NO ☐

The number of shares of the registrant's Common Stock outstanding as of August 6, 2004 was 14,462,411 shares.

MAXWELL TECHNOLOGIES, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q

For the quarter ended June 30, 2004

PART I – Financial Information

Item 1. Consolidated Financial Statements

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K.

In the opinion of management of the Company, these unaudited statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows of Maxwell Technologies, Inc. for all periods presented.

The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for any subsequent period or for the entire year.

MAXWELL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 30, 2004	December 31, 2003
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,847	$ 9,784
Short-term investments	2,213	2,455
Trade and other accounts receivable, net	6,954	5,936
Inventories (Note 3)	8,277	7,309
Prepaid expenses and other current assets	965	1,143
Total current assets	25,256	26,627
Property, plant and equipment, net	10,625	10,769
Other intangible assets, net	1,879	2,002
Goodwill	19,165	19,478
Prepaid pension asset	4,008	3,962
Other non-currrent assets	—	175
	$ 60,933	$ 63,013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,411	$ 7,650
Accrued warranty (Note 3)	1,316	1,262
Customer deposits	419	599
Accrued employee compensation	1,844	1,653
Short-term borrowings and current portion of long-term debt (Note 8)	1,761	1,851
Deferred tax liability – current portion	401	339
Net liabilities of discontinued operations (Note 5)	1,177	1,494
Total current liabilities	13,329	14,848
Deferred tax liability – long-term portion	473	473
Long-term debt, excluding current portion	727	—
Commitments and contingencies (Notes 5, 7, and 10)		
Stockholders' equity:		
Common stock, $0.10 par value per share, 40,000 shares authorized; 14,453 and 14,339 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	1,445	1,434
Additional paid-in capital	114,054	113,221
Accumulated deficit	(71,890)	(70,310)
Accumulated other comprehensive income	2,795	3,347
Total stockholders' equity	46,404	47,692
	$ 60,933	$ 63,013

See accompanying notes to condensed consolidated financial statements.

MAXWELL TECHNOLOGIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net revenues:				
Products	$ 7,136	$ 7,915	$16,009	$15,748
License Fees	—	—	1,000	—
Total net revenues	7,136	7,915	17,009	15,748
Cost of sales	5,275	6,827	12,190	14,060
Gross profit	1,861	1,088	4,819	1,688
Operating expenses (income):				
Selling, general and administrative	1,794	2,934	4,561	6,003
Research and development	1,392	1,550	2,610	2,834
Amortization of other intangibles	19	19	38	38
Gain on sale of business	—	(235)	—	(463)
Total operating expenses	3,205	4,268	7,209	8,412
Loss from operations	(1,344)	(3,180)	(2,390)	(6,724)
Interest income, net	10	4	62	28
Other (expense) income, net	6	(19)	25	21
Loss from continuing operations before income taxes	(1,328)	(3,195)	(2,303)	(6,675)
Income tax provision (benefit)	64	13	64	19
Loss from continuing operations	(1,392)	(3,208)	(2,367)	(6,694)
Discontinued operations (Note 5):				
Income (loss) from discontinued operations, net of tax	397	(231)	787	(1,106)
Net loss	$ (995)	$ (3,439)	$ (1,580)	$ (7,800)
Net loss per common share – basic and diluted:				
Loss from continuing operations	$ (0.10)	$ (0.23)	$ (0.16)	$ (0.49)
Income (loss) from discontinued operations, net of tax	0.03	(0.02)	0.05	(0.08)
Net loss per common share	$ (0.07)	$ (0.25)	$ (0.11)	$ (0.57)
Shares used in computing net loss per common share – basic and diluted	14,455	13,774	14,416	13,758

See accompanying notes to condensed consolidated financial statements.

MAXWELL TECHNOLOGIES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Cash flows from operating activities:		
Loss from continuing operations	$(2,367)	$(6,694)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	1,665	1,941
Gain on sales of property and equipment	(81)	(26)
Gain on sales of businesses	—	(435)
Provision for losses on accounts receivable	34	248
Other non-cash items	—	172
Changes in assets and liabilities:		
Trade and other accounts receivable	(1,056)	2,288
Inventories	(994)	455
Prepaid expenses and other assets	722	(681)
Deferred income taxes	62	13
Accounts payable and accrued liabilities	(1,228)	(3,147)
Customer deposits	(180)	3,306
Accrued employee compensation	191	322
Net cash used in operating activities	(3,232)	(2,238)
Cash flows from investing activities:		
Proceeds from sale of businesses	—	496
Acquisition of property, plant and equipment	(1,772)	(1,093)
Proceeds from sale of property and equipment	17	—
Proceeds from sale of short-term investments	376	4,388
Purchases of short-term investments	(151)	(2,490)
Net cash (used in) provided by investing activities	(1,530)	1,301
Cash flows from financing activities:		
Principal payments on long-term debt and short-term borrowings	(921)	(520)
Proceeds from long-term and short-term borrowings	1,473	692
Proceeds from exercise of stock options	844	183
Net cash provided by financing activities	1,396	355
Decrease in cash and cash equivalents from continuing operations	(3,366)	(582)
Net cash provided by (used in) discontinued operations	470	(1,060)
Effect of exchange rate changes on cash and cash equivalents	(41)	36
Decrease in cash and cash equivalents	(2,937)	(1,606)
Cash and cash equivalents at beginning of period	9,784	3,545
Cash and cash equivalents at end of period	$ 6,847	$ 1,939
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 15	$ 4
Cash paid for income taxes	$ —	$ —

See accompanying notes to condensed consolidated financial statements.

NOTE 1 – DESCRIPTION OF BUSINESS

Maxwell is a leading developer and manufacturer of innovative, cost-effective energy storage and power delivery solutions. Our BOOSTCAP ® ultracapacitor cells and multi-cell modules and POWERCACHE ® backup power systems provide safe and reliable power solutions for applications in consumer and industrial electronics, transportation and telecommunications. Our CONDIS ® high-voltage grading and coupling capacitors help to ensure the safety and reliability of electric utility infrastructure and other applications involving transport, distribution and measurement of high-voltage electrical energy. Our radiation-mitigated microelectronic products include power modules, memory modules and single board computers that incorporate powerful commercial silicon for superior performance and high reliability in aerospace applications. For more information, please visit our website: www.maxwell.com .

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of Maxwell Technologies, Inc. and its subsidiaries. All significant intercompany transactions and account balances are eliminated in consolidation.

In the opinion of management of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows of Maxwell Technologies, Inc. for all periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for any subsequent period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest annual report on Form 10-K. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

The Company’s defense contracting business, which was sold in March 2001, and its PurePulse business, which was discontinued in September 2002, each of which was previously reported as a separate segment, have been classified as discontinued operations in the accompanying consolidated financial statements (Note 5). Our Winding Equipment segment, which was sold in December 2003, and which was recorded as continuing operations through the first quarter of fiscal year 2004, has now been reclassified as discontinued operations. During the second quarter of 2004, we concluded our continuing involvement in the Winding Equipment business, with the shipment of the final Metar product orders owned by Maxwell. Based on the Statement of Financial Accounting Standard (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, the results of operations related to the work in progress of our Winding Equipment business should be classified as “Discontinued Operations” in the accompanying financial statements. Accordingly, we have reclassified the results of operations of this business to reflect this determination. As a result of the reclassification of the Winding Equipment business, management has determined that the Company is operating as a single segment.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect reported amounts and related disclosures. Estimates have been prepared on the basis of the most current information available. These estimates include assessing the collectability of accounts receivable, the usage and recoverability of inventories and long-lived assets, and the incurrence of losses on warranty costs and vacant leased facilities. License fee revenue is recognized when the performance requirements have been met, the fee is fixed or determinable, and collection of fees is probable. We have net deferred tax assets before our valuation allowance, which are still available for us to use in the future to offset taxable income. The markets for the Company’s products are extremely competitive and are characterized by rapid technological change, new product development, product obsolescence and evolving industry standards. In addition, price competition is intense and significant price erosion generally occurs over the life of a product. With respect to vacant leased facilities, commercial real estate markets have been depressed due to continued poor economic conditions and spending reductions by businesses and government agencies. As a result of these and other factors, actual results could differ from the estimates used by management.

Certain prior period amounts have been reclassified to conform to the current period presentation. The Company's fiscal quarters end on the last day of the calendar month on March 31, June 30, September 30, and December 31.

Computation of Net Loss per Common Share

Basic loss per common share is calculated using the weighted average number of common shares outstanding. Diluted loss per share is calculated on the basis of the weighted average number of common shares outstanding plus the dilutive effect of outstanding stock options of the Company, assuming their exercise using the "treasury stock" method. The following table sets forth the computation of basic and diluted loss per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Numerator				
Basic:				
Loss from continuing operations	$ (1,392)	$ (3,208)	$ (2,367)	$ (6,694)
Income (loss) from discontinued operations	397	(231)	787	(1,106)
Net Loss	$ (995)	$ (3,439)	$ (1,580)	$ (7,800)
Denominator				
Basic:				
Weighted average shares outstanding	14,455	13,774	14,416	13,758
Diluted:				
Effect of dilutive securities:				
Common stock options	—	—	—	—
Total weighted average common and potential common shares outstanding	14,455	13,774	14,416	13,758
Basic and diluted net loss per common share:				
Loss from continuing operations	$ (0.10)	$ (0.23)	$ (0.16)	$ (0.49)
Income (loss) from discontinued operations	0.03	(0.02)	0.05	(0.08)
Basic and diluted net loss per common share	$ (0.07)	$ (0.25)	$ (0.11)	$ (0.57)

For the three and six-month periods ended June 30, 2004 and 2003, common stock options to purchase 1,172,348 and 975,498 shares for 2004, and 49,808 and 56,462 shares for 2003, respectively, were not included in the calculation of diluted net loss per share, as their effect would have been antidilutive.

Stock Option Plans

The Company has adopted the disclosure only provisions of Statement No. 123 of the Financial Accounting Standards Board ("FASB"), *Accounting for Stock-Based Compensation* ("Statement No. 123") as amended by SFAS No. 148, *Accounting for Stock Based Compensation – Transitions and Disclosure* . In accordance with the provisions of Statement No. 123, the Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans, and accordingly, no compensation expense has been recognized for stock options granted in the quarter ended June 30, 2004. In the quarter ended June 30, 2003, $300,000 was recognized as a compensation charge for stock options granted to the Company's former Chairman. If the Company had elected to recognize compensation cost based on the fair value method prescribed by Statement No. 123, the Company's net loss from continuing operations and diluted loss from continuing operations per share would have been adjusted to the pro forma amounts indicated below (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net loss as reported	$ (995)	$(3,439)	$(1,580)	$ (7,800)
Deduct total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	49	(2,410)	(2,844)	(4,237)
Pro forma net loss	$ (946)	$(5,849)	$(4,424)	$(12,037)
Loss per share:				
Basic and diluted–as reported	$(0.07)	$ (0.25)	$ (0.11)	$ (0.57)
Basic and diluted–pro forma	$(0.07)	$ (0.42)	$ (0.31)	$ (0.87)

The pro forma adjustments shown above are not indicative of future period pro forma adjustments when the calculation will reflect all applicable stock options. The fair value of Company options at the date of grant was estimated using the Black-Scholes option-pricing model with assumptions as follows:

Three Months Ended	Risk-Free Interest Rates	Dividend Yields	Volatility Factors	Weighted-Average Expected Terms
June 30, 2004	3.3%	0.0%	53.6%	5 years
June 30, 2003	3.3%	0.0%	62.9%	5 years
Six Months Ended				
June 30, 2004	3.5%	0.0%	56.5%	5 years
June 30, 2003	3.3%	0.0%	56.6%	5 years

Valuation Allowance for Deferred Tax Assets

A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before we are able to realize their benefit, or that future deductibility is uncertain. In general, companies that have had a recent history of operating losses are faced with a difficult burden of proof as to their ability to generate sufficient future income in order to realize the benefit of the deferred tax assets. We determined that it was appropriate, based on the history of losses, to record a valuation allowance as of June 30, 2004 against our deferred tax assets that are, more likely than not, unrealizable. The deferred tax assets are still available for us to use in the future to offset taxable income, which could result in a future recognition of a tax benefit and reduction to our effective tax rate. The provision recorded in 2004 relates to taxable income of our Swiss subsidiary which cannot be offset against other Company losses. This created a net tax provision although the Company reported a consolidated loss from continuing operations.

Revenue Recognition

We derive substantially all of our revenue from the sale of manufactured products. Such revenue is typically recognized as products are shipped and title passes to the customer. Revenue from licensing arrangements became significant during 2003 in relation to our strategic alliance with YEC, which paid us for the right to manufacture our proprietary BOOSTCAP® ultracapacitors. License fee revenue is recognized when the performance requirements have been met, the fee is fixed or determinable, and collection of fees is reasonably assured. In general, we do not offer discounts and there is no right of return. We do not provide installation services or incur post-sale obligations other than product warranty, which is accrued at the time of sale.

Recent Pronouncements

In December 2003, the FASB issued SFAS No. 132R, “ *Employers’ Disclosures about Pensions and Other Postretirement Benefits* (“Statement No. 132R”).” Statement No. 132R revises SFAS No. 132 in order to improve financial statement disclosures for defined benefit plans. Statement No. 132R requires disclosure in greater detail of plan assets, obligations, cash flows, benefit costs, and other relevant information. Disclosures in interim financial statements are also expanded to require information about various elements of pension and other postretirement benefit costs. Statement No. 132R is effective for financial statements with fiscal years ending after December 15, 2003, and the interim provisions are required for periods beginning after December 15, 2003. The adoption of this statement has not had a material impact on our results of operations or financial condition.

In January 2003, the FASB issued interpretation No. 46, Consolidation of Variable Interest Entities (“FIN 46”), as revised December 2003. This interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, addresses consolidation by business enterprises of variable interest entities (VIEs) that either: (1) do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) the equity investors lack an essential characteristic of a controlling financial interest. This interpretation applies immediately to VIEs created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. The application of FIN 46 did not have a material effect on our consolidated financial statements.

NOTE 3 – BALANCE SHEET DETAILS

Inventories

Inventories consisted of the following (in thousands):

	June 30, 2004	December 31, 2003
Inventories:		
Raw materials and purchased parts	$ 5,748	$ 5,631
Work-in-process	1,157	1,584
Finished goods	4,361	3,248
Inventory reserve	(2,989)	(3,154)
	8,277	7,309

Warranty Reserve

We accrue for our product warranty costs at the time of shipment. Product warranty costs are estimated based upon our historical experience and specific identification of the products' requirements. The following table sets forth an analysis of the warranty reserve activity for the six months ended June 30, 2004 and 2003, respectively (in thousands):

	Six Months Ended	
	June 30, 2004	June 30, 2003
Accrued Warranty:		
Beginning balance	1,262	$ 947
New product warranties	336	427
Settlement of warranties	(274)	(354)
Other changes/adjustments to warranties	(8)	(154)
Ending balance	$1,316	$ 866

NOTE 4 – COMPREHENSIVE INCOME

The components of other comprehensive income (loss) are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net loss	$(995)	$(3,439)	$(1,580)	$(7,800)
Foreign currency translation adjustments	281	278	(545)	720
Unrealized loss on securities	(8)	(23)	(7)	(62)
Comprehensive loss	$(722)	$(3,184)	$(2,132)	$(7,142)

NOTE 5 – DISCONTINUED OPERATIONS

In March 2001, the Company sold the assets of its defense contracting business in separate transactions with two buyers, for an aggregate purchase price of approximately $20.7 million. The buyers assumed certain liabilities and ongoing contractual obligations of the business and hired most of the employees of the business. The Company retained certain leases and lease obligations expiring in 2006. The lease obligations are approximately $890,000 and run through the first quarter in 2006; approximately $650,000 has been reserved for as of June 30, 2004. The Company increased the reserves for lease obligations by $250,000 in the second quarter of 2004, and reserves now cover the lease payments through October 2005. The reserves are shown separately, along with approximately $524,000 of minority interest in the equity of the business, in net liabilities of discontinued operations in the Consolidated Balance Sheet. The owner of the vacant facility is actively marketing the property for sale or lease. Additional reserves may be required if these marketing activities do not result in a sale or lease before the end of 2004.

In September 2002, the Company decided to suspend the operations of its subsidiary, PurePulse Technologies, Inc. PurePulse had been designing and developing systems that generate extremely intense, broad-spectrum, pulsed light to purify water and inactivate viruses and other pathogens that contaminate vaccines and products sourced from human or animal tissues, such as plasma derivatives, transfusion blood components and biopharmaceuticals. The Company plans to preserve its intellectual property and certain other technology assets for a possible future sale of such assets. Operating results of the discontinued operations are shown separately, net of tax, in the accompanying Consolidated Statements of Operations.

In 2003, the Company determined that its Winding Equipment business was not adding value to the Company in terms of margin contribution, technological advances, improvement in market share or contributing to improvements in economies of scale. Therefore, this line of business was sold in December 2003. Until the current fiscal quarter, we had reported the results of this business as continuing operations because of our continued involvement with contracts, customers and orders that existed prior to the sale date and that did not transfer to the buyer. Except for potential warranty obligations, these commitments have been met. Accordingly, we have determined that this business should no longer be classified as a continuing operation.

The businesses included in discontinued operations had sales aggregating $419,000, and $2.7 million in the quarters ended June 30, 2004, and June 30, 2003, respectively. Sales for the six-month periods ended June 30, 2004 and June 30, 2003 were $1.0 million and $5.1 million, respectively. The businesses included in discontinued operations had income, net of taxes, aggregating $397,000 in the quarter ended June 30, 2004, and losses, net of taxes, of $231,000 in the quarter ended June 30, 2003. Discontinued operations had income, net of taxes, aggregating $787,000 in the six-month period ended June 30, 2004, and losses, net of taxes, of $1.1 million in the six-month period ended June 30, 2003. These amounts are not included in either sales or operating loss in the accompanying Consolidated Statements of Operations.

NOTE 6 – RELATED PARTIES

We transact business with one company considered to be a related party. Our Swiss subsidiary, Maxwell SA, leases its facility from Montena SA, which owns approximately 18% of the Company’s common stock. Mr. Jose Cortes is the CEO of Montena SA and is a member of the Maxwell Technologies, Inc. Board of Directors. The amount of lease payments paid to Montena SA during the quarters ended June 30, 2004, and 2003, were approximately $193,000, and $172,000 respectively.

NOTE 7 – LEGAL PROCEEDINGS

Our subsidiary I-Bus Computing Systems has been named as a defendant in a suit filed on March 4, 2004 in the Superior Court of the State of California for the County of San Luis Obispo. This suit, *Edmonds vs. I-Bus/Phoenix, Inc.* , was filed by the plaintiff on his behalf and alleges damages concerning the repurchase of I-Bus/Phoenix, Inc. shares. While the Company’s legal counsel cannot express an opinion on this matter, management believes that any liability of the Company that may arise out of or with respect to this matter will have no material adverse effect on the financial position, results of operations or cash flows of the Company.

NOTE 8 – SHORT-TERM AND LONG-TERM BORROWING

Maxwell SA, our European subsidiary, has a 2.0 million Swiss Francs ($1.6 million as of June 30, 2004) credit agreement with a Swiss bank. Borrowings under the credit agreement bear interest at 2.2%. Borrowings under the credit agreement are secured by the assets of Maxwell SA. As of June 30, 2004, the full amount of this credit line was drawn.

In February 2004, we secured a $3.0 million credit line from a U.S. bank for working capital purposes, subject to a one-year repayment period. This line is secured by accounts receivable and assets of the Company and bears interest at the bank’s prime rate plus 1.75%, but subject to a minimum interest rate of 5.75%. The agreement requires us to maintain a minimum tangible net worth of $15 million, plus 50% of any consideration from future equity and debt transactions, plus 50% of net income in each fiscal quarter after the date of the agreement. As of June 30, 2004, none of the U.S. credit line was drawn.

At the beginning of 2004, Maxwell SA obtained a 1.2 million Swiss Franc ($908,000 as of June 30, 2004) term loan to finance the acquisition of specific capital equipment. Borrowings under the term loan are secured by the equipment being purchased. This loan bears an average interest rate of 4%, and principal repayments of 230,000 Swiss Francs will be due annually. As of June 30, 2004, $727,000 of the loan is shown as long-term debt on our Consolidated Balance Sheet. As of June 30, 2004, the full amount of the term loan was drawn.

Maxwell SA requires advances from customers for certain product lines and issues bank guarantees that give the customer the right of return of their advance if the product is not delivered by a specific date. As of June 30, 2004, we had issued guarantees of $250,000 related to these product arrangements, most of which we expect to ship to customers in 2004 and 2005.

Maxwell SA had a loan from the Montena SA pension plan for 300,000 Swiss Francs, or $250,000, at December 31, 2003. Maxwell SA repaid 100,000 Swiss Francs of this loan during the first quarter of 2004 and the remaining 200,000 Swiss Francs were repaid in the second quarter of 2004. The loan from the pension plan bore interest at the variable mortgage rate of the Banque Cantonale de Fribourg plus 1%.

NOTE 9 – DEFINED BENEFIT PLAN

We have a retirement plan for our Swiss subsidiary that under the guidance of our independent auditors is classified as a defined benefit pension plan. The pension benefit is based on compensation, length of service and credited investment earnings. The plan guarantees both a minimum rate of return as well as minimum annuity purchase rates. The Company’s funding policy with respect to the pension plan is to contribute the amount required by Swiss law, using the required percentage applied to the employee’s compensation. In addition, the employee is required to contribute an identical amount to the pension plan. This plan has a measurement date of December 31. Components of the net periodic benefit cost were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Service cost	$ 89	$ 136	$ 178	$ 273
Interest cost	124	142	248	284
Expected return on plan assets	(236)	(225)	(472)	(450)
Recognized actuarial loss (gain)	—	(544)	—	(1,089)
Net periodic cost (benefit)	$ (23)	$(491)	$ (46)	$ (982)

Total employer contributions paid during the three and six-month periods ended June 30, 2004, were $0 and $146,000, respectively. Additional employer contributions of approximately $219,000 are expected to be paid during the remainder of fiscal 2004.

NOTE 10 – CONTINGENCIES

The Company enters into indemnification agreements in the ordinary course of business in which the indemnified party is held harmless and is reimbursed for losses incurred from claims by third parties. In connection with divestitures of certain assets or businesses, the Company often provides indemnities to the buyer with respect to certain matters including, for example, environmental liabilities and unidentified liabilities related to periods prior to the disposition. Due to the uncertain nature of the indemnities, the maximum liability cannot be quantified. Liabilities for obligations are recorded where appropriate and when they can be reasonably estimated. Historically, the Company has not made significant payments for these obligations.

NOTE 11 – BUSINESS SEGMENTS

Consistent with our strategy to establish Maxwell as a leading developer and manufacturer of highly-reliable, innovative and cost-effective energy storage and power delivery solutions, we have completed the divestiture and phase-out of our Winding Equipment business segment. We are now focused on our remaining High Reliability product lines, which include ultracapacitors, high voltage capacitors, and radiation-mitigated microelectronic products.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q (this "Quarterly Report") to "Maxwell," the "Company," "we," "us," and "our" refer to Maxwell Technologies, Inc. and its subsidiaries; all references to "Maxwell SA" refer to our European subsidiary, Maxwell Technologies, SA, all references to "Electronic Components Group" refer to our former subsidiary, Maxwell Electronic Components Group, Inc., which has been merged into Maxwell; all references to "I-Bus/Phoenix" refer to our subsidiary, I-Bus/Phoenix, Inc., and its subsidiaries; and all references to "PurePulse" refer to our non-operating subsidiary, PurePulse Technologies, Inc.

FORWARD-LOOKING STATEMENTS

When used in this Quarterly Report, the words "believe," "expect," "anticipate" and similar expressions, together with other discussion of future trends or results, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements are subject to certain risks and uncertainties, including those discussed below that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date of this Quarterly Report. All of these forward-looking statements are based on estimates and assumptions made by our management, which, although believed to be reasonable, are inherently uncertain and difficult to predict; therefore, undue reliance should not be placed upon such statements. Actual results may differ materially and adversely from such statements due to known and unknown factors. The following important factors, among others, could cause our results of operations to be materially and adversely affected in future periods:

- decline in the domestic and global economy that may delay the development and introduction by our customers of products that incorporate our components and systems;
- success in the introduction and marketing of new products into existing and new markets;
- ability to manufacture existing and new products in volumes demanded by our customers and at competitive prices with adequate gross margins;
- market success of the products into which our products are integrated;
- ability in growing markets to increase our market share relative to our competitors;
- success in meeting cost-reduction goals in the restructuring and reorganizing of our businesses;
- ability to successfully integrate our businesses with operations of acquired businesses; and
- ability to finance the growth of businesses with internal resources or through outside financing at reasonable rates.

Many of these factors are beyond our control. There can be no assurance that we will not incur new or additional unforeseen costs in connection with the ongoing conduct of our business. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized.

Executive Summary

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations with an overview of our business and strategic plan. Subsequently, we provide a discussion of the different aspects of our business followed by highlights from the quarter ended June 30, 2004. We then discuss our results of operations for the quarter and six-month periods ended June 30, 2004 compared with the quarter and six-month periods ended June 30, 2003. Following our results of operations, we provide an analysis of changes in our balance sheet and cash flows, and discuss our capital requirements and financing activities in the section entitled "Liquidity and Capital Resources." Finally, we discuss our critical accounting policies, the impact of inflation on our business and new accounting pronouncements.

It should be noted that the following discussion and the historical information included therein contain forward-looking statements that are subject to risks and uncertainties, including estimates based on our judgment in determining allowance for inventory reserves, bad debt allowance, allowance for deferred tax assets and tax expenses in the future. In addition, our estimation of liquidity for fiscal year 2004 may be significantly different than our actual results. Negative changes in revenues will affect our estimation in cost of sales, research and development, selling, general and administrative and other aspects of our business.

Overview

Maxwell Technologies, Inc. is a Delaware corporation headquartered in San Diego, CA, that originally incorporated in 1965 under the name "Maxwell Laboratories, Inc." In 1996, we changed our name to Maxwell Technologies, Inc. We develop and manufacture innovative, cost-effective energy storage and power delivery solutions.

We strive to design and manufacture our products to perform reliably for the life of the products and systems into which they are integrated. We seek to achieve high reliability through the application of proprietary technologies and rigorously controlled design, development, manufacturing and test processes. This high reliability strategy emphasizes the development and marketing of products that enable us to achieve higher profit margins than commodity electronic components and systems.

Product Lines

Consistent with our strategy to establish Maxwell as a leading developer and manufacturer of highly-reliable, innovative and cost-effective energy storage and power delivery solutions, during 2003 we completed the divestiture and phase-out of all business segments which did not meet this strategy, including our electronic components tester business, magnetics-based power systems products and Winding Equipment business segment. We are now focused on our remaining High Reliability business, which is comprised of three product lines:

- *Ultracapacitors:* Our primary product, ultracapacitors, includes our BOOSTCAP ® ultracapacitor cells and multi-cell modules and POWERCACHE ® backup power systems. These products provide highly reliable power solutions for applications in consumer and industrial electronics, transportation and telecommunications.
- *High-Voltage Capacitors* : Our CONDIS ® high-voltage grading and coupling capacitors are used in electric utility infrastructure and other applications involving transport, distribution and measurement of high-voltage electrical energy.
- *Radiation-Mitigated Microelectronic Products* : Our radiation-mitigated microelectronic products include power modules, memory modules and single-board computers for applications in the space and satellite industries.

Highlights of the Quarter Ended June 30, 2004

Partially as a result of the efforts we began in 2000 to re-focus on our core product lines and to exit non-strategic businesses, we reduced our net loss for the three months ended June 30, 2004 to $995,000, or $0.07 per diluted share, from a net loss of $3.4 million, or $0.25 per diluted share, for the three months ended June 30, 2003.

During the three months ended June 30, 2004, we continued to focus on developing strategic alliances, introducing new products, and reducing product costs and operating expenses. Some of these efforts are described below:

- Our BOOSTCAP ® ultracapacitor production facility in Rossens, Switzerland was certified to the rigorous, auto industry-specific International Organization for Standardization (ISO) TS 16949 standard, confirming the Company’s competence as an automotive supplier and commitment to organizational excellence. This achievement is an important milestone in the Company’s goal of becoming a preferred ultracapacitor supplier for high-volume automotive applications.
- We have entered into a multi-year strategic development and exclusive supply agreement with Tantalus Systems Corporation to accelerate deployment of advanced meter reading and data management systems in the North American electric utility market. Tantalus will utilize BOOSTCAP ® ultracapacitors to power wireless transmitters for its utility network products. The alliance highlights Maxwell’s product application diversity and will help position us to contribute to and profit from the advancing technology for electric, gas and water utility meters.
- We have entered into a multi-year strategic supply agreement with General Hydrogen Corporation to provide our BOOSTCAP ® ultracapacitors for use in fuel cell power systems for electric lift trucks and other applications. Fuel cell systems augmented by ultracapacitors have the potential to provide an efficient, lower maintenance alternative to conventional battery power for end-users.
- NASA’s Jet Propulsion Laboratory has independently verified the testing methodologies Maxwell uses to demonstrate the fault tolerance of our SCS750 super computer for space. Our product design uses a combination of proprietary packaging and radiation-mitigated architecture to match the fault tolerance of competing products that use radiation-hardened processors, thus providing an alternative that can potentially exceed the processing power of existing components.
- Our new production line for our CONDIS High Tension capacitors is nearing completion, and the first qualification runs have been successful. We expect this new factory concept to dramatically reduce our lead times and double our available output capacity.

With the completion of these actions, the markets for our product offerings have increased and our focus on cost efficient products has driven improvements in our financial and operational performance.

At the close of the quarter ended June 30, 2004, we had approximately $6.8 million in cash and $2.2 million in short-term investments.

Results of Operations – Quarter and Six-Month Periods Ended June 30, 2004 Compared with Quarter and Six-Month Periods Ended June 30, 2003

Revenue

Revenue for the quarter ended June 30, 2004 was $7.1 million, compared with $7.9 million for the quarter ended June 30, 2003. This represents a decrease of $800,000, or 10%, from the prior year quarter. As anticipated by our focus on our strategic core products, revenue was negatively affected by a decline in our magnetics-based products.

Revenue for the six months ended June 30, 2004 was $17.0 million, compared with $15.7 million for the six months ended June 30, 2003. This represents an increase of $1.3 million, or 8%, from the prior year six-month period. Most of this revenue increase recorded in 2004 resulted from the final $1 million payment in license fees received from Yeong-Long Technologies, Inc. (“YEC”) in exchange for the right to manufacture our BOOSTCAP ® ultracapacitors in China. The license fee payment was a one-time event and is shown as a separate line item in our Consolidated Statements of Operations. In addition, the first quarter of 2004 included the final revenue generated from our low-margin magnetics-based Power Systems products, which has since been offset by growth of our three main product lines.

Gross Profit

For the three months ended June 30, 2004, gross profit was approximately $1.9 million, or 26% of revenue, compared with $1.1 million, or 14% of revenue, for the three months ended June 30, 2003. For the six months ended June 30, 2004, gross profit was approximately $4.8 million, or 28% of revenue, compared with $1.7 million, or 11% of revenue, for the prior year six-month period. Product gross profit, which excludes YEC license fees, was approximately $3.8 million, or 24% of revenue, for the six months ended June 30, 2004, compared with $1.7 million, or 11% of revenue, for the six months ended June 30, 2003. Gross profit in the three and six-month periods ended June 30, 2004 has improved compared with the prior year due to our focus on core product lines, the phase-out of low-margin product lines, and improved manufacturing efficiencies.

Total Operating Expenses

Operating expenses were $3.2 million for the three months ended June 30, 2004, compared with $4.3 million for the same period in 2003. This represents a decrease of $1.1 million, or 25%. Operating expenses for the three months ended June 30, 2004 were approximately 45% of revenue compared with 54% of revenue for the same period in 2003.

For the six months ended June 30, 2004, operating expenses were $7.2 million compared with $8.4 million for the same period in 2003. This represents a decrease of $1.2 million, or 14%. Operating expenses for the six months ended June 30, 2004 were approximately 42% of product revenue compared with 53% of revenue for the same period in 2003.

The reduction in operating expenses was due to cost reduction measures, including a reduction in labor force in the fourth quarter of 2003 and improved efficiency due to the elimination of non-strategic product lines. The phase-out of low margin products in the latter part of 2003 contributed to both gross margin improvements as well as operating expense reductions.

Selling, General & Administrative (SG&A) Expense

Selling, general and administrative (SG&A) expenses were $1.8 million for the three months ended June 30, 2004, compared with $2.9 million for the same period in 2003. This represents a decrease of $1.1 million, or 39%. As a percentage of revenue, SG&A expenses decreased to 25% for the three months ended June 30, 2004 from 37% for the three months ended June 30, 2003. In the quarter ended June 30, 2003, $300,000 was recognized as a compensation charge for stock options granted to the Company’s former Chairman.

SG&A expenses were $4.6 million for the six months ended June 30, 2004, compared with $6.0 million for the same period in 2003. This represents a decrease of $1.4 million, or 24%. As a percentage of revenue, SG&A expenses decreased to 27% for the six months ended June 30, 2004 from 38% for the prior year six-month period. During 2003, the Company recorded $800,000 (including the $300,000 noted above) in charges related to reserves against loans made to a former subsidiary and accruals for severance to the former Chairman. Reductions in labor force in the fourth quarter of 2003, as well as reductions of commission payments in 2004 also contributed to the overall decrease in the current year.

Although it is not yet possible to quantify at this time, we expect to incur expenses in the third and fourth quarters of 2004 related to our compliance activities pursuant to recently enacted section 404 of the Sarbanes-Oxley Act of 2002.

Research & Development (R&D) Expense

Research and development expenses were $1.4 million for the three months ended June 30, 2004, compared with $1.6 million for the same period in 2003. This represents a decrease of $0.2 million, or 10%. As a percentage of revenue, research and development expense was 20% for the three months ended June 30, 2004, and 2003. Research and development expenses were $2.6 million for the six months ended June 30, 2004, compared with $2.8 million for the same period in 2003. This represents a decrease of $0.2, or 8%. As a percentage of revenue, research and development expense was 15% and 18%, respectively, for the six-month periods ended June 30, 2004 and 2003. Our R&D expenses will vary slightly from quarter to quarter due to non-headcount expenses relating to materials and outside services. Our R&D efforts are mostly focused on our single-board computer and ultracapacitor electrode technologies.

Loss From Continuing Operations Before Income Taxes

The loss from continuing operations before income taxes for the quarter ended June 30, 2004 was $1.3 million, or 19% of revenue, compared with $3.2 million, or 40% of revenue, for the same period in 2003. The loss from continuing operations before income taxes for the six months ended June 30, 2004 decreased to $2.3 million, or 14% of revenue, from $6.7 million, or 42%, of revenue for the same period in 2003. The improvement in operating performance is a direct result of our focus on our three core products. This includes both higher valued, and therefore higher priced products, as well as much higher operating efficiencies and material cost reductions.

Provision (Benefit) For Income Taxes

We recorded a $64,000 income tax provision in the three months ended June 30, 2004, compared with a provision of $13,000 for the three months ended June 30, 2003. For the six months ended June 30, 2004, we recorded a $64,000 provision compared with a provision of $19,000 during the six months ended June 30, 2003. The provision recorded in 2004 relates to taxable income of our Swiss subsidiary which cannot be offset against other Company losses. This created a net tax provision although the Company reported a consolidated loss from continuing operations.

Acquisitions, Divestitures, Discontinued Operations and Other Events

Acquisitions

In July 2002, we acquired Montena Components Ltd., a provider of ultracapacitors and high-voltage capacitors to OEM customers and automated winding equipment used to produce capacitors and lithium batteries, for approximately $3.0 million in cash and 2.25 million shares of Maxwell common stock. This acquisition brought us an additional high reliability power business focused on ultracapacitors and high-voltage capacitors and additional design and production capabilities that enhanced our profile as a reliable global supplier. See “Discontinued Operations” below for a discussion of our disposition of the Winding Equipment business, which we acquired through our acquisition of Montena Components Ltd.

Divestitures

In December 2003, we sold our former I-Bus manufacturing and administrative facility in San Diego. The facility was previously classified as Assets Held for Sale at its book value of $7.4 million. Proceeds from the sale of the facility were $9.0 million, resulting in a gain of $1.2 million after payment of a loan balance with Comerica Bank and closing costs of $387,000, which was recorded in gain on sale of property and equipment in 2003.

Discontinued Operations

In December 2003, Maxwell SA (our Swiss subsidiary formerly known as Montena Components Ltd.) sold all of the fixed assets, substantially all inventory, and all warranty and employee agreement obligations of its Winding Equipment business, located in Matran, Switzerland, to Metar SA, a new company formed by the former CEO of Montena Components Ltd and a Metar SA employee. The business was sold for $324,000, and we recognized a net loss of $538,000 in 2003. We recognized aggregate revenue of $1.0 million during the first and second quarters of fiscal year 2004 which is reflected in income (loss) from discontinued operations in the accompanying financial statements. We do not expect to receive any further revenue from the winding machine business.

In June 2003, we discontinued marketing and supporting our electronic components tester business and recorded charges in cost of sales of $444,000 primarily attributable to excess inventory and equipment, $393,000 primarily attributable to warranty buy-outs, and $259,000 primarily attributable to expected future warranty returns in the quarters ended June 30, 2003, September 30, 2003 and December 31, 2003, respectively. Sales for our electronic components tester business were immaterial in all periods presented.

In March 2001, we sold our Government Systems business for $20.7 million and recorded a gain of $1.1 million, net of a $2.7 million provision mainly related to ongoing lease obligations. As of June 30, 2004, the remaining lease obligation, which expires in April 2006, was $890,000 with a reserve provision of $650,000. The reserves are shown separately, along with approximately $524,000 of minority interest in the equity of the business, in net liabilities of discontinued operations in the Consolidated Balance Sheet.

Other Events

During the third quarter of 2003, Montena SA acquired and sold a certain number of shares of its Maxwell common stock within a six-month period, generating a “short swing” profit of approximately $166,000, net of legal fees of $20,000, which is recorded as additional paid-in capital in our unaudited Consolidated Balance Sheet as of June 30, 2004.

Liquidity and Capital Resources

Changes in Cash Flow

During the six months ended June 30, 2004, we used $3.2 million of cash in operating activities, as compared with $2.2 million during the same period in 2003. In the six months ended June 30, 2004, our cash used in investing activities was $1.5 million, consisting of approximately $0.2 million in net proceeds from short-term investments offset by approximately $1.8 million in purchases of equipment. In the six months ended June 30, 2003, our equipment purchases of approximately $1.1 million were more than offset by net proceeds from the sale of short-term investments of approximately $1.9 million. This resulted in net cash provided by investing activities of $1.3 million for the six months ended June 30, 2003. Cash provided by financing activities of $1.4 million during the six months ended June 30, 2004, was generated from option exercises and net increases in long-term borrowing by Maxwell SA. Cash provided by financing activities of $355,000 during the six months ended June 30, 2003 was primarily due to net increases in short-term borrowing by Maxwell SA.

Net accounts receivable increased to $7.0 million at June 30, 2004 from $5.9 million at December 31, 2003. The increase in net accounts receivable was due to higher revenue from our High Voltage capacitor business in Switzerland and from a larger percentage of US shipments during the last month of the quarter ended June 30, 2004.

Net inventory increased to $8.3 million at June 30, 2004 from $7.3 at December 31, 2003, due primarily to delayed or canceled product launches by digital camera customers for ultracapacitors.

Accounts payable and other accrued liabilities decreased approximately $1.2 million to $6.4 million at June 30, 2004 from $7.7 million at December 31, 2003. This decrease was primarily due to lower levels of material purchases following the sale of the Winding Equipment business and the phase-out of our low margin Power System products.

Liquidity

The restructuring plan that we started in early 2000 was completed in 2003. We began realizing the benefit of the completion of our restructuring effort in the fourth quarter of 2003 and continued to realize that benefit in fiscal 2004. All indicators such as productivity, lower product cost and new product introductions have increased. The reduction of overhead and increased productivity have improved our gross margin and reduced our operating expenses in the three and six-month periods ended June 30, 2004. We believe the liquidity provided by the existing cash and cash equivalents, as well as the cash available under our line of credit, will provide sufficient capital to fund our capital equipment and working capital requirements and potential operating losses for more than the next 12 months. Failure to achieve expected cash flows or to obtain additional debt or equity investments, if necessary, could have a material adverse effect on us.

Maxwell SA requires advances from customers for certain product lines and issues bank guarantees that give the customer the right of return of their advance if the product is not delivered by a specific date. As of June 30, 2004, we had issued guarantees of $250,000 related to these product arrangements, most of which we expect to ship to customers in 2004 and 2005.

Short-term and Long-term Borrowings

Short-term Borrowings

Maxwell SA, our European subsidiary, has a 2.0 million Swiss Francs ($1.6 million as of June 30, 2004) bank credit agreement with a Swiss bank. Borrowings under the credit agreement bear interest at 2.2%. Borrowings under the credit agreement are secured by the assets of Maxwell SA. As of June 30, 2004, the full amount of this credit line was drawn.

In February 2004, we secured a $3.0 million credit line from a U.S. bank for working capital purposes, subject to a one-year repayment period. This line is secured by accounts receivable and assets of the Company and bears interest at the bank's prime rate plus 1.75%, but subject to a minimum interest rate of 5.75%. The agreement requires us to maintain a minimum tangible net worth of $15 million, plus 50% of any consideration from future equity and debt transactions, plus 50% of net income in each fiscal quarter after the date of the agreement. As of June 30, 2004, none of the U.S. credit line was drawn.

Long-term Borrowings

At the beginning of 2004, Maxwell SA obtained a 1.2 million Swiss Franc ($908,000 as of June 30, 2004) term loan to finance the acquisition of specific capital equipment. Borrowings under the term loan are secured by the equipment being purchased. This loan bears an average interest rate of 4%, and principal repayments of 230,000 Swiss Francs will be due annually. As of June 30, 2004, $727,000 of the loan is shown as long-term debt on our Consolidated Balance Sheet. As of June 30, 2004, the full amount of the term loan was drawn.

Maxwell SA had a loan from the Montena SA pension plan for 300,000 Swiss Francs, or $250,000, at December 31, 2003. Maxwell SA repaid 100,000 Swiss Francs of this loan during the first quarter of 2004 and the remaining 200,000 Swiss Francs were repaid in the second quarter of 2004. The loan from the pension plan bore interest at the variable mortgage rate of the Banque Cantonale de Fribourg plus 1%.

Contractual Obligations

The following table identifies significant contractual obligations outstanding as of June 30, 2004 (in thousands):

	Payment due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations (1)	$ 6,378	$ 1,576	$3,185	$1,617	$ —
Purchase commitments (2)	1,400	1,400	—	—	—
Debt obligations (3)	2,488	1,761	364	363	—
Total	$10,266	$ 4,737	$3,549	$1,980	$ —

(1) Operating lease obligations represent building leases and vehicle leases for management personnel at our Rossens, Switzerland, facility.

(2) Purchase commitments represent the value of small cells ordered from and produced by, YEC, Maxwell's strategic alliance manufacturer in China.

(3) Debt obligations represent long-term and short-term borrowings and current portion of long-term debt.

Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America, which we refer to as U.S. GAAP. We have used certain assumptions and judgments in the preparation of these financial statements, which assumptions and estimates may potentially affect the reported amounts of assets and liabilities and the disclosure of contingencies as well as reported amounts of revenues and expenses. The following may involve a higher degree of judgment and complexity and, as such, management assumptions and conclusions in these areas may significantly impact our results of operations.

Revenue Recognition

We derive substantially all of our revenue from the sale of manufactured products. Such revenue is typically recognized as products are shipped and title passes to the customer. Revenue from licensing arrangements became significant during 2003 in relation to our strategic alliance with YEC, which paid us for the right to manufacture our proprietary BOOSTCAP ® ultracapacitors. License fee revenue is recognized when the performance requirements have been met, the fee is fixed or determinable, and collection of fees is reasonably assured. In general, we do not offer discounts and there is no right of return. We do not provide installation services or incur post-sale obligations other than product warranty, which is accrued at the time of sale.

Accounts Receivable

We establish and maintain customer credit limits based on references, financial information, credit-worthiness and payment history. Accounts receivable consist primarily of amounts due to us from our normal business activities. We maintain an allowance for doubtful accounts to reflect anticipated bad debts based on past collection history and any specific risks identified in the portfolio. We determine our bad debt reserve based on an analysis we make to measure our reserve requirements and we establish specific reserves when we recognize the inability of our customer to pay its obligation. If we become aware of increasing negative changes in the financial condition of our customers, or if economic conditions change adversely, we may have to increase the allowance. An increase in such allowances would adversely impact our financial condition and results of operations.

Assets Held for Sale and Remaining Lease Obligation

In December 2003, we sold the building formerly occupied by I-Bus/Phoenix, which was classified as Assets Held for Sale in 2002. Proceeds from the sale of the facility were approximately $9.0 million and closing expenses were $387,000, resulting in a gain from the sale of the facility of $1.2 million in 2003.

We have provided an estimate of the remaining liability of discontinued operations of our Government Systems business associated with a remaining lease obligation, which has been recorded in discontinued operations. In making this estimate, we considered factors such as the commercial real estate market, including our estimate as to how and when we will be able to sub-lease, terminate or buy out the remaining lease obligation. Given the currently depressed commercial real estate markets and the continued spending reductions by businesses and government agencies, there can be no guarantee that we will be able to conclude this lease obligation for the amount that we have accrued, which could require additional charges. During the three months ended June 30, 2004, we increased our reserve relating to this lease obligation by $250,000.

Excess and Obsolete Inventory

We value inventories at the lower of cost or market. In assessing the ultimate realization of inventories, we make judgments as to future demand requirements and compare that with current and committed inventory levels. The markets for our products are extremely competitive and are characterized by rapid technological change, new product development, product obsolescence and evolving industry standards. In addition, price competition is intense and significant price erosion generally occurs over the life of a product. We have recorded significant charges for reserves in recent periods to reflect changes in market conditions. We believe that future events could cause changes in estimates that may have significant adverse impact on our balance sheet.

Long-Lived Assets and Other Intangible Assets

Long-lived assets such as property, plant and equipment and other intangible assets are reviewed for impairment whenever events and changes in business circumstances indicate that the carrying value of the long-lived asset may not be recoverable in accordance with SFAS No. 144, “ *Accounting for Impairment or Disposal of Long-Lived Assets”* . The most significant assumptions in the analysis of impairment involve estimates of future discounted cash flows. We use cash flow assumptions that are consistent with our business plans and consider other relevant information. If we determine that the carrying value of the long-lived asset may not be recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived assets exceeds its fair market value. If there are changes in business circumstances or in the key assumptions used in estimating undiscounted cash flows, the carrying value of our long-lived assets may need to be adjusted.

Goodwill

We account for goodwill in accordance with SFAS No. 142, “ *Goodwill and Other Intangible Assets”* . This standard requires that goodwill no longer be amortized but be subject to an annual impairment test and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. The first step consists of estimating the fair value of each reporting unit based on a discounted cash flow model using revenue and profit forecasts and comparing those estimated fair values with the carrying values of the reporting unit, which includes the allocated goodwill. If the fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill.

The implied fair value of goodwill is the residual fair value derived by deducting the fair value of a reporting unit's non-goodwill assets and liabilities from its estimated fair value, which was calculated in step one. An impairment charge would be the excess of the carrying amount of the reporting units' goodwill over the implied fair value of their goodwill.

In assessing the implied fair value of goodwill, we have made assumptions regarding estimates of future cash flows and other operating factors. The most significant assumptions in the analysis of impairment involve estimates of revenue and expense forecasts of the reporting unit. If there are changes in business circumstances in the key assumptions used in estimating the fair value of the reporting unit, the carrying value of our goodwill may require adjustment. We cannot state with certainty that we will not incur charges for impairment of goodwill in the future if the fair value of Maxwell Technologies and Maxwell SA decrease due to market conditions or other unanticipated circumstances. We may have to revise our assumptions and incur additional charges. Any additional impairment charges will adversely affect our results of operations.

Valuation Allowance for Deferred Tax Assets

A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before we are able to realize their benefit, or that future deductibility is uncertain. In general, companies that have had a recent history of operating losses are faced with a difficult burden of proof as to their ability to generate sufficient future income in order to realize the benefit of the deferred tax assets. We determined that it was appropriate, based on the history of losses, to record a valuation allowance as of June 30, 2004 against our deferred tax assets that are, more likely than not, unrealizable. The deferred tax assets are still available for us to use in the future to offset taxable income, which could result in a future recognition of a tax benefit and reduction to our effective tax rate. The provision recorded in 2004 relates to taxable income of our Swiss subsidiary which cannot be offset against other Company losses. This created a net tax provision although the Company reported a consolidated loss from continuing operations.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for the quarters ended June 30, 2004 and June 30, 2003. However, there can be no assurance that future inflation would not have an adverse impact on our operating results and financial condition.

New Accounting Pronouncements

In December 2003, the FASB issued SFAS No. 132R, which revises Statement No. 132 in order to improve financial statement disclosures for defined benefit plans. SFAS No. 132R requires disclosure in greater detail of plan assets, obligations, cash flows, benefit costs, and other relevant information. Disclosures in interim financial statements are also expanded to require information about various elements of pension and other postretirement benefit costs. SFAS No. 132R is effective for financial statements with fiscal years ending after December 15, 2003, and the interim provisions are required for periods beginning after December 15, 2003. The adoption of SFAS No. 132R has not had a material impact on our results of operations or financial condition.

In January 2003, the FASB issued FIN 46, which interprets Accounting Research Bulletin No. 51, " *Consolidated Financial Statements* ", and addresses consolidation by business enterprises of variable interest entities (VIEs) that either: (1) do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) the equity investors lack an essential characteristic of a controlling financial interest. This interpretation applies immediately to VIEs created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest that it acquired before February 1, 2003. The application of FIN 46 did not have a material effect on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have not entered into or invested in any instruments that are subject to market risk, except as follows:

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time and could have a material adverse impact on our financial results.

Foreign Currency Risk

Our primary foreign currency exposure is related to our subsidiary in Switzerland. Maxwell SA has Euro and local currency (Swiss Franc) revenue and operating expenses. Changes in these currency exchange rates impact the U.S. dollar amount of revenue and expenses. We do not hedge our currency exposures.

Interest Rate Risk

At June 30, 2004, we had a total of $2.5 million or 3.1 million Swiss Franc denominated line of credit or term debt. The carrying value of these borrowings approximates fair value due to the short maturity dates of the underlying instruments. We do not anticipate significant interest rate swings in the near future.

We invest excess cash in debt instruments of the U.S. Government and its agencies, high-quality corporate issuers and money market accounts. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. Current policies do not allow the use of interest rate derivative instruments to manage exposure to interest rate changes. As of June 30, 2004, a third party manages our $2.2 million investment portfolio under guidelines approved by our Board of Directors. The balance of our cash is invested in money market accounts with banks.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures* . Richard D. Balanson, our Chief Executive Officer, and Tesfaye Hailemichael, our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report (the “Evaluation Date”). Based on this evaluation, they believe that:

- our disclosure controls and procedures were effective to ensure that information required to be disclosed by us (including our consolidated subsidiaries) in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms; and
- our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Although we believe that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported as required, our management has been authorized to augment the current resources of our internal accounting department by adding personnel with GAAP accounting and SEC financial reporting experience. Our decision to augment our internal accounting department was designed to create redundancy of expertise in the department and is not related to any deficiencies in our financial accounting and reporting function. In addition, while we have assessed our disclosure controls and procedures and concluded that no material weaknesses exist, we took the recommendations of our former auditors seriously, and the decision to add personnel to our internal accounting department is intended to strengthen our finance organization.

In this regard, on April 26, 2004, we added a seventh director, Thomas L. Ringer, to our Board of Directors. Mr. Ringer is a former corporate executive and certified public accountant who currently serves on the boards of other public companies and possesses considerable accounting and financial expertise. In addition, on June 1, 2004, we added the position of SEC Reporting Manager to our internal accounting department. We believe that the addition of Mr. Ringer to our Board of Directors and the creation of the position of SEC Reporting Manager in our internal accounting department augments the financial expertise available to the Company.

(b) *Changes in Internal Controls over Financial Reporting* . There has not been any change in our internal control over financial reporting that occurred during our quarterly period ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we are involved in claims and litigation arising out of our operations. We maintain liability insurance, including product liability coverage, in amounts we believe to be adequate. We are not currently engaged in any legal proceedings that we expect would materially harm our business or financial condition.

Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of Maxwell Technologies, Inc. was held on May 6, 2004. At the meeting, stockholders elected two Class II directors to serve on the Board of Directors until the 2007 Annual Meeting of Stockholders or until their successors have been duly elected and qualified.

The two directors elected at the meeting were Mark Rossi and Jean Lavigne. The directors whose term of office as a director continued after the meeting are Robert Guyett, Carlton J. Eibl, José L. Cortes, and Richard D. Balanson.

The votes cast for or withheld for each nominee for office as a director were as follows:

	VOTES	
	For	**Withheld**
Mark Rossi	10,779,871	265,039
Jean Lavigne	10,782,061	262,849

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) *Exhibits*

10.1 Process Agreement between Maxwell Technologies SA and ABB Power Technologies AB dated April 16, 2004 (a portion of this exhibit has been omitted pursuant to a request for confidential treatment being filed with the Securities and Exchange Commission).

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (Section 302 Certification) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (Section 302 Certification) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 Certification), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) *Reports on Form 8-K*

On April 5, 2004, we filed a report on Form 8-K with the SEC relating to our former independent auditor's agreement with the statements made in our Form 8-K filed on March 29, 2004.

On April 26, 2004, we filed a report on Form 8-K with the SEC relating to the appointment of a seventh individual to our Board of Directors.

On April 29, 2004, we filed a report on Form 8-K with the SEC relating to the retention of our new independent auditors, McGladrey & Pullen.

On May 11, 2004, we filed a report on Form 8-K with the SEC relating to the issuance of a press release announcing our financial results for the three-month period ended March 31, 2004.

On May 14, 2004, we filed an amended report on Form 8-K with the SEC to clarify the exact date of Deloitte & Touche LLP's resignation as the Company's independent accountants.

On May 21, 2004, we filed an amended report on Form 8-K with the SEC acknowledging receipt of a letter dated May 18, 2004 from our former independent auditor, Deloitte & Touche LLP, in which Deloitte & Touche LLP agreed with the statements made in the Company's Current Report on Form 8-K/A dated May 14, 2004 and filed with the Securities and Exchange Commission on May 14, 2004.

On July 28, 2004, we filed a report on Form 8-K with the SEC relating to the issuance of a press release announcing our financial results for the three-month period ended June 30, 2004.

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.

MAXWELL TECHNOLOGIES, INC.

Date: August 9, 2004

By: /s/ Richard D. Balanson
Richard D. Balanson
President and Chief Executive Officer

Date: August 9, 2004

By: /s/ Tesfaye Hailemichael
Tesfaye Hailemichael
Vice President, Finance, Treasurer and
Chief Financial Officer (Principal
Financial and Accounting Officer)

EXHIBIT 10.1

[ABB Logo]

Doc No.	610 BI 0016
Rev. ind.	-
Date	2004-04-16
From	Lena Hammargren
Dept.	PT HV/HV/B
Phone	+46 240 783705
Fax	+46 240 782881
E-mail	lena hammargren@se.abb.com

To: Mr. Etienne Savary, Business Unit Manager HV Capacitors

Copy to:

Process Agreement

between

Maxwell Technologies SA

and

ABB Power Technologies AB

High Voltage Products/Circuit Breakers

ABB Power Technologies AB

CONTENTS

1. Parties and Purpose of the Supplier Process Agreement

This Agreement is entered into by Maxwell Technologies SA, CH-1728 Rossens, Switzerland (hereinafter "Supplier") and ABB Power Technologies AB, High Voltage Products/Circuit Breakers (hereinafter 'Buyer"). If other ABB companies join the Supplier Process Agreement, all the Appendices should be updated to contain the local Buyer specific information. A separate Supplier Process Development Plan described in chapter 20. Supplier Process Development Plan should be made separately for every company that is included in the agreement.

The purpose of this Agreement is to improve the transparency throughout the whole supply chain, to raise the level of quality, to enhance the on time delivery performance, to intensify the collaboration, and to build up industry leading logistical practices.

These goals are achieved with a concrete action plan described in chapter 20. Supplier Process Development Plan.

This Agreement is based on mutual trust and co-operation.

2. Scope of Supply and Prices

The Supplier undertakes to deliver to the Purchaser, during the Agreement period, the items described in Enclosure 1 and in accordance with the technical specification and the terms and conditions stated in this Agreement.

Prices agreed in appendix 1 are fixed during the validity of this agreement. During the agreement period the parties shall work towards reduction in costs. Reduction in costs can be achieved by, for example, change of methods of production, simplified administration or increased productivity. Reduction of costs shall lead to reduction the price payable by ABB.

It is suggested, if agreement should be renewed for a long-term period, to discuss the pricing year 2007 in month 09 year 2006.

If the parties agree to include in this agreement products other than the items described in Enclosure 1, the additional products shall be priced in accordance with the intentions of this agreement. Pricing shall in such instances be based on the price of equivalent items, adjusted with regard to any difference in costs.

3. Validity and Continuation

This Agreement shall take effect from the time it is signed by both parties and shall be valid for three years. If other companies join, it becomes effective to them on the date they sign the agreement.

The main item of this Agreement, 20. Supplier Process Development Plan, shall be reviewed minimum once per year to extend the development actions for an additional year. Thus, the Supplier Process Development Plan will always cover the next two years

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In the event the Agreement is terminated, the Supplier is obliged to return to the Buyer all property belonging the Buyer

This Agreement supersedes all other previous declarations on intent, oral or written, insofar as they are within the scope of this Agreement.

4. Designs and Technical Specifications

The Supplier must have and maintain official technical drawings from every part supplied, which are under the Supply Agreement, Enclosure 1. When the ABB Extranet—tool “Documentation & Part List” on the Advanced Supply Chain Collaboration—Internet pages is installed, this tool will be used for transferring the necessary documentation.

The supplier must inform and get an written approval from ABB in good time before proposed technical or other changes to the product, that may affect ABB’s or the end customer’s utilisation of these.

5. Co-operation and Supplier Rating

The parties shall meet minimum once per year to follow up and to further develop their co-operation. A recommended agenda for such meetings is presented in Appendix 2.

6. Stock-keeping / Responsibilities

Buyer requires an on-time-delivery performance and availability of 100%. Supplier is obliged to keep a stock level that guarantees the requirement. If needed, buffer quantities can be agreed upon in Appendix 3.

The part quantities the Buyer is responsible for in cases that result in obsolescent stock are listed in Appendix 3. If possible, an old revision is used wholly before a newer is taken in use.

7. Forecasting

The Buyer shall provide the Supplier with a forecast. The Supplier shall visit the Advanced Supply Chain Collaboration—internet pages for forecast instructions and forecast information minimum once a week according to the to the instructions found on the pages to run the online forecast report. It is recommended to run the report frequently to stay updated about the demand situation.

The Supplier has to check the sufficiency of its capacity, materials, and buffers according to the forecast plus in Appendix 4 agreed flexibility taking into account vacations and other production disruptions and either commit within one week to the quantities or inform the Buyer about possible problems in deliveries.

The Buyer shall not be obligated to place orders in accordance with any such forecast. Unless otherwise agreed Supplier accepts and agrees that such forecasts are for estimating and scheduling purposes only and shall not be deemed a guarantee of any minimum or maximum volume.

8. Orders, Order Acknowledgement, Order Changes, and Order Cancellation

The order and order acknowledgement procedure is defined in Appendix 5. The time between 1.1 (Placing order) and 1.3 (Order acknowledgement) in Picture 1 is set out in Appendix 5. Unless otherwise agreed in Appendix 5, an acknowledgement time of two working days shall be used.

The Buyer has right to change the order. If the demand for change occurs after the defined Order change time the solution has to be agreed by both parties. The terms for order changing are defined in Appendix 5.

The Buyer has right to cancel the order. If the demand for cancellation occurs after the defined Order cancellation time the solution has to be agreed by both parties. The terms for order cancellation are defined in Appendix 5. In case a better solution cannot be found, the supplier has the right to ask for a charge on percentage of completion according to Equation 1.

$$\text{cancellation compensation} = \frac{*}{*} \times *$$

In case the Supplier acknowledges a delivery time longer than the agreed in Appendix 6, the Supplier is obliged to contact the Buyer by phone and confirmed facsimile with the acknowledgement information.

9. Delivery Time

The delivery process and delivery time are defined in Appendix 6. The delivery time for each material or material group is defined as the time between 1.1 (Placing order) to 1.8 (Receiving goods), visualised in Picture 1.

Supplier shall notify Buyer in written form immediately of any deviations from the acknowledged delivery time.

The supplier has the objective to shorten the production lead times to be shorter than the delivery time. Until this goal is met, the Supplier meets the agreed delivery time and flexibility by keeping buffer stock.

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

10. Delivery Terms

The delivery term is specified per local Buyer in Appendix 7 according to Incoterms 2000.

In case the Supplier is responsible for the transportation from Supplier to Buyer location. Supplier is fully responsible for the deliveries to be exactly on time. If the transportation provider fails to perform as agreed, Supplier is required to take immediate corrective actions to minimise the harmful effects. Supplier is responsible for all costs associated with the delay and must notify Buyer immediately when delay is notified.

11. Deliveries and Transportation

Supplier shall use the Buyer's forwarder for all deliveries. Supplier shall ask the Buyer the needed forwarder information.

Partial deliveries are not allowed unless separately agreed upon in written.

The supplier shall agree procedures for express deliveries separately with Buyer case by case. The express tracking number always has to be notified to the Buyer. The Supplier is obliged to use the transportation contracts of Buyer in case the transportation cost of the express delivery is agreed to be paid by Buyer.

The Supplier shall deliver delayed deliveries in the fastest way according to the Buyers time demand. Delayed deliveries are always at the Supplier's expense. In the event of delay, the Supplier shall when delay is noticed or upon Buyer enquiry promptly by giving Buyer the first priority take such actions as are satisfactory to the Buyer to enable the delivery. Actions should include but not be limited to night work, over time, weekend work, work on religious holidays, airfreight, taxi transportation, and postponing vacations.

The Supplier will always immediately inform the Buyer when delay is expected. The Supplier shall check the late deliveries from the Advanced Supply Chain Collaboration—Internet pages once a week according to the to the instructions found on the pages.

12. Accuracy of Delivery

The Supplier is committed to 100% delivery reliability.

Both the Supplier and the Buyer shall monthly measure the Supplier's delivery reliability and report the measurements quarterly, with a quarter year summary. The exact delivery deviations are measured against acknowledged delivery date. The acknowledged delivery date shall not at any point be longer than the date calculated by using the agreed delivery time as basis.

Delivery term FCA

Responsibility of Supplier

Supplier will measure the on time delivery on monthly base to Buyer according to below:

The number of deliveries promptly made out of the total number of deliveries during the period. Only complete deliveries and error free order items shall be taken into account.

Deliveries within -7/+0 calendar days from the agreed delivery date shall be considered to have been made on time.

If the delivery performance (OTD%) is below 98% in any month, the Supplier is committed to make report of every delayed delivery including root cause analysis and corrective actions and send it to the Buyer by the 15th of the successive month. If Buyer requests monthly reporting, the Supplier shall report OTD% to the Buyer by the 5th of the successive month.

Responsibility of Buyer

Buyer will measure the on time delivery with the current business information system.

13. Liquidated Damages for Delay in Delivery

Penalty for delayed deliveries:

*% of delayed amount per working day, max *%.

14. Packing and Palletizing

The packing material shall be environmentally friendly according to ISO 14001 and appropriate for the purpose. The package material shall if required be of anti-static type in order to avoid ESD damage of electronic components. The containers or packing shall protect the material from damage in transit, facilitate further handling at Buyer and maintain optimum costing in view of the overall process. Closer information can be found on the Advanced Supply Chain Collaboration—Internet site.

15. Delivery Documents

Each delivery must be identified with delivery document(s). The packing list must include the despatch note number, order number, position number, Buyer's part number, part explanation, quantity, product line, destination, address, and a bar code including the despatch note number, order number, position number, and quantity. The packing list shall be attached to every separate pallet. Closer information can be found on the Advanced Supply Chain Collaboration—internet site. The supplier is responsible to provide the transportation company with the necessary documentation.

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

16. Customs Clearance

Supplier shall upon request prove the origin of goods and their customs code and unit weight in accordance with the nomenclature used by the EU. The deliveries have to comply with all applicable regulations e.g. US regulations, among others, the Export Control Regulations and customs regulations.

17. Invoicing

Principally electronic means are used for invoicing. The invoices shall quote Buyer's order number, position, and price. Supplier shall invoice in currency agreed in the Supply Agreement. Invoicing practice is defined in Appendix 8.

Terms of payment are 60 days net.

18. Complaints and Complaint Handling Compensations

In case the Supplier delivers a defective product or material, a replacement shall be delivered in the most effective way according to the Buyers time demand. The Buyer makes the decision whether a replacement shall be delivered. Transportation costs for these deliveries are always at Supplier's expense. The Buyer may also choose to correct the defect itself. The Buyer is allowed to compensation for costs that have been accumulated due to changing the defective product or material to a faultless one or due to Buyer correction of the defect. The Buyer may choose to receive a credit note as compensation for the defective material.

By request of the Supplier, the defect material will be sent back to Supplier if a replacement has taken place. Transportation costs for the returned parts or materials are always at Supplier's expense.

Buyer has the right to charge Supplier * EUR for every complaint made as a complaint-handling fee.

Other compensations shall be determined according to the Supply Agreement enclosure XX.

Complaint handling is defined in Appendix 9.

19. Export Control

Supplier has acquainted itself with the valid statutes on export and import control concerning the deliveries for the Buyer and is committed to abide by them or Buyer has to provide the Supplier with the needed documentation.

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* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

The Supplier shall upon demand by ABB provide, without charge to ABB, certificates of origin and other documents in order to establish the origin of the Products in accordance with relevant trade agreements

ABB Power Technology Products AB	VAT NO:	SE 556012224301
Maxwell Technologies AS	VAT NO:	140746

20. Logistics Development Plan

The Supplier Process Development Plan is a three-year development commitment between the parties and is described in detail in Appendix 10.

21. Patents and other rights

The Supplier shall hold ABB harmless for all damage that may ensue from disagreement concerning alleged or actual infringements of patents, copyright, trademarks, trade names or other rights, through the utilization of the Supplier's Products, systems. programmes or documentation,

In case of infringement, the Supplier shall, for its own account, safeguard ABB's right to continue utilizing the Products, or alter the Products so that there is no longer an infringement, or replace the Products with equivalent products so that the utilization of which does not infringe.

Rights to ideas, inventions, know-how emanating from the parties' cooperation shall vest in the originator. Where the Supplier is the originator or author, ABB shall be licensed to make use of the idea, invention, etc., in consideration of the payment of reasonable fees.

22. Confidentiality

Technical or commercial information obtained by ABB from the Supplier, and vice versa, in the course of their commercial relations, shall be treated in confidence by the recipient party for five years thereafter

The duty of confidentiality shall not apply to information:

a) already known to the recipient, when he took part thereof in the circumstances above defined;

b) properly provided by third party to the recipient; or,

c) which is or becomes generally available through other means than breach of this clause.

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23. Termination – Breach of contract

The Supplier and ABB may immediately terminate this agreement or cancel any binding order placed by giving written notice to the other party, if the other party has:

a) committed a fundamental breach of the agreement and in spite of a written demand to remedy the breach no suitable measures have been taken to do so within 30 days of receipt of such demand;

b) become unable to pay its debts or entered into compulsory or voluntary liquidation;

c) Prices agreed upon in Enclosure 1 are assumed to be competitive. Unreasonably high prices, which the parties cannot agree upon, are also cause for termination of this agreement.

24. Product liability

The Supplier shall take out necessary insurance's to protect himself and ABB against all claims and costs arising from faulty Products delivered by the Supplier.

25. Choice of law and arbitration

The parties agree to submit to arbitration in accordance with the rules of Arbitration Institute of the Stockholm Chamber of Commerce

This agreement shall be governed by Swedish law.

26. Scope

This Agreement supersedes all other previous declarations on intent, oral or written, insofar as they are within the scope of this Agreement.

Appendixes to the Agreement:

Picture 1	Order - delivery flow
Appendix 1	Products, prices
Appendix 2	Recommended agenda for seasonal meetings
Appendix 3	Buffer quantities and stock responsibilities.
Appendix 4	Forecast flexibility
Appendix 5	Order, order acknowledgement, order change, and order cancellation procedure
Appendix 6	Delivery time
Appendix 7	Delivery terms

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This Agreement has been executed in two identical copies, one for both parties.

Ludvika, 2004-04-16

ABB Power Technologies	Maxwell Technologies SA
High Voltage Products	HV Capacitors
Circuit Breakers	
/s/ Hans Linder	
Hans Linder Supply Chain Manager	Etienne Savary Business Unit Manager
/s/ Lena Hammargren	
Lena Hammargren Supplier Manager	

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[ABB Logo]		**Process agreement** Appendix 1: Products, prices, qualification tests for jointed porcelain Annexe 1 Mechanical test planned, Annexe 2 Electrical test planned in RTH / Zurich CH		
Department PTHVP/BI	Issued by: Lena Hammargren	Date: 2004-04-16	Approved by: Hans Linder	Page 1(6)

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[MAXWELL LOGO] **CONDIS**

ABB Power Technologie Product AB, LUDVIKA
HV Product / Circuit breaker

Price list HO-300551 mod.4

Standard type	Non-standard type	Make-to-order product	Type CONDIS	Maxwell drawing	Type ABB Ludvika	Voltage [kV]	Capacitance [pF]	Length [mm]	Creepage [mm]	Colour	Price/unit 2004	Price/unit* 1st July '004	Price/unit* 1st Sept 2004	Price/unit 2005	Price/unit 2006
	0-24		CDOR0028N30	T100C1480B284N30	5417030-10	100	4800	1400	4525	brown	*	*	*	*	*
	0-24		CDOR0029N80	T100C1480B284N80	5417030-15	100	4800	1400	4525	grey	*	*	*	*	*
	0-24		CDOR0022N30	T100C1160B314N30	5417029-20	110	1600	1400	4525	brown	*	*	*	*	*
	0-24		CDOR0023N80	T100C1160B314N80	5417029-25	110	1600	1400	4525	grey	*	*	*	*	*
		x	CDOR0556N80	Q130C1160B714N80	1HSB445417-8	130	1600	1785	5802	grey	*	*	*	*	*
150			CDOR0024N10	T13001160B714N10	5417029-10	130	1600	1800	5250	brown	*	*	*	*	*
	24		CDOR0025N60	T130C1160B714N60	5417029-15	130	1600	1800	5250	grey	*	*	*	*	*
	0-24		CDOR0026N30	T170C1160B864N30	5417029-30	170	1600	1950	6315	brown	*	*	*	*	*
		x	CDORC557N80	Q170C1160C064N80	1HSB4454-17-7	170	1600	2135	7192	grey	*	*	*	*	*
1000 [1]			CDOR0032N30	T170C1160C064N30	5417032-20	170	1600	2150	7180	brown	*	*	*	*	*
			CDOR0032N31	T170C1160C064N31	5417032-50	170	1600	2150	8250	brown	For standardisation, will be replaced by CDOR0032N33 5417032-70 with creepage 8800mm				
	30-150		CDOR0032N33	T170C1160C064N33	5417032-70	170	1600	2180	8800	brown	*	*	*	*	*
		x	CDOR0032N32	T170C1160C064N32	5417032-60	170	1600	2180	8800	brown	*	*	*	*	*
	36		CDORC033N80	T170C1160C064N80	5417032-25	170	1600	2150	7180	grey	*	*	*	*	*
		x	CDOR0558N80	Q130C0500B714N80	similar 5417029-10	130	500	1785	5802	grey	*	*	*	*	*
	0-24		CDOR0560N10	T130C05008714N10	1HSB445417-1	130	500	1800	5250	brown	*	*	*	*	*
	0-24		CDOR0501N60	T130C05008714N60	1HSB445417-2	130	500	1800	5250	grey	*	*	*	*	*
	0-24		CDOR0722N30	T170C05008864N30	1HSB445417-3	170	500	1950	6315	brown	*	*	*	*	*
	0-24		CDOR0723N80	T170C05008864N80	1HSB445417-4	170	500	1950	6315	grey	*	*	*	*	*
		x	CDOR0559N80	Q170C0500C064N80	similar 5417032-20	170	500	2135	7192	grey	*	*	*	*	*
	0-24		CDOR0562N30	T170C0500C064N30	1HSB445417-5	170	500	2150	7180	brown	*	*	*	*	*
	0-24		CDOR0563N80	T170C5500C064N80	1H58445417-6	170	500	2150	7100	grey	*	*	*	*	*

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

[MAXWELL LOGO] **CONDIS**

ABB Power Technologie Product AB, LUDVIKA
HV Product / Circuit breaker

Price list HO-300551 mod.4

Over Cost for painting:	*.—/capacitor
Delivery time:	see table in contract
Min quantity per delivery:	* pces
Delivery conditions:	FCA, Rossens
Payment:	30 days net (for 90 days: price increase *%)
Validity of the price list:	From date of signature to December 2006 (order entry; delivery max march 2007)
Packaging:	6pces per crates included
Treatment of the crates:	NIMP 15 included
Identification at the crates:	• acknowledgement nber (included in the crates nber) • Serial nber of capacitor A bar code will be introduced in the current 2004.
Delivery document:	One Packing list per delivery
Acknowledgement time:	4 days, for composite 10 days 14 days since 1.1.2005)
Penalties against delays in delivery:	*% of delayed amount per working day, max *%.

Glueded porcelain will be accepted when the capacitor has passed the vibration and electrical type tests according STC 12.0130 (dated: 15 march 2004)

Rossens, 15th March 2004

Etienne Savory
Maxwell technologies SA
Business Unit Manager
HV capacitors

Alain Riedo
Maxwell technologies SA
Managing Director

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Reference Insulator	MXWL capacitor type	Insulator Supplier		Mecanical Tests: Bending load test	Mecanical Tests: Burst pressure test	Mecanical Tests: Vibration test	Electrical Test: Type Test
			Date	March 2004	March 2004	April 04	April 2004
*			Place	Supplier A	Supplier A		ETH Zurich
*	CDOR0455N40	A	Test Report				
*			Requested Value	*	*	See Annexe 1	See Annexe 2
			Result				
			Date				
*			Place	Covered	Covered	Covered	Covered
*	CDOR0024N10	B	Test Report	by insulator	by insulator	by insulator	by insulator
*			Requested Value	17.14021-01	17.14021-01	17.14021-01	17.14021-01
			Result				
			Date	May 2004	May 2004	June 2004	June 2004
*			Place	Supplier B	Supplier B		ETH Zürich
*	CDOR0032N30	B	Test Report				
*			Requested Value	*	*	See Annexe 1	See Annexe 2
			Result				

15th march 2004

E. Savary

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

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[MAXWELL LOGO] **CONDIS**

Annexe 1 STC12.0130

Mechanical test planned

1.	Vibration Test	Frequence:	*	
		Increasing rate:	*	
		Nb of sweeps:	*	
		Temperature:	*	
2.	Vibration Test	Frequence:	*	
		Deplacement:	*	
		Nb of axe:	*	
		Nb of sweeps:	*	
		Temperature:	*	
3.	Mechanical shocks	Shocks:	*	
		Duration	*	
		Nb of shocks:	*	
		Nb of axe:	*	
		Temperature:	*	
4.	Mechanical shocks	Shocks:	*	Acceptance criteria according customer's specifications (as good as experience made on one piece porcelain)
		Duration:	*	
		Nb of shocks:	*	
		Nb of axe	*	
		Temperature	*	
5.	Mechanical shocks	Shocks	*	
		Duration	*	
		Nb of shocks:	*	
		Nb of axe:	*	
		Temperature:	*	
Repetition of routine test (*% of test voltage)				
4.	Mechanical shocks	Shocks	*	
		Duration	*	
		Nb of shocks:	*	
		Nb of axe:	*	
		Temperature:	*	
Repetition of routine test *% of test voltage)				
5.	Mechanical shocks	Shocks	*	Test for information (took for the limits)
		Duration	*	
		Nb of shocks:	*	
		Nb of axe:	*	
		Temperature:	*	
Repetition of routine test (*% of test voltage)				

15th march 2004 / SaE

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

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[MAXWELL LOGO] **CONDIS**

Annexe 2 STC12.0130

Electrical test planned in ETH / Zurich CH

1.	C, Loss factor measurement	*
2.	PD measurement	*
3.	Test Voltage	*
4.	PD measurement	*
5.	C. Loss factor measurement	*
6.	Switching impulse Sil *	*
7.	Lightning impulse BIL *	*
8.	Chopped lightning impulse *	*
9.	Lightning impulse BIL *	*
10.	C, Loss factor measurement	*
11.	PD measurement	*
12.	Test Voltage	*
13.	PD measurement	*
14.	C, Loss factor measurement	*

15th march 2004 / SaE

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

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The Buyer has the right to have regular meetings with the Supplier, where the suggested agenda would be the following:

Action Items

Target review

- Process plan items
  - flexibility
  - lead times
  - OTD
  - advanced transactions (EDI, kanban, VMI etc.)
- Quality
- Other

Rating

- Rating of previous quarter(s)

Last minute of meeting

- Open issues from the last meeting

Availability

- OTD reports by Buyers' Plants measured by Buyer and Supplier
- The accuracy and development of forecasts
- Volumes, rolling forecast for coming 12 months

Quality

- Quality data of supplier products
- Quality data of supplier process
- The status of complaints

Cost

- Raw material price development, availability, possible problems
- Activities to reduce cost

Processes

- Advanced transactions
- Review of logistics and transportation
- etc.

Other

- New possibilities of improvements
- Qualification and timing of new goals
- Obsolete material
- Next meeting

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[ABB Logo]			**Process agreement** Appendix 3: Buffer quantities Appendix 4: Forecast flexibility	
Department	Issued by:	Date:	Approved by:	Page
PTHVP/BI	Lena Hammargren	2004-04-16	Hans Linder	1(2)

[MAXWELL LOGO] **CONDIS**

Appendix 3

Article number	Description	Batch size	Buffer quantity	Delivery time	Transportation time	Total delivery time

[MAXWELL LOGO] **CONDIS**

Appendix 5

Local Buyer	Buyer order process	Order methode	Order acknowledgement method	Product time	Order acknowledgment working days	Order change time working days	Order cancellation time working days
ABB PT HV/HV/B	771 80 Ludvika	ASCC	ASCC	Std product	4	15	25
ABB PT HV/HV/B	771 80 Ludvika	ASCC	ASCC	Non std product	4	20	35
ABB PT HV/HV/B	771 80 Ludvika	ASCC	ASCC	Make to order product	10	25	40

Appendix 6

				Delivery time		
Local Buyer	Delivery adresse	Order methode	Product time	Delivery time excl. Transport.-time working days	Transport.- time working days	Total Delivery time working days
ABB PT HV/HV/B	ABB Power Technologies Brytarterminalen Torg 62 771 80 LUDVIKA	ASCC	Std product	25	5	30
ABB PT HV/HV/B	ABB Power Technologies Brytarterminalen Torg 62 771 80 LUDVIKA	ASCC	Non std product	50	5	55
ABB PT HV/HV/B	ABB Power Technologies Brytarterminalen Torg 62 771 80 LUDVIKA	ASCC	Make to order product	70	5	75

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[ABB Logo]

Process agreement
Appendix 10: ASCC

Department	Issued by:	Date:	Checked/approved:	Page
PTHVP/BI	Lena Hammargren	2004-04-16	Hans Linder	1(1)

Webbadress	*
Log in	*
Password	*
Login intervall for Transactions:	*
Login interval for Forecast:	*

* Certain information on this page has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT AND RULE 13A-14(A) OR 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Richard D. Balanson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Maxwell Technologies, Inc. for the quarter ended June 30, 2004.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2004

/s/ Richard D. Balanson

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT AND RULE 13A-14(A) OR 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Tesfaye Hailemichael, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Maxwell Technologies, Inc. for the quarter ended June 30, 2004.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 9, 2004

/s/ Tesfaye Hailemichael

Vice President, Finance, Treasurer and
Chief Financial Officer (Principal Financial and
Accounting Officer)

Exhibit 32

Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Solely for the purposes of complying with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Maxwell Technologies, Inc. (the "Company"), hereby certify, based on our knowledge, that the quarterly report on Form 10-Q of the Company for the quarter ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2004	/s/ Richard D. Balanson President and Chief Executive Officer
Dated: August 9, 2004	/s/ Tesfaye Hailemichael Vice President, Finance, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)