

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

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

For the quarter ended March 31, 2018  
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

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**MAXWELL TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

3888 Calle Fortunada, San Diego, California  
(Address of principal executive offices)

(858) 503-3200  
(Registrant's telephone number, including area code)

95-2390133  
(I.R.S. Employer  
Identification No.)

92123  
(Zip 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "accelerated filer", "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Act). YES

NO

The number of shares of the registrant's Common Stock outstanding as of May 3, 2018 is 38,000,620 shares.

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**PART I – Financial Information**

**Item 1. Financial Statements**

The following condensed consolidated balance sheet as of December 31, 2017 , which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements, consisting of the condensed consolidated balance sheet as of March 31, 2018 , and the condensed consolidated statements of operations and statements of comprehensive income (loss) for the three months ended March 31, 2018 and 2017 , and the condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017 , have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

The following condensed consolidated balance sheet as of December 31, 2017 , which has been derived from audited financial statements, does not include all of the information and footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 . It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 .

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates.

In the opinion of management, these unaudited statements contain all adjustments (consisting of normal recurring adjustments, except as otherwise indicated) necessary for a fair statement for the periods presented as required by Regulation S-X, Rule 10-01.

In addition, operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for any subsequent period or for the year ending December 31, 2018 .

**MAXWELL TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(in thousands, except per share and share data)**  
**(Unaudited)**

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 40,103	\$ 50,122
Trade and other accounts receivable, net of allowance for doubtful accounts of \$26 and \$36 as of March 31, 2018 and December 31, 2017, respectively	32,391	31,643
Inventories	37,485	32,228
Prepaid expenses and other current assets	3,478	2,983
Total current assets	113,457	116,976
Property and equipment, net	30,174	28,044
Intangible assets, net	11,469	11,715
Goodwill	36,636	36,061
Pension asset	12,095	11,712
Other non-current assets	845	871
Total assets	<u>\$ 204,676</u>	<u>\$ 205,379</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 32,966	\$ 32,758
Accrued employee compensation	6,624	9,070
Deferred revenue and customer deposits	6,299	6,669
Short-term borrowings and current portion of long-term debt	5,034	33
Total current liabilities	50,923	48,530
Deferred tax liability, long-term	8,433	8,762
Long-term debt, excluding current portion	35,556	35,124
Defined benefit plan liability	4,125	3,942
Other long-term liabilities	2,573	2,920
Total liabilities	101,610	99,278
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, \$0.10 par value per share, 80,000,000 shares authorized at March 31, 2018 and December 31, 2017; 38,000,620 and 37,199,519 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	3,797	3,717
Additional paid-in capital	341,897	337,541
Accumulated deficit	(256,160)	(247,233)
Accumulated other comprehensive income	13,532	12,076
Total stockholders' equity	103,066	106,101
Total liabilities and stockholders' equity	<u>\$ 204,676</u>	<u>\$ 205,379</u>

See accompanying notes to condensed consolidated financial statements.

**MAXWELL TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(in thousands, except per share data)**  
**(Unaudited)**

	Three Months Ended	
	March 31,	
	2018	2017
Revenue	\$ 28,416	\$ 26,686
Cost of revenue	22,735	20,578
Gross profit	5,681	6,108
Operating expenses:		
Selling, general and administrative	9,572	9,592
Research and development	5,532	4,706
Restructuring and exit costs	(57)	997
Total operating expenses	15,047	15,295
Loss from operations	(9,366)	(9,187)
Interest expense, net	993	63
Other components of defined benefit plans, net	(221)	(155)
Other income	—	(1)
Foreign currency exchange loss, net	89	97
Loss before income taxes	(10,227)	(9,191)
Income tax provision (benefit)	(1,022)	1,208
Net loss	\$ (9,205)	\$ (10,399)
Net loss per share		
Basic and diluted	\$ (0.25)	\$ (0.32)
Weighted average common shares outstanding:		
Basic and diluted	37,522	32,197

See accompanying notes to condensed consolidated financial statements.

**MAXWELL TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(in thousands)**  
**(Unaudited)**

	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Net loss	\$ (9,205)	\$ (10,399)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	1,437	1,312
Defined benefit plans, net of tax:		
Amortization of prior service cost, net of tax provision of \$5 and \$7 for the three months ended March 31, 2018 and 2017, respectively	19	29
Other comprehensive income (loss), net of tax	1,456	1,341
Comprehensive loss	<u>\$ (7,749)</u>	<u>\$ (9,058)</u>

See accompanying notes to condensed consolidated financial statements.

**MAXWELL TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (9,205)	\$ (10,399)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,993	2,148
Amortization of intangible assets	316	—
Non-cash interest expense	439	—
Pension and defined benefit plan cost	251	86
Stock-based compensation expense	2,624	1,538
Gain on sale of property and equipment	(4)	—
Provision for (recovery of) losses on accounts receivable	(10)	—
Provision for losses on inventory	475	17
Provision for warranties	65	189
Changes in operating assets and liabilities:		
Trade and other accounts receivable	(252)	(3,406)
Inventories	(5,994)	1,922
Prepaid expenses and other assets	(455)	(453)
Pension asset	(156)	(155)
Accounts payable and accrued liabilities	309	1,571
Deferred revenue and customer deposits	(65)	2,626
Accrued employee compensation	(776)	785
Deferred tax liability	(374)	(209)
Defined benefit plan and other long-term liabilities	(392)	(85)
<b>Net cash used in operating activities</b>	<b>(11,211)</b>	<b>(3,825)</b>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(3,918)	(945)
Proceeds from sale of property and equipment	8	—
<b>Net cash used in investing activities</b>	<b>(3,910)</b>	<b>(945)</b>
<b>FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt and short-term borrowings	(8)	(10)
Line of credit borrowings	5,000	—
<b>Net cash provided by (used in) financing activities</b>	<b>4,992</b>	<b>(10)</b>
Effect of exchange rate changes on cash and cash equivalents	110	315
<b>Decrease in cash and cash equivalents</b>	<b>(10,019)</b>	<b>(4,465)</b>
Cash and cash equivalents, beginning of period	50,122	25,359
Cash and cash equivalents, end of period	<b>\$ 40,103</b>	<b>\$ 20,894</b>

See accompanying notes to condensed consolidated financial statements.

**MAXWELL TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

Unless the context otherwise requires, all references to “Maxwell,” the “Company,” “we,” “us,” and “our,” refer to Maxwell Technologies, Inc. and its subsidiaries; all references to “Maxwell SA” refer to the Company’s Swiss subsidiary, Maxwell Technologies, SA; all references to “Nesscap Korea” refer to the Company’s Korean subsidiary, Nesscap Co., Ltd.

**Note 1 – Description of Business and Basis of Presentation**

***Description of Business***

Maxwell Technologies, Inc. is a Delaware corporation originally incorporated in 1965 under the name Maxwell Laboratories, Inc. In 1983, the Company completed an initial public offering, and in 1996, changed its name to Maxwell Technologies, Inc. The Company is headquartered in San Diego, California, and has three manufacturing facilities located in Rossens, Switzerland; Yongin, South Korea and Peoria, Arizona. In addition, the Company has two contract manufacturers located in China. Maxwell offers the following:

- *Dry Battery Electrode Technology* : The Company has developed and transformed its patented, proprietary and fundamental dry electrode manufacturing technology that has historically been used to make ultracapacitors to create a new technology that can be applied to the manufacturing of batteries, which we believe can create significant performance and cost benefits as compared to today’s state of the art lithium-ion batteries.
- *Energy Storage*: The Company’s ultracapacitor products are energy storage devices that possess a unique combination of high power density, extremely long operational life and the ability to charge and discharge very rapidly. The Company’s ultracapacitor cells, multi-cell packs and modules provide highly reliable energy storage and power delivery solutions for applications in multiple industries, including automotive, grid energy storage, wind, bus, industrial and truck. The Company’s lithium-ion capacitors are energy storage devices with the power characteristics of an ultracapacitor combined with enhanced energy storage capacity approaching that of a battery and are uniquely designed to address a variety of applications in the rail, grid, and industrial markets where energy density and weight are differentiating factors.
- *High-Voltage Capacitors*: The Company’s CONDIS<sup>®</sup> high-voltage capacitors are designed and manufactured to perform reliably for decades in all climates. These products include grading and coupling capacitors, electric voltage transformers and metering products that are used to ensure the safety and reliability of electric utility infrastructure and other applications involving transport, distribution and measurement of high-voltage electrical energy.

The Company’s products are designed and manufactured to perform reliably for the life of the products and systems into which they are integrated. The Company achieves high reliability through the application of proprietary technologies and rigorously controlled design, development, manufacturing and test processes.

***Basis of Presentation***

The accompanying condensed consolidated financial statements include the accounts of Maxwell Technologies, Inc. and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). All intercompany transactions and account balances have been eliminated in consolidation. The Company has prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the standards of accounting measurement set forth in the *Interim Reporting* Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Consequently, the Company has not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements in this Form 10-Q contain all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary to for a fair statement of 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 unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited 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 U.S. GAAP have been condensed or omitted in the accompanying interim consolidated financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

### ***Reclassifications***

In accordance with the Company's adoption of ASU No. 2017-07, non-service cost expense and income related to defined benefit plans were reclassified to "other components of defined benefit plans, net" for the three months ended March 31, 2017. See further information under Recent Accounting Pronouncements below.

"Unrealized loss on foreign currency exchange rates" for the three months ended March 31, 2017 has been reclassified to "trade and other accounts receivable" in the consolidated statements of cash flows, to conform to the current period presentation.

### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. These estimates include, but are not limited to, assessing the collectability of accounts receivable; estimates of returns, rebates, discounts and allowances in the recognition of revenue; estimated applied and unapplied production costs; production capacities; the usage and recoverability of inventories and long-lived assets; deferred income taxes; the incurrence of warranty obligations; the fair value of acquired tangible and intangible assets; impairment of goodwill and intangible assets; estimation of the cost to complete certain projects; estimation of pension assets and liabilities; estimation of employee severance benefit obligations; accruals for estimated losses for legal matters; and estimation of the value of stock-based compensation awards, including the probability that the performance criteria of restricted stock unit awards will be met.

### ***Goodwill***

Goodwill, which represents the excess of the cost of an acquired business over the net fair value assigned to its assets and liabilities, is not amortized. Instead, goodwill is assessed annually at the reporting unit level for impairment under the *Intangibles—Goodwill and Other* Topic of the FASB ASC. The Company has established December 31 as the annual impairment test date. In addition, the Company assesses goodwill in between annual test dates if an event occurs or circumstances change that could more likely than not reduce the fair value of a reporting unit below its carrying value. The Company first makes a qualitative assessment as to whether goodwill is impaired. If it is more likely than not that goodwill is impaired, the Company performs a quantitative impairment analysis to determine if goodwill is impaired. The Company may also determine to skip the qualitative assessment in any year and move directly to the quantitative test. The quantitative goodwill impairment analysis compares the reporting unit's carrying amount to its fair value. Goodwill impairment is recorded for any excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

### ***Long-Lived Assets and Intangible Assets***

The Company records intangible assets at their respective estimated fair values at the date of acquisition. Intangible assets are amortized based upon the pattern in which their economic benefit will be realized, or if this pattern cannot be reliably determined, using the straight-line method over their estimated useful lives of eight to fourteen years.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, including intangible assets, may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If the Company determines that the carrying value of the asset is not recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

### ***Warranty Obligation***

The Company provides warranties on all product sales for terms ranging from one to eight years. The Company accrues for the estimated warranty costs at the time of sale based on historical warranty experience plus any known or expected changes in warranty exposure. As of March 31, 2018 and December 31, 2017, the accrued warranty liability included in "accounts payable and accrued liabilities" in the condensed consolidated balance sheets was \$1.2 million and \$1.4 million, respectively.

**Convertible Debt**

Convertible notes are regarded as compound instruments, consisting of a liability component and an equity component. The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or at the instrument’s maturity date. The equity component is determined by deducting the amount of the liability component from the proceeds of the compound instrument as a whole. This is recognized as additional paid-in capital and included in equity, net of income tax effects, and is not subsequently remeasured. After initial measurement, the convertible notes are carried at amortized cost using the effective interest method.

**Liquidity**

On September 25, 2017, the Company issued \$40.0 million of 5.50% Convertible Senior Notes due 2022 (the “Notes”). The Company received net proceeds, after deducting the initial purchaser’s discount and offering expenses payable by the Company, of approximately \$37.3 million . The Notes bear interest at a rate of 5.50% per year, payable semi-annually in arrears on March 15 and September 15 of each year, commencing on March 15, 2018. On October 11, 2017, under a 30-day option that was exercised, the Company issued an additional \$6.0 million aggregate principal amount of convertible senior notes under the same terms and received \$5.7 million of net proceeds.

As of March 31, 2018 , the Company had approximately \$40.1 million in cash and cash equivalents, and working capital of \$62.5 million . Management believes the available cash balance will be sufficient to fund operations, obligations as they become due, and capital investments for at least the next twelve months. In addition, we have a revolving line of credit available up to a maximum of \$25.0 million , subject to a borrowing base limitation, under which borrowings of \$5.0 million are outstanding as of March 31, 2018. This facility is scheduled to expire in May 2021. In the future, we may decide to supplement existing cash and planned cash flow from operations with additional debt or equity financings.

**Net Income (Loss) per Share**

In accordance with the *Earnings Per Share* Topic of the FASB ASC, basic net income or loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted net income per share includes the impact of additional common shares that would have been outstanding if potentially dilutive common shares were issued. Potentially dilutive securities are not considered in the calculation of diluted net loss per share, as their inclusion would be anti-dilutive. The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Three Months Ended March 31,	
	2018	2017
<b>Numerator</b>		
Net loss	\$ (9,205)	\$ (10,399)
<b>Denominator</b>		
Weighted-average common shares outstanding	37,522	32,197
<b>Net loss per share</b>		
Basic and diluted	\$ (0.25)	\$ (0.32)

The following table summarizes instruments that may be convertible into common shares that are not included in the denominator used in the diluted net loss per share calculation because to do so would be anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2018	2017
Outstanding options to purchase common stock	328	352
Unvested restricted stock awards	14	58
Unvested restricted stock unit awards	3,261	2,356
Employee stock purchase plan awards	41	57
Bonus and director fees to be paid in stock awards	109	102
Convertible senior notes	7,245	—
	10,998	2,925

### ***Business Combinations***

The Company accounts for businesses it acquires in accordance with ASC Topic 805, *Business Combinations*, which allocates the fair value of the purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions. The Company may utilize third-party valuation specialists to assist the Company in the allocation. Initial purchase price allocations are subject to revision within the measurement period, not to exceed one year from the date of acquisition. Acquisition-related expenses and transaction costs associated with business combinations are expensed as incurred.

### ***Restructuring and Exit Costs***

Restructuring and exit costs involve employee-related termination costs, facility exit costs and other costs associated with restructuring activities. The Company accounts for charges resulting from operational restructuring actions in accordance with ASC Topic 420, *Exit or Disposal Cost Obligations* (“ASC 420”) and ASC Topic 712, *Compensation-Nonretirement Postemployment Benefits* (“ASC 712”).

The recognition of restructuring costs requires the Company to make certain assumptions related to the amounts of employee severance benefits, the time period over which leased facilities will remain vacant and expected sublease terms and discount rates. Estimates and assumptions are based on the best information available at the time the obligation arises. These estimates are reviewed and revised as facts and circumstances dictate; changes in these estimates could have a material effect on the amount accrued in the condensed consolidated balance sheet.

### ***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 and its related amendments provide companies with a single model for accounting for revenue arising from contracts with customers and supersedes prior revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company adopted the new accounting standard using the modified retrospective transition method effective January 1, 2018 and recorded a \$0.3 million impact to “accumulated deficit” in the Company’s consolidated balance sheet. See Note 2 for further information.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in its balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The guidance in ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. The Company’s initial evaluation of its current leases does not indicate that the adoption of this standard will have a material impact on its consolidated statements of operations. The Company expects that the adoption of the standard will have a material impact on its consolidated balance sheets for the recognition of certain operating leases as right-of-use assets and lease liabilities.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the statement of operations. The new guidance requires entities to report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the statement of operations separately from the service cost component and outside the subtotal of loss from operations. ASU 2017-07 also provides that only the service cost component is eligible for capitalization. This standard impacts the Company’s gross profit and loss from operations but has no impact on net loss or net loss per share. The Company adopted ASU 2017-07 on January 1, 2018, with adoption applied on a retrospective basis. The Company used the practical expedient that permits it to use the amounts previously disclosed in the defined benefit plans note for the prior comparative periods as the basis for applying the retrospective presentation requirements. In connection with this adoption, the Company reclassified \$83,000, \$52,000 and \$20,000 of net non-service costs and income from cost of revenue, selling, general and administrative expense and research and development expense, respectively to “defined benefit plan income, net” for the three months ended March 31, 2017.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income*, which amends the previous guidance to allow for certain tax effects “stranded” in accumulated other comprehensive income, which are impacted by the Tax Cuts and Jobs Act, to be reclassified from accumulated other comprehensive income into retained earnings. This amendment pertains only to those items impacted by the new tax law and will not apply to any future tax effects stranded in accumulated other comprehensive income. This standard is effective for the Company in the first quarter of 2019, with early adoption permitted. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes: Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118*. The Amendments in this update add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (“SAB 118”). SAB 118 directs taxpayers to consider the implications of the Tax Cuts and Jobs Act as provisional when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The Company recognized the provisional tax impacts of the Tax Cuts and Jobs Act in the fourth quarter of 2017, therefore, the Company’s subsequent adoption of ASU 2018-05 in the first quarter of 2018 had no impact on its accounting for income taxes.

There have been no other recent accounting standards, or changes in accounting standards, during the three months ended March 31, 2018, as compared with the recent accounting standards described in our Annual Report on Form 10-K, that are of material significance, or have potential material significance, to the Company.

## Note 2 – Revenue Recognition

On January 1, 2018, The Company adopted ASC 606, *Revenue from Contracts with Customers* and all the related amendments and applied it to all contracts that were not completed as of January 1, 2018 using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. Prior period amounts have not been restated and continue to be reported under the accounting standards in effect for those periods.

The Company’s adoption impact related to the recognition of certain previously deferred distributor revenue. The Company does not expect a material impact to its consolidated statements of operations on an ongoing basis from the adoption of the new standard.

The cumulative effect to the Company’s consolidated January 1, 2018 balance sheet from the adoption of the new revenue standard was as follows (in thousands):

<b>Balance Sheet</b>	<b>Balance at December 31, 2017</b>	<b>Adjustments Due to ASC 606</b>	<b>Balance at January 1, 2018</b>
<b>Assets:</b>			
Trade and other accounts receivable, net of allowance	\$ 31,643	\$ 227	\$ 31,870
Inventories	32,228	(430)	31,798
<b>Liabilities and Stockholders’ Equity:</b>			
Accounts payable and accrued liabilities	32,758	37	32,795
Deferred revenue and customer deposits	6,669	(518)	6,151
Accumulated deficit	(247,233)	278	(246,955)

The impact of adoption on the Company’s consolidated balance sheet as of March 31, 2018 and consolidated statement of operations for the three months ended March 31, 2018 was not material.

The Company’s revenues primarily result from the sale of manufactured products and reflect the consideration to which the Company expects to be entitled. The Company records revenue based on a five-step model in accordance with ASC 606. For its customer contracts, the Company identifies the performance obligations, determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when (or as) control of goods or services is transferred to the customer.

For product sales, each purchase order represents a contract with a customer and each product sold to a customer typically represents a distinct performance obligation. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of the Company's product sales are subject to ExWorks (as defined in Incoterms 2010) delivery terms and revenue is recorded at the point in time when products are picked up by the customer's freight forwarder, as the Company has determined that this is the point in time that control transfers to the customer. Certain customers have shipping terms where control does not transfer until the product is delivered to the customer's location. For these transactions, revenue is recognized at the time that the product is delivered to the customer's location.

Provisions for customer volume discounts, product returns, rebates and allowances are variable consideration and are estimated and recorded as a reduction of revenue in the same period the related product revenue is recorded. Such provisions are calculated using historical averages and adjusted for any expected changes due to current business conditions.

The Company provides assurance-type warranties on all product sales for terms ranging from one to eight years. The Company accrues for the estimated warranty costs at the time of sale based on historical warranty experience plus any known or expected changes in warranty exposure.

The Company records revenue net of sales tax, value added tax, excise tax and other taxes collected concurrent with revenue-producing activities. The Company has elected to recognize the cost for freight and shipping when control over the products sold passes to customers and revenue is recognized.

The Company's contracts with customers do not typically include extended payment terms. Payment terms vary by contract type and type of customer and generally range from 30 to 90 days from delivery.

A portion of the Company's revenue is derived from sales to distributors which represented approximately 8% of revenue for the three months ended March 31, 2018 .

Less than five percent of total revenue is derived from non-product sales. When the Company's contracts with customers require specialized services or other deliverables that are not separately identifiable from other promises in the contracts and, therefore, not distinct, then the non-distinct obligations are accounted for as a single performance obligation. For performance obligations that the Company satisfies over time, revenue is recognized by consistently applying a method of measuring progress toward complete satisfaction of that performance obligation. The Company uses the input method to recognize revenue on the basis of the Company's efforts or inputs to the satisfaction of a performance obligation relative to the total inputs expected to satisfy that performance obligation. The Company uses the actual costs incurred relative to the total estimated costs to determine its progress towards contract completion.

The following tables disaggregate the Company's revenue by product line and by shipment destination:

<b>Product Line:</b>	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	
Energy Storage (formerly Ultracapacitors)	\$	23,002
High-Voltage Capacitors		5,414
Total	\$	28,416

  

<b>Region:</b>	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	
Americas	\$	5,818
Asia Pacific		9,827
Europe		12,771
Total	\$	28,416

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The Company does not have material contract assets since revenue is recognized as control of goods are transferred or as services are performed. As of March 31, 2018 and December 31, 2017, the Company's contract liabilities primarily relate to cash received under a licensing and services agreement, amounts received in advance from a customer in connection with a specialized services contract for which revenue is recognized over time, and customer advances. Changes in the Company's contract liabilities, which are included in "deferred revenue and customer deposits" in the Company's condensed consolidated balance sheets, are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	
Beginning balance as of December 31, 2017	\$	5,331
Impact of adoption of ASC 606		(518)
Increases due to cash received from customers		1,600
Decreases due to recognition of revenue		(1,624)
Other changes		(99)
Contract liabilities as of March 31, 2018	\$	4,690

The Company has two uncompleted, non-product sale contracts with original durations of greater than one year. The transaction price allocated to performance obligations unsatisfied at March 31, 2018 in connection with these contracts is \$9.5 million. Of this amount, \$3.4 million relates to a specialized services contract which is recognized over time and is expected to be completed within one year. The other \$6.1 million relates to a licensing and services contract of which \$5.2 million relates to the licensing arrangement with revenue to be recognized at a point in time when certain conditions are met which are dependent on the customer, and therefore the timing of recognition cannot currently be estimated, and \$0.9 million relates to services which are recognized over time as the services are provided. The licensing and services arrangement also provides for royalties for product sales that use the licensed intellectual property, which will be recognized at the time the related sales occur.

**Note 3 – Balance Sheet Details (in thousands)**

***Inventories***

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Raw materials and purchased parts	\$ 14,316	\$ 12,675
Work-in-process	2,696	1,756
Finished goods	20,473	17,797
Total inventories	\$ 37,485	\$ 32,228

***Warranty***

Activity in the warranty reserve, which is included in "accounts payable and accrued liabilities" in the condensed consolidated balance sheets, is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 1,413	\$ 1,213
Product warranties issued	124	137
Settlement of warranties	(241)	(104)
Changes related to preexisting warranties	(59)	52
Ending balance	\$ 1,237	\$ 1,298

**Accumulated Other Comprehensive Income**

	Foreign Currency Translation Adjustment	Defined Benefit Pension Plan	Accumulated Other Comprehensive Income	Affected Line Items in the Statement of Operations
Balance as of December 31, 2017	\$ 12,957	\$ (881)	\$ 12,076	
Other comprehensive income before reclassification	1,437	—	1,437	
Amounts reclassified from accumulated other comprehensive income	—	19	19	Cost of Sales, Selling, General and Administrative and Research and Development Expense
Net other comprehensive income for the three months ended March 31, 2018	1,437	19	1,456	
Balance as of March 31, 2018	<u>\$ 14,394</u>	<u>\$ (862)</u>	<u>\$ 13,532</u>	

**Note 4 – Business Combination**

On April 28, 2017, the Company acquired substantially all of the assets and business of Nesscap Energy, Inc. (“Nesscap”), a developer and manufacturer of ultracapacitor products for use in transportation, renewable energy, industrial and consumer markets, in exchange for the issuance of approximately 4.1 million shares of Maxwell common stock (the “Share Consideration”) and the assumption of certain liabilities pursuant to the terms of the previously announced Arrangement Agreement dated as of February 28, 2017 between Maxwell and Nesscap (the “Nesscap Acquisition”). The value of the Share Consideration was approximately \$25.3 million based on the closing price of the Company’s common stock on April 28, 2017. Additionally, per the Arrangement Agreement, the Company paid approximately \$1.0 million of transaction taxes on behalf of the seller. The Nesscap Acquisition was effected by means of a court-approved statutory plan of arrangement and was approved by the requisite vote cast by shareholders of Nesscap at a special meeting of Nesscap’s shareholders held on April 24, 2017.

The Share Consideration represented approximately 11.3% of the outstanding shares of Maxwell, based on the number of shares of Maxwell common stock outstanding as of April 28, 2017.

The Nesscap Acquisition adds scale to the Company’s operations and expands the Company’s portfolio of ultracapacitor products.

The fair value of the purchase price consideration consisted of the following (in thousands):

Maxwell common stock	\$ 25,294
Settlement of seller’s transaction expenses	1,006
Total estimated purchase price	<u>\$ 26,300</u>

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Under this method of accounting, the Company recorded the acquisition based on the fair value of the consideration given and the cash consideration paid. The Company allocated the acquisition consideration paid to the identifiable assets acquired and liabilities assumed based on their respective fair values at the date of completion of the acquisition. Any excess of the value of consideration paid over the aggregate fair value of those net assets has been recorded as goodwill, which is attributable to expected synergies from combining operations, the acquired workforce, as well as intangible assets which do not qualify for separate recognition. The Company has allocated goodwill to a new reporting unit. The goodwill associated with the acquisition is not deductible for income tax purposes.

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The fair values of net tangible assets and intangible assets acquired were based upon the Company's estimates and assumptions at the acquisition date. The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition date (in thousands):

	<b>Fair Value</b>
Cash and cash equivalents	\$ 909
Accounts receivable	2,545
Inventories	4,397
Prepaid expenses and other assets	764
Property and equipment	3,314
Intangible assets	11,800
Accounts payable, accrued compensation and other liabilities	(5,713)
Employee severance obligation	(3,340)
<b>Total identifiable net assets</b>	<b>14,676</b>
Goodwill	11,624
<b>Total purchase price</b>	<b>\$ 26,300</b>

The fair value of inventories acquired included an acquisition accounting fair market value step-up of \$686,000. During the year ended December 31, 2017, the Company recognized \$646,000 of the step-up as a component of cost of revenue for acquired inventory sold during the period. The remaining \$40,000 related to the fair value step-up associated with the acquisition was recognized in connection with the Company's adoption of ASC 606.

For the three months ended March 31, 2017, acquisition-related costs of \$0.3 million were included in selling, general, and administrative expenses in the Company's condensed consolidated statements of operations.

The following table presents details of the identified intangible assets acquired through the Nesscap Acquisition (in thousands):

	<u>Estimated Useful Life (in years)</u>	<u>Fair Value</u>
Customer relationships - institutional	14	\$ 3,200
Customer relationships - non-institutional	10	4,400
Trademarks and trade names	10	1,500
Developed technology	8	2,700
<b>Total intangible assets</b>		<b>\$ 11,800</b>

The fair value of the \$11.8 million of identified intangible assets acquired in connection with the Nesscap Acquisition was estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. More specifically, the fair values of the customer relationship intangible assets were determined using the multi-period excess earnings method, which estimates an intangible asset's value based on the present value of the incremental after-tax cash flows attributable only to the intangible asset. The fair values of the trademark and trade names and developed technology intangible assets were valued using the relief from royalty method, which is based on the principle that ownership of the intangible asset relieves the owner of the need to pay a royalty to another party in exchange for rights to use the asset.

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The following unaudited pro forma financial information presents the combined results of operations for the three months ended March 31, 2017 as if the Nesscap Acquisition had occurred at the beginning of fiscal year 2016 (in thousands, except per share amounts):

	<u>Three Months Ended March 31,</u>	
	<u>2017</u>	
Net revenues	\$	31,852
Net loss		(11,779)
Net loss per share:		
Basic and diluted		(0.32)
Weighted average common shares outstanding:		
Basic and diluted		36,344

The unaudited pro forma information has been adjusted to reflect the following:

- Amortization expense for acquired intangibles and removal of Nesscap historical intangibles amortization
- Removal of historical Nesscap interest expenses, gains and losses related to debt not acquired
- Recognition of expense associated with the valuation of inventory acquired

The pro forma data is presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of fiscal year 2016 or of the results of future operations of the combined business. The unaudited pro forma financial information does not reflect any operating efficiencies and cost saving that may be realized from the integration of the acquisition.

Also see Note 5, *Goodwill and Intangible Assets*, for further information on goodwill and intangible assets related to the Nesscap Acquisition.

**Note 5 – Goodwill and Intangible Assets**

The change in the carrying amount of goodwill from December 31, 2017 to March 31, 2018 was as follows (in thousands):

Balance as of December 31, 2017	\$	36,061
Foreign currency translation adjustments		575
Balance as of March 31, 2018	\$	<u>36,636</u>

The composition of intangible assets subject to amortization was as follows (in thousands):

	Useful Life (in years)	Gross Initial Carrying Value	<u>As of March 31, 2018</u>		
			Cumulative Foreign Currency Translation Adjustment	Accumulated Amortization	Net Carrying Value
Customer relationships - institutional	14	\$ 3,200	\$ 214	\$ (215)	\$ 3,199
Customer relationships - non-institutional	10	4,400	285	(417)	4,268
Trademarks and trade names	10	1,500	97	(142)	1,455
Developed technology	8	2,700	170	(323)	2,547
Total intangible assets		<u>\$ 11,800</u>	<u>\$ 766</u>	<u>\$ (1,097)</u>	<u>\$ 11,469</u>

	As of December 31, 2017				
	Useful Life (in years)	Gross Initial Carrying Value	Cumulative Foreign Currency Translation Adjustment	Accumulated Amortization	Net Carrying Value
Customer relationships - institutional	14	\$ 3,200	\$ 197	\$ (156)	\$ 3,241
Customer relationships - non-institutional	10	4,400	266	(304)	4,362
Trademarks and trade names	10	1,500	90	(103)	1,487
Developed technology	8	2,700	160	(235)	2,625
Total intangible assets		\$ 11,800	\$ 713	\$ (798)	\$ 11,715

The useful life of intangible assets reflects the period the assets are expected to contribute directly or indirectly to future cash flows. Intangible assets are amortized over the useful lives of the assets utilizing the straight-line method, which is materially consistent with the pattern in which the expected benefits will be consumed, calculated using undiscounted cash flows.

For the three months ended March 31, 2018, amortization expense of \$93,000 was recorded to “cost of revenue” and \$0.2 million was recorded to “selling, general and administrative.” Estimated amortization expense for the remainder of 2018 is \$0.9 million. Estimated amortization expense for the years 2019 through 2022 is \$1.2 million each year. The expected amortization expense is an estimate and actual amounts could differ due to additional intangible asset acquisitions, changes in foreign currency rates or impairment of intangible assets.

## Note 6 – Restructuring and Exit Costs

### 2017 Restructuring Plans

In September 2017, the Company initiated a restructuring plan to optimize headcount in connection with the acquisition and integration of the assets and business of Nesscap, as well as to implement additional organizational efficiencies. Total charges for the September 2017 restructuring plan were approximately \$1.2 million, and were primarily incurred in 2017. Total net charges for the three months ended March 31, 2018 for the September 2017 restructuring plan were \$(57,000), which represented restructuring charges of \$45,000 adjusted for reversals of expense of \$102,000.

In February 2017, the Company implemented a comprehensive restructuring plan that included a wide range of organizational efficiency initiatives and other cost reduction opportunities. Total charges for the restructuring plan were approximately \$0.9 million; the plan was completed in the third quarter of 2017. For the three months ended March 31, 2017, the Company recorded \$1.0 million of restructuring charges for the February 2017 restructuring plan. Cash payments for the three months ended March 31, 2017 for the February 2017 restructuring plan were approximately \$0.3 million.

The charges related to both of the 2017 restructuring plans consist of employee severance costs and have been or will be paid in cash. The charges were recorded within “restructuring and exit costs” in the condensed consolidated statements of operations.

The following table summarizes the changes in the liabilities for each of the 2017 restructuring plans, which are recorded in “accrued employee compensation” in the Company’s condensed consolidated balance sheet for the three months ended March 31, 2018 (in thousands):

	February 2017 Plan	September 2017 Plan
	Employee Severance Costs	
Restructuring liability as of December 31, 2016	\$ —	\$ —
Costs incurred	997	1,275
Amounts paid	(855)	(431)
Accruals released	(142)	(27)
Restructuring liability as of December 31, 2017	—	817
Costs incurred	—	45
Amounts paid	—	(423)
Accruals released	—	(102)
Restructuring liability as of March 31, 2018	\$ —	\$ 337

*Adjustment to Lease Liability*

In 2015 and 2016, the Company completed a restructuring plan that consolidated U.S. manufacturing operations and disposed of the Company's microelectronics product line. In connection with this plan, in June 2015, the Company ceased use of approximately 60,000 square feet of its Peoria, AZ manufacturing facility, and determined this leased space would have no future economic benefit to the Company based on the business forecast. In the third quarter of 2017, the Company recognized additional facilities costs of \$0.2 million as restructuring charges to record an adjustment to the sublease income assumption included in the estimated future rent obligation of this leased space. The Company has recorded a liability for the future rent obligation associated with this space, net of estimated sublease income, in accordance with ASC Topic 420. As of March 31, 2018 and December 31, 2017, lease obligation liabilities related to this leased space of \$0.6 million and \$0.7 million, respectively, were included in "accounts payable and accrued liabilities" and "other long term liabilities" in the condensed consolidated balance sheets.

**Note 7 – Debt and Credit Facilities**

*Convertible Senior Notes*

On September 25, 2017 and October 11, 2017, the Company issued \$40.0 million and \$6.0 million, respectively, of 5.50% Convertible Senior Notes due 2022 (the "Notes"). The Company received net proceeds, after deducting the initial purchaser's discount and offering expenses payable by the Company, of approximately \$43.0 million. The Notes bear interest at a rate of 5.50% per year, payable semi-annually in arrears on March 15 and September 15 of each year, with payments commencing on March 15, 2018. The Notes mature on September 15, 2022, unless earlier purchased by the Company, redeemed, or converted.

The Notes are unsecured obligations of Maxwell and rank senior in right of payment to any of Maxwell's subordinated indebtedness; equal in right of payment to all of Maxwell's unsecured indebtedness that is not subordinated; effectively subordinated in right of payment to any of Maxwell's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally subordinated to all indebtedness and other liabilities (including trade payables) of Maxwell's subsidiaries.

The Notes are convertible into cash, shares of the Company's common stock, or a combination thereof, at the Company's election, upon the satisfaction of specified conditions and during certain periods as described below. The initial conversion rate is 157.5101 shares of the Company's common stock per \$1,000 principal amount of Notes, representing an initial effective conversion price of \$6.35 per share of common stock and premiums of 27% and 29% to the Company's \$5.00 and \$4.94 stock prices at the September 25, 2017 and October 11, 2017 dates of issuance, respectively. The conversion rate may be subject to adjustment upon the occurrence of certain specified events as provided in the indenture governing the Notes, dated September 25, 2017 between the Company and Wilmington Trust, National Association, as trustee (the "Indenture"), but will not be adjusted for accrued but unpaid interest. As of March 31, 2018, the if-converted value of the Notes did not exceed the principal value of the Notes.

Prior to the close of business on the business day immediately preceding June 15, 2022, the Notes will be convertible at the option of holders only upon the satisfaction of specified conditions and during certain periods. Thereafter until the close of business on the business day immediately preceding maturity, the Notes will be convertible at the option of the holders at any time regardless of these conditions.

Upon the occurrence of certain fundamental changes involving the Company, holders of the Notes may require the Company to repurchase for cash all or part of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date.

The Company may not redeem the Notes prior to September 20, 2020. The Company may redeem the Notes, at its option, in whole or in part on or after September 20, 2020 if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days.

The Company considered the features embedded in the Notes, that is, the conversion feature, the Company's call feature, and the make-whole feature, and concluded that they are not required to be bifurcated and accounted for separately from the host debt instrument.

The Notes included an initial purchaser's discount of \$2.5 million, or 5.5%. This discount is recorded as an offset to the debt and is amortized over the expected life of the Notes using the effective interest method.

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Upon conversion by the holders, the Company may elect to settle such conversion in shares of its common stock, cash, or a combination thereof. As a result of its cash conversion option, the Company segregated the liability component of the instrument from the equity component. The liability component was measured by estimating the fair value of a non-convertible debt instrument that is similar in its terms to the Notes. The calculation of the fair value of the debt component required the use of Level 3 inputs, including utilization of credit assumptions and high yield bond indices. Fair value was estimated using an income approach, through discounting future interest and principal payments due under the Notes at a discount rate of 12.0% , an interest rate equal to the estimated borrowing rate for similar non-convertible debt. The excess of the initial proceeds from the Notes over the estimated fair value of the liability component was \$8.5 million and was recognized as a debt discount and recorded as an increase to additional paid-in capital, and will be amortized over the expected life of the Notes using the effective interest method. Amortization of the debt discount is recognized as non-cash interest expense.

The transaction costs of \$0.5 million incurred in connection with the issuance of the Notes were allocated to the liability and equity components based on their relative values. Transaction costs allocated to the liability component are being amortized using the effective interest method and recognized as non-cash interest expense over the expected term of the Notes. Transaction costs allocated to the equity component of \$0.1 million reduced the value of the equity component recognized in stockholders' equity.

The initial purchaser debt discount, the equity component debt discount and the transaction costs allocated to the liability are being amortized over the contractual term to maturity of the Notes using an effective interest rate of 12.2% .

The carrying value of the Notes is as follows (in thousands):

	March 31, 2018	December 31, 2017
Principal amount	\$ 46,000	\$ 46,000
Unamortized debt discount - equity component	(7,817)	(8,144)
Unamortized debt discount - initial purchaser	(2,334)	(2,431)
Unamortized transaction costs	(368)	(383)
Net carrying value	\$ 35,481	\$ 35,042

Total interest expense related to the Notes is as follows (in thousands):

	Three Months Ended March 31, 2018
Cash interest expense	
Coupon interest expense	\$ 633
Non-cash interest expense	
Amortization of debt discount - equity component	327
Amortization of debt discount - initial purchaser	97
Amortization of transaction costs	15
Total interest expense	\$ 1,072

### ***Revolving Line of Credit***

The Company has a Loan and Security Agreement (the "Loan Agreement") with East West Bank ("EWB") whereby EWB made available to the Company a secured credit facility in the form of a revolving line of credit (the "Revolving Line of Credit"). On May 8, 2018, the Company entered into an amendment to the Loan Agreement to amend, restate and extend the Revolving Line of Credit for a three -year period expiring on May 8, 2021. The Revolving Line of Credit is available up to a maximum of the lesser of: (a) \$25.0 million ; or (b) a certain percentage of domestic and foreign trade receivables, plus, for the twelve months ending May 8, 2019, the lesser of: (a) \$5.0 million ; and (b) a certain portion of the Company's cash and cash equivalents.

As of March 31, 2018, the amount available under the Revolving Line of Credit, net of borrowings, was \$8.9 million. In general, amounts borrowed under the Revolving Line of Credit are secured by a lien on all of the Company's assets, including its intellectual property, as well as a pledge of 100% of its equity interests in the Company's Swiss subsidiary and a pledge of 65% of its equity interests in the Company's Korean subsidiary. The obligations under the Loan Agreement are also guaranteed directly by the Company's Swiss and Korean subsidiaries. In the event that the Company is in violation of the representations, warranties and covenants made in the Loan Agreement, including certain financial covenants set forth therein, the Company may not be able to utilize the Revolving Line of Credit or repayment of amounts owed pursuant to the Loan Agreement could be accelerated. The Company is currently in compliance with the financial covenants that it is required to meet during the term of the credit agreement including the minimum two-quarter rolling EBITDA and minimum liquidity requirements.

Amounts borrowed under the Revolving Line of Credit bear interest, payable monthly. Such interest shall accrue based upon, at the Company's election, subject to certain limitations, either a Prime Rate plus a margin ranging from 0% to 0.50% or the LIBOR Rate plus a margin ranging from 2.75% to 3.25%, the specific rate for each as determined based upon the Company's leverage ratio from time to time.

The Company is required to pay an annual commitment fee equal to \$125,000, and an unused commitment fee of the average daily unused amount of the Revolving Line of Credit, payable monthly, equal to a per annum rate in a range of 0.30% to 0.50%, as determined by the Company's leverage ratio on the last day of the previous fiscal quarter. Borrowings under the Revolving Line of Credit were \$5.0 million and \$0 as of March 31, 2018 and December 31, 2017, respectively. The interest rate on the Revolving Line of Credit as of March 31, 2018 was 4.75%.

#### **Other Long-term Borrowings**

The Company has various financing agreements for vehicles. These agreements are for up to an original three-year repayment period with interest rates ranging from 0.9% to 1.9%. At March 31, 2018 and December 31, 2017, \$109,000 and \$115,000, respectively, was outstanding under these financing agreements.

#### **Note 8 – Fair Value Measurements**

The Company records certain financial instruments at fair value in accordance with the hierarchy from the *Fair Value Measurements and Disclosures* Topic of the FASB ASC as follows.

##### *Fair Value of Assets*

*Level 1:* Observable inputs such as quoted prices in active markets for identical assets.

*Level 2:* Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

*Level 3:* Unobservable inputs that reflect the reporting entity's own assumptions.

The Company records pension assets at fair value. As of the last fair value measurement date of December 31, 2017, the net pension asset included plan assets with a fair value of \$43.4 million. The plan assets consisted of debt and equity securities, real estate investment funds and cash and cash equivalents. The fair values of debt and equity securities are determined based on quoted prices in active markets for identical assets, which are Level 1 inputs under the fair value hierarchy. The fair value measurement of the real estate investment funds is based on net asset value which is excluded from the fair value hierarchy.

As of March 31, 2018 and December 31, 2017, the fair value of the Company's convertible senior notes issued in September and October 2017 was approximately \$52.8 million and \$52.6 million, respectively, and was measured using Level 2 inputs. The carrying value of other short-term and long-term borrowings approximates fair value because of the relative short maturity of these instruments and the interest rates the Company could currently obtain.

#### **Note 9 – Stock Plans**

The Company has two active stock-based compensation plans as of March 31, 2018: the 2004 Employee Stock Purchase Plan and the 2013 Omnibus Equity Incentive Plan under which incentive stock options, non-qualified stock options, restricted stock awards and restricted stock units can be granted to employees and non-employee directors.

The Company generally issues the majority of employee stock compensation grants in the first quarter of the year; other grants issued during the year are typically for new employees or non-employee directors.

*Stock Options*

Stock options are granted to certain employees from time to time on a discretionary basis. Beginning in 2017, non-employee directors receive annual stock option awards as part of their annual retainer compensation. During the three months ended March 31, 2018 and 2017, no stock options were granted. Compensation expense recognized for stock options for the three months ended March 31, 2018 and 2017 was \$72,000 and \$51,000, respectively.

*Restricted Stock Awards*

Beginning in 2014, the Company ceased granting restricted stock awards (“RSAs”) and began granting restricted stock units (“RSUs”) to employees as part of its annual equity incentive award program, therefore, no restricted stock awards were issued during the three months ended March 31, 2018 and 2017. During the three months ended March 31, 2018 and 2017, compensation expense recognized for RSAs was \$60,000 and \$97,000, respectively.

*Restricted Stock Units*

Non-employee directors receive annual RSU awards as part of their annual retainer compensation. These awards vest approximately one year from the date of grant provided the non-employee director provides continued service. Additionally, new directors normally receive RSUs upon their election to the board. The Company also grants RSUs to employees as part of its annual equity incentive award program, with vesting typically in equal annual installments over four years of continuous service. Additionally, the Company grants performance-based restricted stock units (“PSUs”) to executives and certain employees with vesting contingent on continued service and achievement of specified performance objectives or stock price performance. Each restricted stock unit represents the right to receive one unrestricted share of the Company’s common stock upon vesting.

For the three months ended March 31, 2018 and 2017, PSUs granted included market-condition restricted stock units. The market-condition PSUs will vest based on the level of the Company’s stock price performance against a determined market index over one, two and three -year performance periods. The market-condition PSUs have the potential to vest between 0% and 200% depending on the Company’s stock price performance and the recipients must remain employed through the end of each performance period in order to vest. The fair value of the market-condition PSUs granted was calculated using a Monte Carlo valuation model with the following assumptions:

	Three Months Ended March 31,	
	2018	2017
Expected dividend yield	—%	—%
Expected volatility	46% - 47%	53%
Risk-free interest rate	2.36% - 2.39%	1.55%
Expected term (in years)	2.8 - 2.9	2.8

For the three months ended March 31, 2018 and 2017, RSU grants were composed of the following:

	Three Months Ended March 31,			
	2018		2017	
	Shares granted (in thousands)	Average grant date fair value	Shares granted (in thousands)	Average grant date fair value
Service-based	921	\$ 5.77	667	\$ 5.44
Performance objectives	78	5.85	—	—
Market-condition	335	7.55	303	7.20
Total RSUs granted	1,334	6.22	970	5.99

The following table summarizes the amount of compensation expense recognized for RSUs for the three months ended March 31, 2018 and 2017 (in thousands):

RSU Type	Three Months Ended March 31,	
	2018	2017
Service-based	\$ 1,084	\$ 667
Performance objectives	120	6
Market-condition	298	192
	<u>\$ 1,502</u>	<u>\$ 865</u>

#### *Employee Stock Purchase Plan*

The 2004 Employee Stock Purchase Plan (“ESPP”) permits substantially all employees to purchase common stock through payroll deductions, at 85% of the lower of the trading price of the stock at the beginning or at the end of each six month offering period. The number of shares purchased is based on participants’ contributions made during the offering period.

Compensation expense recognized for the ESPP for the three months ended March 31, 2018 and 2017 was \$29,000 and \$34,000, respectively. The fair value of the ESPP shares was estimated using the Black-Scholes valuation model for a call and a put option with the following weighted-average assumptions:

	Three Months Ended March 31,	
	2018	2017
Expected dividend yield	—%	—%
Expected volatility	43%	29%
Risk-free interest rate	1.39%	0.62%
Expected term (in years)	0.50	0.50
Fair value per share	\$ 1.29	\$ 1.19

#### *Bonuses Settled in Stock*

In 2016, the Compensation Committee of the Board of Directors of the Company adopted the Maxwell Technologies, Inc. Incentive Bonus Plan to enable participants to earn annual incentive bonuses based upon achievement of specified financial and strategic performance objectives. The Company may settle bonuses earned under the plan in either cash or stock, and currently intends to settle the majority of bonuses earned under the plan in stock. During the first quarter of 2018, the Company settled \$3.0 million of bonuses earned under the plan for the 2017 performance period with 506,017 shares of fully vested common stock. During the first quarter of 2017, the Company settled \$1.2 million of bonuses earned under the plan for the 2016 performance period with 142,582 shares of fully vested common stock and 89,730 fully vested restricted stock units, which were subsequently settled during the second quarter of 2017. An additional \$0.3 million of bonuses earned for the 2016 performance period were settled with 42,662 shares of fully vested common stock in the third quarter of 2017.

The Company recorded \$0.9 million and \$0.5 million of stock compensation expense related to the bonus plan during the three months ended March 31, 2018 and 2017, respectively.

#### *Director Fees Settled in Stock*

In early 2017, the Board approved a non-employee director deferred compensation program pursuant to which participating non-employee directors may make irrevocable elections on an annual basis to take fully vested restricted stock units in lieu of their cash-based non-employee director fees (including, as applicable, any annual retainer fee, committee fee and any other compensation payable with respect to their service as a member of the Board) and to defer the settlement upon the vesting of all or a portion of their equity awards granted in the applicable calendar year. In the event that a director makes such an election, the Company will grant fully vested restricted stock units in lieu of cash, with an initial value equal to the cash fees, which will be settled immediately after grant or at a future date elected by the respective non-employee director through the issuance of Maxwell common stock.

During the three months ended March 31, 2018, the Company settled \$203,000 of director fees with 34,376 fully vested RSUs. The Company recorded \$109,000 of stock compensation expense related to director fees to be settled in stock during the three months ended March 31, 2018.

### Stock-Based Compensation Expense

Stock-based compensation cost included in cost of revenue; selling, general and administrative expense; and research and development expense is as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Cost of revenue	\$ 346	\$ 193
Selling, general and administrative	1,834	1,069
Research and development	444	276
Total stock-based compensation expense	\$ 2,624	\$ 1,538

### Note 10—Shelf Registration Statement

On November 9, 2017, the Company filed a shelf registration statement on Form S-3 with the SEC to, from time to time, sell up to an aggregate of \$125 million of any combination of its common stock, warrants, debt securities or units. On November 16, 2017, the registration statement was declared effective by the SEC, which will allow the Company to access the capital markets for the three-year period following this effective date. As of March 31, 2018, no securities have been issued under the Company's shelf registration statement. Net proceeds, terms and pricing of each offering of securities issued under the shelf registration statement will be determined at the time of such offerings.

### Note 11—Income Taxes

The effective tax rate differs from the statutory U.S. federal income tax rate of 21% primarily due to foreign income tax and the valuation allowance against our domestic deferred tax assets.

The Company recorded an income tax benefit of \$1.0 million for the three months ended March 31, 2018 and an income tax provision of \$1.2 million for the three months ended March 31, 2017. The income tax benefit in the first quarter of 2018 is primarily related to the recognition of a tax holiday granted by the Swiss government for taxes on income generated by the Company's Swiss subsidiary, which was retroactive to the beginning of 2017. The provision in the first quarter of 2017 is primarily related to taxes on income generated by the Company's Swiss subsidiary, for which the full statutory tax rate applied.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act. The legislation significantly changes U.S. tax law by, among other things, reducing the US federal corporate tax rate from 35% to 21%, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Pursuant to ASU No. 2018-05, given the amount and complexity of the changes in the tax law resulting from the tax legislation, the Company has not finalized the accounting for the income tax effects of the tax legislation. This includes the provisional amounts recorded related to the transition tax and the remeasurement of deferred taxes. The impact of the tax legislation may differ from this estimate, during the one-year measurement period due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the tax legislation.

The Company is still analyzing certain aspects of the Act and refining its calculations, which could potentially affect the analysis of the Company's deferred tax assets and liabilities and its historical foreign earnings and profits as well as potential correlative adjustments. Any subsequent adjustment is expected to be offset by a change in valuation allowance and have no impact on the Company's financial position or results of operations.

As of March 31, 2018, the Company has a cumulative valuation allowance recorded offsetting its worldwide net deferred tax assets of \$61.4 million, of which the significant majority represents the valuation allowance on its U.S. net deferred tax asset. The Company has established a valuation allowance against its U.S. federal and state deferred tax assets due to the uncertainty surrounding the realization of such assets. Management periodically evaluates the recoverability of the deferred tax assets and at such time as it is determined that it is more likely than not that U.S. deferred tax assets are realizable, the valuation allowance will be reduced accordingly. Any such release would result in recording a tax benefit that would increase net income in the period the valuation is released.

During the three months ended March 31, 2018, the Company reduced its net deferred tax liabilities by \$0.4 million to record the impact of the new tax holiday granted by the Swiss government.

The Company records taxes on the undistributed earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside of the U.S. As of March 31, 2018, the Company has recorded a \$4.9 million deferred tax liability for Swiss withholding taxes associated with \$97.6 million of undistributed earnings of its Swiss subsidiary that are no longer considered indefinitely reinvested. Pursuant to discussions with tax authorities, the Company intends to repatriate \$10.0 million in Swiss accumulated earnings each year for approximately the next 8 years in order to reduce outstanding amounts owed to its Swiss subsidiary; the Company intends to declare each annual amount as a dividend and pay a 5% withholding tax at the time such dividends are declared.

**Note 12 – Defined Benefit Plans**

**Maxwell SA Pension Plan**

Maxwell SA has a retirement plan that is classified as a defined benefit pension plan. The employee 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, participating employees are required to contribute to the pension plan. This plan has a measurement date of December 31.

Components of net pension cost are as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Service cost	\$ 321	\$ 241
Cost recognized as a component of compensation cost	321	241
Interest cost	60	56
Expected return on plan assets	(334)	(247)
Prior service cost amortization	24	36
Net cost recognized in other components of defined benefit plans, net	(250)	(155)
Net pension cost	\$ 71	\$ 86

Employer contributions of \$0.2 million were paid during each of the three months ended March 31, 2018 and 2017. Additional employer contributions of approximately \$0.4 million are expected to be paid during the remainder of fiscal 2018.

**Korea Defined Benefit Plan**

In connection with the Nesscap Acquisition, the Company assumed the defined benefit plan liability related to Nesscap Korea's employees. Pursuant to the Labor Standards Act of Korea, employees and most executive officers with one or more years of service are entitled to lump sum separation benefits upon the termination of their employment based on their length of service and rate of pay.

Components of net cost related to the Korea employee defined benefit plan are as follows (in thousands):

	Three Months Ended March 31, 2018
Service cost	\$ 151
Cost recognized as a component of compensation cost	151
Interest cost	29
Cost recognized in other components of defined benefit plans, net	29
Net cost	\$ 180

Employer contributions of \$2,000 were paid during the three months ended March 31, 2018. Additional employer contributions of approximately \$6,000 are expected to be paid during the remainder of fiscal 2018.

**Note 13 – Legal Proceedings**

Although the Company expects to incur legal fees in connection with the below legal proceedings, the Company is unable to estimate the amount of such legal fees and therefore, such fees will be expensed in the period the legal services are performed.

***FCPA Matter***

In January 2011, the Company reached settlements with the U.S. Securities and Exchange Commission (“SEC”) and the U.S. Department of Justice (“DOJ”) with respect to charges asserted by the SEC and DOJ relating to the anti-bribery, books and records, internal controls, and disclosure provisions of the U.S. Foreign Corrupt Practices Act (“FCPA”) and other securities laws violations. The Company paid the monetary penalties under these settlements in installments such that all monetary penalties were paid in full by January 2013. With respect to the DOJ charges, a judgment of dismissal was issued in the U.S. District Court for the Southern District of California on March 28, 2014.

On October 15, 2013, the Company received an informal notice from the DOJ that an indictment against the former Senior Vice President and General Manager of its Swiss subsidiary had been filed in the United States District Court for the Southern District of California. The indictment is against the individual, a former officer, and not against the Company and the Company does not foresee that further penalties or fines could be assessed against it as a corporate entity for this matter. However, the Company may be required throughout the term of the action to advance the legal fees and costs incurred by the individual defendant and to incur other financial obligations. While the Company maintains directors’ and officers’ insurance policies which are intended to cover legal expenses related to its indemnification obligations in situations such as these, the Company cannot determine if and to what extent the insurance policy will cover the ongoing legal fees for this matter. Accordingly, the legal fees that may be incurred by the Company in defending this former officer could have a material impact on its financial condition and results of operation.

***Swiss Bribery Matter***

In August 2013, the Company’s Swiss subsidiary was served with a search warrant from the Swiss federal prosecutor’s office. At the end of the search, the Swiss federal prosecutor presented the Company with a listing of the materials gathered by the representatives and then removed the materials from its premises for keeping at the prosecutor’s office. Based upon the Company’s exposure to the case, the Company believes this action to be related to the same or similar facts and circumstances as the FCPA action previously settled with the SEC and the DOJ. During initial discussions, the Swiss prosecutor has acknowledged both the existence of the Company’s deferred prosecution agreement with the DOJ and its cooperation efforts thereunder, both of which should have a positive impact on discussions going forward. Additionally, other than the activities previously reviewed in conjunction with the SEC and DOJ matters under the FCPA, the Company has no reason to believe that additional facts or circumstances are under review by the Swiss authorities. To date, the Swiss prosecutor has not issued its formal decision as to whether the charges will be brought against individuals or the Company or whether the proceeding will be abandoned. At this stage in the investigation, the Company is currently unable to determine the extent to which it will be subject to fines in accordance with Swiss bribery laws and what additional expenses will be incurred in order to defend this matter. As such, the Company cannot determine whether there is a reasonable possibility that a loss will be incurred nor can it estimate the range of any such potential loss. Accordingly, the Company has not accrued an amount for any potential loss associated with this action, but an adverse result could have a material adverse impact on its financial condition and results of operation.

***Government Investigations***

In early 2013, the Company voluntarily provided information to the SEC and the United States Attorney’s Office for the Southern District of California related to its announcement that it intended to file restated financial statements for fiscal years 2011 and 2012. On June 11, 2015 and June 16, 2016, the Company received subpoenas from the SEC requesting certain documents related to, among other things, the facts and circumstances surrounding the restated financial statements. The Company has provided documents and information to the SEC in response to the subpoenas. In March 2018, the Company consented to an order filed by the SEC without admitting or denying the SEC’s findings thereby resolving alleged violations of certain anti-fraud and books and records provisions of the federal securities laws and related rules. Under the terms of the order, the Company was required to pay \$2.8 million in a civil penalty and agreed not to commit or cause any violations of certain anti-fraud and books and records provisions of the federal securities laws and related rules. The Company had previously accrued this amount owed as an operating expense in its financial statements in the third quarter of 2017 and paid the amount in full in April 2018.

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

Unless the context otherwise requires, all references to “Maxwell,” “the Company,” “we,” “us,” and “our” refer to Maxwell Technologies, Inc. and its subsidiaries. All references to “Maxwell SA” refer to our Swiss subsidiary, Maxwell Technologies, SA. All references to “Nesscap Korea” refer to our Korean Subsidiary, Nesscap Korea Co., Ltd.

### FORWARD-LOOKING STATEMENTS

Some of the statements contained in this document and incorporated herein by reference discuss our plans and strategies for our business or make other forward-looking statements, as this term is defined in the Private Securities Litigation Reform Act. The words “anticipates,” “believes,” “estimates,” “expects,” “plans,” “intends,” “may,” “could,” “will,” “continue,” “seek,” “should,” “would” and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. These forward-looking statements reflect the current views and beliefs of our management; however, various risks, uncertainties and contingencies could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, our statements. Such risks, uncertainties and contingencies include, but are not limited to, the following:

- our intentions, beliefs and expectations regarding our expenses, cost savings, sales, operations and future financial performance;
- our operating results;
- our ability to develop, introduce and commercialize new products, technologies applications or enhancements to existing products and educate prospective customers;
- anticipated growth and trends in our business;
- our ability to obtain sufficient capital to meet our operating requirements, including, but not limited to, our investment requirements for new technology and products, or other needs;
- our ability to manage our long-term debt and our ability to service our debt, including our convertible debt;
- risks related to changes in legislation, regulation and governmental policy;
- risks related to tax laws and tax changes (including U.S. and foreign taxes on foreign subsidiaries);
- risks related to our international operations;
- our expectations regarding our revenues, customers and distributors;
- our beliefs and expectations regarding our market penetration and expansion efforts, especially considering the small number of vertical markets and a small number of geographic regions;
- our expectations regarding the benefits and integration of recently-acquired businesses and our ability to make future acquisitions and successfully integrate any such future-acquired businesses;
- our ability to protect our intellectual property rights and to defend claims against us;
- dependence upon third party manufacturing and other service providers, many of which are located outside the U.S. and our ability to manage reliance upon certain key suppliers;
- our anticipated trends and challenges in the markets in which we operate; and
- our expectations and beliefs regarding and the impact of investigations, claims and litigation.

Many of these factors are beyond our control. Additionally, 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.

For a discussion of important risks associated with an investment in our securities, including factors that could cause actual results to differ materially from expectations referred to in the forward-looking statements, see Risk Factors in Part II, Item 1A, of this document and Part I, Item 1A, of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 . We do not have any obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

## Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in the following sections:

- Executive Overview
- Current Year Highlights
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Estimates
- Recent Accounting Pronouncements
- Off Balance Sheet Arrangements

## Executive Overview

Maxwell is a global leader in developing, manufacturing and marketing energy storage and power delivery products for transportation, industrial and other applications. Our products are designed and manufactured to perform reliably with minimal maintenance for the life of the applications into which they are integrated, which we believe gives our products a key competitive advantage. We have two product lines: energy storage, which consists primarily of ultracapacitors, with applications in multiple industries, including transportation and grid energy storage, and high-voltage capacitors applied mainly in electrical utility infrastructure. In addition to these two existing product lines, we are focused on developing our dry battery electrode technology, which leverages our core dry electrode process technology that we have used to manufacture our ultracapacitors for many years, and which we believe could be a ground breaking technology for lithium-ion batteries, particularly in the electric vehicle market.

Our primary objective is to offer innovative products to our customers and to diversify our business to provide for increased revenue and position the Company for accelerated, profitable growth thereby ultimately creating value for our shareholders. The key components of our strategy include (1) commercializing our dry battery electrode technology, which we believe is a unique and innovative technology with a potentially large market opportunity, particularly for electric vehicles, (2) optimizing our energy storage product portfolio to drive business diversification, achieve scale, and transition to higher growth opportunities in a large and growing market, and (3) maintaining and expanding our leadership position and market share for our high-voltage product line, which provides the opportunity for steady long-term growth in a solid market.

For our dry battery electrode technology, we are focused on demonstrating the ability of our core technology to satisfy the increasing performance demands for lithium-ion batteries. We believe that our dry electrode technology has the potential to be a significant technology within the lithium-ion battery industry with substantial market opportunity, particularly for use in electric vehicles. By applying our patent-protected, proprietary and fundamental dry electrode manufacturing technology and trade secrets to batteries of varying chemistries, we believe we can create significant performance and cost benefits. To that end, in 2016, we entered into a "proof of concept" joint development agreement with a leading global automotive OEM and a global tier one automotive supplier on a proof-of-concept basis to validate dry battery electrode performance on a pilot scale, and in 2017 we materially completed this proof-of-concept, which we believe demonstrates the significant performance and cost advantages of our dry electrode manufacturing process for use in lithium ion-batteries. In 2018, we plan to begin to build a pilot-scale manufacturing facility to further prove the benefits and manufacturability of this technology, and also to highly focus on attaining broader, scale-up agreements with our current and prospective partners in order to accelerate the commercialization of this technology.

We also seek to maintain and expand market share and revenue for our high-voltage capacitors. Evolving market trends in the global high-voltage market, particularly in the United States, China, and India, where we believe projects to increase the availability of electrical energy as well as infrastructure modernization and renovation may continue to increase demand for our high-voltage products and solutions in the years to come. We are in the process of expanding capacity at our existing high-voltage capacitor production facility in Rossens, Switzerland in order to meet projected demand and increase our revenue potential.

In 2017, we issued \$46.0 million aggregate principal amount of 5.50% convertible senior notes due 2022 for net proceeds of \$43.0 million after deducting the initial purchaser's discount and offering expenses payable by us. We intend to use the net proceeds from the offering for general corporate purposes, which may include research and development expenses, capital expenditures, working capital and general and administrative expenses.

On April 28, 2017, we acquired the core business and operating entities of Nesscap, a developer and manufacturer of ultracapacitor products for use in transportation, renewable energy, industrial and consumer markets, in exchange for the issuance of approximately 4.1 million shares of Maxwell common stock (the "Share Consideration") and the assumption of certain liabilities. The value of the Share Consideration was approximately \$25.3 million based on the closing price of our common stock on April 28, 2017. The Nesscap Acquisition adds complementary businesses to our operations and expands our portfolio of products, which we believe adds value for our customers and shareholders.

In February 2017, we announced a restructuring plan to implement a wide range of organizational efficiencies and cost reduction opportunities to better align our costs with near term revenue. In connection with the restructuring plan, we incurred restructuring charges of approximately \$0.9 million, primarily related to employee severances. This restructuring plan resulted in estimated annual cost savings between \$2.5 million and \$3.0 million. Following our acquisition of the core business and operating entities of Nesscap, in September 2017, we initiated an additional restructuring plan to optimize headcount in connection with the acquisition and integration of the Nesscap business, as well as to implement additional organizational efficiencies. Total charges for the September 2017 restructuring plan were approximately \$1.2 million, primarily related to cash expenditures associated with employee severances. We expect to realize annual cost savings between \$0.7 million and \$1.0 million as a result of this additional restructuring plan.

In the first quarter of 2018, revenue was \$28.4 million, representing an overall increase of 6% compared with \$26.7 million in the same period one year ago. This increase was related to higher revenue for our energy storage product line, partially offset by lower revenue for our high-voltage product line. Energy storage product line revenue increased by \$8.8 million, or 62%, to \$23.0 million from \$14.2 million. Approximately half of the increase in energy storage product revenue was related to new customers and a ramp up of recent design wins, including a significant newly launched hybrid system in the non-china bus market.

Revenue for our high-voltage capacitor product line was \$5.4 million for the first quarter of 2018, representing a decrease of 57% compared with \$12.5 million for the same period in the prior year. This decrease was due to delays in Chinese infrastructure projects as well as uncertainties related to tax reform legislation and potential increases in tariffs.

Overall gross margin during the quarter decreased to 20% compared with 23% in the first quarter of 2017, primarily associated with a change in product mix as the first quarter of 2018 included lower sales of higher margin high-voltage products, as well as amortization of intangibles related to the Nesscap Acquisition. Operating expenses in the first quarter of 2018 decreased to 53% of revenue, compared with 57% of revenue in the same period one year ago, primarily attributable to higher revenue as well as initiatives to control operating expenses including our restructuring activities and ongoing cost reduction efforts.

As of March 31, 2018, we had cash and cash equivalents of \$40.1 million. Management believes that this available cash balance will be sufficient to fund our operations, obligations as they become due, and capital investments for at least the next twelve months. In addition, we have a revolving line of credit available up to a maximum of \$25.0 million, subject to a borrowing base limitation, under which borrowings of \$5 million are outstanding as of March 31, 2018. This facility is scheduled to expire in May 2021. In the future, we may decide to supplement existing cash and planned cash flow from operations by borrowing additional funds or by issuing additional debt or equity.

Going forward, we intend to continue focusing on our strategic priorities, as described above. In order to achieve our strategic objectives, we will need to overcome risks and challenges facing our business. A significant challenge we face is our ability to manage dependence on a small number of vertical markets and geographic regions, including some that are driven by government policies and subsidy programs. The markets may decline or experience slower rates of growth when there are changes or delays in government policies and subsidy programs. Specifically, the Chinese hybrid transit bus and wind energy markets are heavily dependent on government regulation and subsidy programs. Over the past year, demand for our ultracapacitors in the China hybrid bus market significantly decreased due to changes in the government subsidy program as well as a requirement to localize product manufacturing. To reduce our dependency on China government influences, we established a localized manufacturing partnership with CRRC-SRI, and we are positioned to support customer demand for any opportunities that may meet our return requirement.

Another significant challenge we face for our ultracapacitors relates to pricing expectations and competition in certain markets, such as auto and wind, which places significant pressure on our pricing and margins for our products, and we are continually pursuing opportunities to reduce the cost of our product in order to improve our competitive position and product margins. Specifically, the hybrid transit vehicle market for ultracapacitors in China, a region which has historically represented a significant portion of our sales, has become more competitive with respect to pricing and volume requirements. Accordingly, we performed a very thorough analysis of the current market landscape and decided to very selectively target opportunities in this market in the short-term.

Other significant risks and challenges we face include the ability to achieve profitability; the ability to develop our management team, product development infrastructure and manufacturing capacity optimization to facilitate profitable growth; competing technologies that may capture market share and interfere with our planned growth; difficulties in executing our restructuring activities; and hiring, developing and retaining key personnel critical to the execution of our strategy. We are attentive to these risks and are focusing on overcoming risks in order to achieve our key objectives.

### Current Year Highlights

During 2018, we are continuing our focus on introducing new products, winning new customers, developing new product applications, adjusting production capacity, reducing costs to align with near-term revenue forecasts, and improving production and other operational processes. Some of these efforts are described below:

- In April 2018, we announced a technology partnership with Zhejiang Geely Holding Group ("Geely"), the parent company of leading brands such as Volvo and Geely Auto. The collaboration kicks off with the inclusion of our ultracapacitor-based peak power subsystem in five mild-hybrid and plugin hybrid vehicles, which will initially be available in North America and Europe. The production ramp for these vehicles is slated to begin in late 2019 and marks the most significant milestone in our automotive market history.

### Results of Operations

#### Comparison of Three Months Ended March 31, 2018 and 2017

The following table presents certain unaudited statement of operations data expressed as a percentage of revenue for the periods indicated:

	Three Months Ended March 31,	
	2018	2017
Revenue	100 %	100 %
Cost of revenue	80 %	77 %
Gross profit	20 %	23 %
Operating expenses:		
Selling, general and administrative	34 %	36 %
Research and development	19 %	17 %
Restructuring and exit costs	— %	4 %
Total operating expenses	53 %	57 %
Loss from operations	(33)%	(34)%
Interest expense, net	3 %	— %
Loss before income taxes	(36)%	(34)%
Income tax provision (benefit)	(4)%	5 %
Net loss	(32)%	(39)%

Net loss reported for the three months ended March 31, 2018 was \$9.2 million, or \$0.25 per share, compared with a net loss of \$10.4 million, or \$0.32 per share, in the same period one year ago. Significant changes contributing to the \$1.2 million decrease in net loss include the following:

- a \$0.4 million decline in gross profit associated with a change in product mix which included significantly lower sales of higher margin high voltage products in the first quarter of 2018, as well as the amortization of intangibles related to the Nesscap Acquisition;
- a decrease of \$1.1 million in restructuring expense primarily as a result of our February 2017 restructuring plan implemented in the first quarter of 2017;
- a \$1.1 million increase in stock compensation expense due to differences in expected performance under our bonus plan, a change in award mix to include market-condition RSUs which have a higher expense, and the payment of a portion of our board of director fees with fully vested RSUs in lieu of cash;
- a \$0.9 million increase in interest expense related to our convertible senior notes issued in September and October 2017;
- a \$2.2 million decrease in taxes due to the recognition of a tax holiday for our Swiss subsidiary in the first quarter of 2018, which was retroactively effective to the beginning of 2017; and

- decreases in operating expense associated with our restructuring and ongoing cost reduction efforts.

## Revenue and Gross Profit

The following table presents a comparison of revenue, cost of revenue and gross profit for the three months ended March 31, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended March 31,			
	2018	2017	Increase (Decrease)	% Change
Revenue	\$ 28,416	\$ 26,686	\$ 1,730	6 %
Cost of revenue	22,735	20,578	2,157	10 %
% of Revenue	80%	77%		
Gross profit	\$ 5,681	\$ 6,108	\$ (427)	(7)%
% of Revenue	20%	23%		

*Revenue.* During the first quarter of 2018, revenue increased 6% to \$28.4 million, compared with \$26.7 million in the same period one year ago. This increase was related to higher revenue for our energy storage product line, partially offset by lower revenue for our high-voltage product line.

Energy storage product line revenue increased by \$8.8 million, or 62%, to \$23.0 million from \$14.2 million. Approximately half of the increase in energy storage product revenue was related to new customers and a ramp up of recent design wins, including a significant newly launched hybrid system in the non-china bus market. The increase in energy storage product revenue for the first quarter of 2018 was composed of higher volume of \$9.7 million, partially offset by lower prices of \$0.9 million.

Revenue for our high-voltage products decreased by \$7.0 million, or 57%, to \$5.4 million for the first quarter of 2018, compared with \$12.5 million for the same period one year ago. This decrease was due to delays in Chinese infrastructure projects as well as uncertainties related to tax reform legislation and potential increases in tariffs.

A substantial amount of our revenue is generated through our Swiss subsidiary, which has a functional currency of the Swiss Franc. As such, reported revenue can be materially impacted by changes in exchange rates between the Swiss Franc and the U.S. Dollar, our reporting currency. Due to the strengthening of the U.S. Dollar against the Swiss Franc during the three months ended March 31, 2018 compared with the same period one year ago, revenue was negatively impacted by \$0.3 million.

*Gross Profit and Gross Margin.* During the first quarter of 2018, gross profit decreased \$0.4 million, or 7%, to \$5.7 million compared with \$6.1 million in the same period one year ago. As a percentage of revenue, gross margin decreased to 20% in the first quarter of 2018 compared with 23% in the same period one year ago. The decreases in gross profit and gross margin were associated with a change in product mix as the first quarter of 2018 included significantly lower sales of higher margin high-voltage products, as well as the amortization of intangibles related to the Nesscap Acquisition.

## Selling, General and Administrative Expense

The following table presents selling, general and administrative expense for the three months ended March 31, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended March 31,			
	2018	2017	Decrease	% Change
Selling, general and administrative	\$ 9,572	\$ 9,592	\$ (20)	— %
% of Revenue	34%	36%		

Selling, general and administrative expense for the first quarter of 2018 was consistent with the same period in 2017. Selling, general and administrative expense decreased to 34% of revenue, down from 36% for the same period in 2017. Increases for the first quarter of 2018 included additional operating expense of \$0.6 million related to our acquisition of the business of Nesscap in the second quarter of 2017 and \$0.6 million of increased stock compensation expense mainly related to differences in expected performance under our bonus plan, and a change in award mix to include a higher proportion of market-condition RSUs which have a higher expense. These increases were largely offset by various decreases including a decrease of \$0.5 million in labor costs related to headcount reductions in connection with our restructuring plans, a decrease of \$0.4 million in legal costs due to the resolution and settlement with the SEC regarding our restated financial statements for fiscal years 2011 and 2012, and other decreases related to our ongoing cost reduction efforts.

## Research and Development Expense

The following table presents research and development expense for the three months ended March 31, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended March 31,			
	2018	2017	Increase	% Change
Research and development	\$ 5,532	\$ 4,706	\$ 826	18%
% of Revenue	19%	17%		

Research and development expense for the first quarter of 2018 increased by \$0.8 million, or 18%, from the same period in 2017. Research and development expense was 19% of revenue, up from 17% for the same period in 2017. The increase was primarily associated with a decrease of \$0.6 million in third-party funding under cost-sharing arrangements, \$0.5 million of additional operating expense related to our acquisition of the business of Nesscap and \$0.2 million of increased stock compensation expense mainly related to changes in bonus plan performance and award mix. These increases were partially offset by various decreases related to our restructuring and cost reduction efforts.

## Restructuring and Exit Costs

In September 2017, we initiated a restructuring plan to optimize headcount in connection with the acquisition and integration of Nesscap, as well as to implement additional organizational efficiencies. Total charges for the September 2017 restructuring plan were approximately \$1.2 million, and were primarily incurred in 2017. Total net charges for the three months ended March 31, 2018 for the September 2017 restructuring plan were \$(57,000), which represented restructuring charges of \$45,000 adjusted for reversals of expense of \$102,000.

In February 2017, we implemented a comprehensive restructuring plan that included a wide range of organizational efficiency initiatives and other cost reduction opportunities. Total charges for the restructuring plan were approximately \$0.9 million; the plan was completed in the third quarter of 2017. For the three months ended March 31, 2017, we recorded \$1.0 million of restructuring charges for the February 2017 restructuring plan. Cash payments for the three months ended March 31, 2017 for the February 2017 restructuring plan were approximately \$0.3 million.

The charges related to the 2017 restructuring plans consist of employee severance costs and have been or will be paid in cash. The following table summarizes the changes in the liabilities for the September 2017 restructuring plan for the three months ended March 31, 2018 (in thousands):

	September 2017 Plan
Restructuring liability as of December 31, 2017	\$ 817
Costs incurred	45
Amounts paid	(423)
Accruals released	(102)
Restructuring liability as of March 31, 2018	\$ 337

## Provision for Income Taxes

The effective tax rate differs from the statutory U.S. federal income tax rate of 21% primarily due to foreign income tax and the valuation allowance against our domestic deferred tax assets.

We recorded an income tax benefit of \$1.0 million for the three months ended March 31, 2018, compared with an income tax provision of \$1.2 million for the three months ended March 31, 2017. The income tax benefit in the first quarter of 2018 is primarily related to the recognition of a tax holiday granted by the Swiss government for taxes on income generated by our Swiss subsidiary, which was retroactive to the beginning of 2017. The provision in the first quarter of 2017 is primarily related to taxes on income generated by our Swiss subsidiary, for which the full statutory tax rate applied. We record taxes on the undistributed earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside of the U.S. As of March 31, 2018, we have recorded a \$4.9 million deferred tax liability for Swiss withholding taxes associated with \$97.6 million of undistributed earnings of our Swiss subsidiary that are no longer considered indefinitely reinvested. Pursuant to discussions with tax authorities, we intend to repatriate \$10.0 million in Swiss accumulated earnings each year for approximately the next 8 years in order to reduce outstanding amounts owed to our Swiss subsidiary; we intend to declare each annual amount as a dividend and pay a 5% withholding tax at the time such dividends are declared.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act. The tax legislation significantly changes U.S. tax law by, among other things, reducing the US federal corporate tax rate from 35% to 21%, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Due to the tax legislation, we have remeasured our U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%.

At March 31, 2018, we have a cumulative valuation allowance recorded offsetting our worldwide net deferred tax assets of \$61.4 million, of which the significant majority represents the valuation allowance on our U.S. net deferred tax assets. We have established a valuation allowance against our U.S. federal and state deferred tax assets due to the uncertainty surrounding the realization of such assets. Management periodically evaluates the recoverability of the deferred tax assets and at such time as it is determined that it is more likely than not that U.S. deferred tax assets are realizable, the valuation allowance will be reduced accordingly.

During the three months ended March 31, 2018, we reduced our deferred tax liabilities by \$0.4 million to record the impact of the new tax holiday granted by the Swiss government.

## Liquidity and Capital Resources

### Changes in Cash Flow

The following table summarizes our cash flows from operating, investing and financing activities for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31,	
	2018	2017
Total cash provided by (used in):		
Operating activities	\$ (11,211)	\$ (3,825)
Investing activities	(3,910)	(945)
Financing activities	4,992	(10)
Effect of exchange rate changes on cash and cash equivalents	110	315
Decrease in cash and cash equivalents	\$ (10,019)	\$ (4,465)

Net cash used in operating activities was \$11.2 million for the three months ended March 31, 2018 and related primarily to our net loss of \$9.2 million, which included non-cash charges of \$6.1 million, and an increase in inventory of \$6.0 million which is related to building up inventory in anticipation of a planned contract manufacturer change and lower high voltage product sales in the first quarter due to delays in Chinese infrastructure projects as well as uncertainties related to tax reform legislation and potential increases in tariffs.

Net cash used in operating activities was \$3.8 million for the first quarter of 2017 and related primarily to our net loss of \$10.4 million, which included non-cash charges of \$4.0 million, and an increase in accounts receivable of \$3.4 million primarily related to timing of receipts and a higher proportion of shipments in the last month of the quarter. These decreases in cash were partially offset by an increase in deferred revenue and customer deposits of \$2.6 million primarily related to amounts received from CRRC-SRI under the localization agreement, an increase in accounts payable and accrued liabilities of \$1.6 million primarily related to the timing of payments and a decrease in inventory of \$1.9 million related to efforts to reduce our inventory levels.

Net cash used in operating activities increased \$7.4 million to \$11.2 million for the three months ended March 31, 2018 compared with \$3.8 million for the three months ended March 31, 2017. Cash flows from operating activities were impacted by working capital changes which had a negative effect on cash flow of \$8.2 million for the three months ended March 31, 2018, compared with a positive effect of \$2.6 million in the three months ended March 31, 2017. This negative effect of changes in working capital was partially offset by a lower net loss and higher non-cash charges in 2018.

Net cash used in investing activities was \$3.9 million for the three months ended March 31, 2018 compared with cash provided by investing activities of \$0.9 million for the three months ended March 31, 2017. Cash used in investing activities during the three months ended March 31, 2018 was associated with \$3.9 million of capital expenditures related to the factory expansion and lab upgrades at our Swiss subsidiary, ultracapacitor new product testing and production equipment in San Diego, California and expansion at our Nesscap Korea facility. Net cash provided by investing activities for the three months ended March 31, 2017 was \$0.9 million and primarily related to capital expenditures for our corporate research and development facility in San Diego, California.

Net cash provided by financing activities was \$5.0 million for the three months ended March 31, 2018 compared with net cash used in financing activities of \$10,000 for the same period in 2017. During the three months ended March 31, 2018, we received net proceeds of \$5.0 million from borrowings on our line of credit.

### *Liquidity*

As of March 31, 2018, we had approximately \$40.1 million in cash and cash equivalents, and working capital of \$62.5 million. On September 25, 2017 and October 11, 2017, we issued \$40.0 million and \$6.0 million, respectively, of 5.50% Convertible Senior Notes due 2022 (the "Notes"). We received net proceeds, after deducting the initial purchaser's discount and our offering expenses, of approximately \$43.0 million. The Notes bear interest at a rate of 5.50% per year, payable semi-annually in arrears on March 15 and September 15 of each year, with payments commencing on March 15, 2018.

On November 9, 2017, we filed a shelf registration statement on Form S-3 with the SEC to, from time to time, sell up to an aggregate of \$125 million of any combination of our common stock, warrants, debt securities or units. On November 16, 2017, the registration statement was declared effective by the SEC, which will allow us to access the capital markets for the three-year period following this effective date. As of March 31, 2018, no securities have been issued under our shelf registration statement. Net proceeds, terms and pricing of each offering of securities issued under the shelf registration statement will be determined at the time of such offerings.

As of March 31, 2018, the amount of cash and short-term investments held by foreign subsidiaries was \$6.8 million. If these funds are needed for our operations in the U.S. in the future, we may be required to pay taxes to repatriate these funds at a rate of approximately 5%. We have accrued the tax expense associated with the potential future repatriation of these funds. Pursuant to discussions with tax authorities, we intend to repatriate \$10.0 million in Swiss accumulated earnings each year for approximately the next 8 years in order to reduce outstanding amounts owed to our Swiss subsidiary; we intend to declare each annual amount as a dividend and pay a 5% withholding tax at the time such dividends are declared.

### *Debt and Credit Facilities*

#### *Convertible Senior Notes*

On September 25, 2017 and October 11, 2017, we issued \$40.0 million and \$6.0 million, respectively, of 5.50% Convertible Senior Notes due 2022 (the "Notes"). We received net proceeds, after deducting the initial purchaser's discount and our offering expenses, of approximately \$43.0 million. The Notes bear interest at a rate of 5.50% per year, payable semiannually in arrears on March 15 and September 15 of each year, commencing on March 15, 2018. The Notes mature on September 25, 2022, unless earlier purchased by us, redeemed, or converted. We believe that we have sufficient capital resources and cash flows from operations to support scheduled interest payments on this debt.

#### *Revolving Line of Credit*

We have a Loan and Security Agreement (the "Loan Agreement") with East West Bank ("EWB") whereby EWB made available to us a secured credit facility in the form of a revolving line of credit (the "Revolving Line of Credit"). On May 8, 2018, we entered into an amendment to the Loan Agreement to amend, restate and extend the Revolving Line of Credit for a three-year period expiring on May 8, 2021. The Revolving Line of Credit is available up to a maximum of the lesser of: (a) \$25.0 million; or (b) a certain percentage of domestic and foreign trade receivables, plus, for the twelve months ending May 8, 2019, the lesser of: (a) \$5.0 million; and (b) a certain portion of our cash and cash equivalents.

As of March 31, 2018, the amount available under the Revolving Line of Credit, net of borrowings, was \$8.9 million. In general, amounts borrowed under the Revolving Line of Credit are secured by a lien on all of our assets, including our intellectual property, as well as a pledge of 100% of our equity interests in our Swiss subsidiary and a pledge of 65% of our equity interests in our Korean subsidiary. The obligations under the Loan Agreement are also guaranteed directly by our Swiss and Korean subsidiaries. In the event that we are in violation of the representations, warranties and covenants made in the Loan Agreement, including certain financial covenants set forth therein, we may not be able to utilize the Revolving Line of Credit or repayment of amounts owed pursuant to the Loan Agreement could be accelerated. We are currently in compliance with the financial covenants that we are required to meet during the term of the credit agreement including the minimum two-quarter rolling EBITDA and minimum liquidity requirements.

Amounts borrowed under the Revolving Line of Credit bear interest, payable monthly. Such interest shall accrue based upon, at our election, subject to certain limitations, either a Prime Rate plus a margin or the LIBOR Rate plus a margin, ranging from 0% to 0.50% or the LIBOR Rate plus a margin ranging from 2.75% to 3.25%, the specific rate for each as determined based upon our leverage ratio from time to time.

We are required to pay an annual commitment fee equal to \$125,000, and an unused commitment fee of the average daily unused amount of the Revolving Line of Credit, payable monthly, equal to a per annum rate in a range of 0.30% to 0.50%, as determined by our leverage ratio on the last day of the previous fiscal quarter. Borrowings under the Revolving Line of Credit were \$5.0 million as of March 31, 2018 .

#### *Other long-term borrowings*

We have various financing agreements for vehicles. These agreements are for up to an original three-year repayment period with interest rates ranging from 0.9% to 1.9% . At March 31, 2018 and December 31, 2017 , \$109,000 and \$115,000 respectively, was outstanding under these financing agreements.

#### **Critical Accounting Estimates**

We describe our significant accounting policies in Note 1, *Description of Business and Summary of Significant Accounting Policies* , of the notes to consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 . We discuss our critical accounting estimates in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 . There have been no significant changes in our significant accounting policies or critical accounting estimates since the end of fiscal 2017 .

#### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* . ASU 2014-09 and its related amendments provide companies with a single model for accounting for revenue arising from contracts with customers and supersedes prior revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We adopted the new accounting standard using the modified retrospective transition method effective January 1, 2018 and recorded a \$0.3 million impact to "accumulated deficit" in our consolidated balance sheet.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* . The standard requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in its balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The guidance in ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. Our initial evaluation of our current leases does not indicate that the adoption of this standard will have a material impact on our consolidated statements of operations. We expect that the adoption of the standard will have a material impact on our consolidated balance sheets for the recognition of certain operating leases as right-of-use assets and lease liabilities.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* , which changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the statement of operations. The new guidance requires entities to report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the statement of operations separately from the service cost component and outside the subtotal of loss from operations. ASU 2017-07 also provides that only the service cost component is eligible for capitalization. This standard will have an impact our loss from operations but will have no material impact on our net loss or net loss per share. The standard is effective for us in the first quarter of 2018, with adoption to be applied on a retrospective basis. We adopted ASU 2017-07 on January 1, 2018, with adoption applied on a retrospective basis. We used the practical expedient that permits us to use the amounts previously disclosed in our defined benefit plans note for the prior comparative periods as the basis for applying the retrospective presentation requirements. In connection with the adoption, we reclassified \$83,000 , \$52,000 and \$20,000 of net non-service costs and income from cost of revenue, selling, general and administrative expense and research and development expense, respectively to "other components of defined benefit plans, net" for the three months ended March 31, 2017.

In February 2018, the FASB issued ASU No. 2018-02 (ASU 2018-02), *Income Statement-Reporting Comprehensive Income*, which amends the previous guidance to allow for certain tax effects “stranded” in accumulated other comprehensive income, which are impacted by the Tax Cuts and Jobs Act, to be reclassified from accumulated other comprehensive income into retained earnings. This amendment pertains only to those items impacted by the new tax law and will not apply to any future tax effects stranded in accumulated other comprehensive income. This standard is effective for us in the first quarter of 2019, with early adoption permitted. We do not expect this ASU to have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes: Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118*. The Amendments in this update add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (“SAB 118”). SAB 118 directs taxpayers to consider the implications of the Tax Cuts and Jobs Act as provisional when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. We recognized the provisional tax impacts of the Tax Cuts and Jobs Act in the fourth quarter of 2017, therefore, our subsequent adoption of ASU 2018-05 in the first quarter of 2018 had no impact on our accounting for income taxes.

There have been no other recent accounting standards, or changes in accounting standards, during the three months ended March 31, 2018, as compared with the recent accounting standards described in our Annual Report on Form 10-K, that are of material significance, or have potential material significance, to us.

### **Off Balance Sheet Arrangements**

None.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

#### **Foreign Currency Risk**

Our foreign currency exposure is related to our subsidiaries in Switzerland and Korea. These subsidiaries have Euro, U.S. dollar and local currency revenue and operating expenses, as well as local currency loans. Changes in these currency exchange rates impact the reported amount (U.S. dollar) of revenue, expenses and debt.

We have certain monetary assets and liabilities, primarily cash, receivables and payables, denominated in foreign currencies. The fair value of these assets and liabilities are affected by movements in currency exchange rates. As of March 31, 2018, the impact of a theoretical detrimental change in foreign currency exchange rates of 10% would result in a hypothetical loss of \$0.5 million. As local currency debt carried by our Swiss subsidiary is minor, changes in foreign currency rates would not significantly impact our financial results.

#### **Interest Rate Risk**

At March 31, 2018, we had a balance of \$5.0 million outstanding under our Revolving Line of Credit. The impact on earnings and cash flow during the next fiscal year from a change of 100 basis points (or 1%) in the interest rate would have a \$50,000 effect. We have various financing agreements for vehicles. These agreements are for up to a three-year repayment period with interest rates ranging from 0.9% to 1.9%. At March 31, 2018, \$109,000 was outstanding under these financing agreements, \$75,000 of which is classified as long-term debt. As these borrowings are minor, changes in interest rates would not significantly impact our financial results.

During the year ended 2017, we issued \$46.0 million of 5.50% Convertible Senior Notes due 2022 (the “Notes”). Interest on the Notes is fixed at 5.5% per year and is payable semi-annually in arrears on March 15 and September 15 of each year, with payments commencing on March 15, 2018.

## **Fair Value Risk**

We had a net pension asset of \$12.1 million and \$11.7 million as of March 31, 2018 and December 31, 2017, respectively. As of the last fair value measurement date of December 31, 2017, the net pension asset included plan assets with a fair value of \$39.1 million. The plan assets consisted of 54% debt and equity securities, 39% real estate investment funds and 7% of cash and cash equivalents. The fair values of debt and equity securities are determined based on quoted prices in active markets for identical assets and are subject to interest rate risk. The fair value measurement of the real estate investment funds is subject to the real estate market forces in Switzerland. We manage our risk by having a diversified portfolio.

## **Item 4. Controls and Procedures**

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Securities and Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2018, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Except as described below, there have been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Securities Exchange Act of 1934 that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

- On April 28, 2017, we completed the acquisition of Nesscap Energy, Inc. We are in the process of integrating the internal controls of the acquired business into our overall system of internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

The information set forth under Note 13 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, is incorporated herein by reference.

### Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which are incorporated herein by reference, except for the risk factors listed below.

#### *There may be changes in, and uncertainty with respect to, legislation, regulation and governmental policy due to recent elections in the United States.*

The recent presidential and congressional elections in the United States have resulted and may continue to result in significant changes in, and uncertainty with respect to, legislation, regulation and government policy. While it is not possible to predict whether and when any such additional changes will occur, changes at the local, state or federal level could impact fuel cell market adoption in the U.S. and the alternative energy technologies sector in the U.S., generally. Specific legislative and regulatory proposals that could have a material impact on us include, but are not limited to, infrastructure renewal programs; and modifications to international trade policy, such as approvals by the Committee on Foreign Investment in the United States; public company reporting requirements; environmental regulation and antitrust enforcement. For example, in March, 2018, President Trump signed a proclamation imposing a 25% tariff on all imported steel products for an indefinite period of time under Section 232 of the Trade Expansion Act of 1962. The tariff will be imposed on all steel imports with the exception of steel imported from Canada, Mexico and Australia, and the administration is considering exemption requests from other countries. Some of our customers for our high voltage capacitor products who are located in the United States have informed us that these tariffs could limit their ability to meet their own customer's demand or purchase material at competitive prices. Consequently, we expect this uncertainty could lead to a decrease or delays in purchases of our products until these customers determine the extent of the impact of these tariffs on their own business. Additionally, on December 22, 2017, the U.S. government enacted expansive tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). Among other provisions, the Tax Act reduces the federal income tax rate from 35% to 21% beginning on January 1, 2018 and eliminated bonus depreciation for end users of our high voltage capacitor products which are utilities. The Tax Act required these utility end customers to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate. These revised financial metrics are now being considered by the local state governments in rate discussions to determine whether and to what extent the benefits must be passed down to the utility's customers through more favorable rates. Given this uncertainty in the impact of the Tax Act, there can be no assurance that our customers in the United States will begin investing in new infrastructure, including the purchase and integration of our high voltage products in utility installations.

**Items 2, 3 and 4 are not applicable and have been omitted.**

### Item 5. Other Information

On May 7, 2018, Maxwell Technologies, Inc. (the "Company"), entered into a Strategic Supplier Agreement (the "Agreement") with Kaifa Technology (H.K.) Limited (the "Manufacturing Partner") pursuant to which the Manufacturing Partner will provide contract manufacturing services for certain of the Company's ultracapacitor products.

Under the Agreement, the Company is required to purchase certain minimum quantities of large ultracapacitor cells, either independently or as incorporated into modules or other systems. If the Company does not order and purchase these minimum quantities, it will renegotiate the value added pricing for the products delivered under the Agreement. Additionally, the Company is required to provide electrode material as a raw material component of the finished goods to be produced by the Manufacturing Partner on a consignment basis. The Agreement also provides the Manufacturing Partner with a right of first refusal for future contract manufacturing opportunities pursued by the Company, subject to certain limitations. The Agreement includes customary terms and conditions relating to, among other things, forecast, ordering, payment terms, delivery, inspection, acceptance and product warranties.

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The initial term of the Agreement continues for a period of three (3) years and, after the initial term, the agreement will automatically renew for additional one year periods. The Agreement may be terminated by either party upon 60 days' notice for the other party's uncured material breach. In addition, either party may terminate the agreement without cause upon twelve months' advance notice. In the event that the Company elects to terminate the Agreement without cause before the costs of certain manufacturing equipment purchased by the Manufacturing Partner in connection with the Agreement has been fully amortized, then the Company would be required to compensate the Manufacturing Partner for the unamortized costs.

The Company has filed a copy of the Agreement with this Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, in redacted form subject to an application for confidential treatment the Company intends to submit separately to the Securities and Exchange Commission.

**Item 6. Exhibits****Exhibit Index**

<b>Exhibit Number</b>	<b>Description of Document</b>	<b>Filed Herewith</b>	<b>Form</b>	<b>File No.</b>	<b>Date Filed</b>
<a href="#">3.1</a>	<a href="#">Composite Certificate of Incorporation of Registrant.</a>		10-K	001-15477	02/16/18
<a href="#">3.2</a>	<a href="#">Amended and Restated Bylaws of Maxwell Technologies, Inc.</a>		8-K	001-15477	02/27/17
<a href="#">4.1</a>	<a href="#">Indenture dated as of September 25, 2017 between Maxwell Technologies, Inc. and the Trustee.</a>		8-K	001-15477	09/26/17
<a href="#">4.2</a>	<a href="#">Form of 5.50% Convertible Senior Note due 2022 (included in Exhibit 4.1).</a>		8-K	001-15477	09/26/17
<a href="#">10.1</a>	<a href="#">Strategic Supplier Agreement, dated May 7, 2018, by and between Maxwell Technologies, Inc. and Kaifa Technology (H.K.) Limited.</a>	X			
<a href="#">10.2</a>	<a href="#">Amended and Restated Loan and Security Agreement, dated May 8, 2018, by and between Maxwell Technologies, Inc. and East West Bank.</a>		8-K	001-15477	05/08/18
<a href="#">31.1</a>	<a href="#">Certification of Principal Executive Officer pursuant to Rule 13a-14(a) (Section 302 Certification) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	X			
<a href="#">31.2</a>	<a href="#">Certification of Principal Financial Officer pursuant to Rule 13a-14(a) (Section 302 Certification) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	X			
<a href="#">32</a>	<a href="#">Certification of Principal Executive Officer and Principal 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.</a>	X			
101	The following financial statements and footnotes from the Maxwell Technologies, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) (iv) Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements.	X			

**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: May 9, 2018

By: /s/ Franz Fink

Franz Fink

President and Chief Executive Officer

Date: May 9, 2018

By: /s/ David Lyle

David Lyle

Senior Vice President, Chief Financial Officer,  
Treasurer and Secretary

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY ASTERISKS \*\*\*, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

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**STRATEGIC SUPPLIER AGREEMENT**

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**STRATEGIC SUPPLIER AGREEMENT**

Between

**KAIFA TECHNOLOGY (H.K.) LIMITED**

And

**MAXWELL TECHNOLOGIES, INC.**

# STRATEGIC SUPPLIER AGREEMENT

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**THE PARTIES.** Kaifa Technology (HK) Ltd, a company incorporated in Hong Kong and whose principal office is located at 2201 HK Worsted Mills Ind Bldg, 31-39 Wo Tong Tsui St., Kwai Chung, NT, Hong Kong, Hong Kong (hereinafter “**KAIFA**”) and Maxwell Technologies, Inc., a company incorporated in Delaware and whose principle office is located at 3888 Calle Fortunada, San Diego, California 92123, United States (hereinafter “**MAXWELL**”) have held discussions to form an agreement to manufacture MAXWELL’s Large Cell and Module Family of Products.

**RECITALS,** Whereas, KAIFA is a leading electronic manufacturing service provider.

Whereas, MAXWELL is the sole owner of certain proprietary technology including know-how, trade secrets, patents and/or patent applications related to the Products and has previously produced the Products.

Whereas, MAXWELL and KAIFA are interested in entering this Strategic Supplier Agreement (the “**Agreement**”) to reflect the ongoing activities of the Parties (as defined below) and to establish a framework for the cooperation between the companies for the manufacture of the Products.

Whereas, MAXWELL wishes to have the Products manufactured and KAIFA is willing to manufacture the Products, all subject to the terms and conditions of this Agreement.

Now, wherefore, in consideration of the covenants and promises contained herein, receipt and sufficiency of which is hereby acknowledged, MAXWELL and KAIFA agree as follows:

## 1. **DEFINITIONS**

**Large Series Cells** means MAXWELL ultracapacitors 650F – 3400F range.

**License** shall have the meaning as set forth in Section 2.1 herein.

**Maxwell Module Design** means the design of any module utilizing Medium Series Cells and/or Large Series Cells.

**Medium Series Cells** means MAXWELL ultracapacitors 310F-400F range.

**Module Products** means ultracapacitor modules built by KAIFA including 16V- 160V Modules which incorporate the Medium Series Cells, Large Series Cells and the MAXWELL Module Design.

**Process Improvements** shall have the meaning as set forth in Section 2.4 herein.

**Products** means (a) Large Series Cells and (b) Module Products

**Parties** means the parties to this Agreement.

**Technology** means all information required to enable the manufacture of the Products as contemplated under this Agreement including all patented, know-how and/or trade secret

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technology in relation to the Products, all product designs (including the MAXWELL Module Design), a complete list of vendors, and all process instructions and test protocols.

**Training** shall have the meaning as set forth in Section 2.5 herein.

## 2. **RIGHTS AND OBLIGATIONS OF THE PARTIES**

2.1 **Licence**. Subject to the limitations outlined in this Agreement, MAXWELL grants to KAIFA for the Term of this Agreement a nonexclusive, non-transferable, non-sublicenseable, royalty free licence to use the Technology solely to manufacture the Products (the “**Licence**”), which shall be sold exclusively to MAXWELL.

2.2 **Use Scope**. KAIFA agrees to not manufacture or sell, either directly or indirectly, the Products to any other entity aside from MAXWELL and its successors.

2.3 **Competitor’s products**. KAIFA agrees not to use or disclose the Technology or Process Improvements (as defined below) for the purposes of the manufacture of ultracapacitor products of any other third party without the prior written consent of MAXWELL.

2.4 **Technology Transfer**. MAXWELL shall provide KAIFA with the License and a transfer of know-how to enable KAIFA to manufacture the Products and to utilize the Technology to design process improvements for the manufacture of the Products (“**Process Improvements**”).

2.4.1 **MAXWELL Obligations**. MAXWELL shall provide KAIFA with the following:

- (a) manufacturing documentation, specifications, drawings, equipment requirements, MAXWELL Module Design and other items that are required by KAIFA to manufacture the Products; and
- (b) electronic and physical copies of product specifications for the Products; and
- (c) assistance to KAIFA to select factory line equipment; and
- (d) approved list of vendors and suppliers for components.

2.5 **Training and Support for KAIFA Personnel**. At the request of KAIFA, MAXWELL agrees to provide training and ongoing engineering support to KAIFA and its employees in relation to the manufacture of the Products (“**Training**”). All out of pocket travel costs and expenses will be borne by the party which incurs the cost.

2.6 **MAXWELL Responsibilities**. MAXWELL agrees to provide telephone, e-mail, and fax support as required by KAIFA to help KAIFA’s implementation of the aforementioned know-how, and to ensure KAIFA’S knowledge of manufacturing developments for the Products are updated for the duration of the Agreement. As long as the Agreement is in place, MAXWELL shall disclose to KAIFA and grant KAIFA a nonexclusive, non-transferable, non-sublicenseable, royalty-free license to all subsequent improvements which are directly related to the Products and Technology and are necessary in order for KAIFA to accomplish all obligations under this Agreement.

2.7 **KAIFA Responsibilities**. KAIFA shall provide, at its own expense, personnel to receive the Training from MAXWELL, all factory space, manufacturing equipment and qualified personnel. Such qualified personnel shall include the “\*\*\*” as outlined in Section 3.2.

## 3. **HUMAN RESOURCE REQUIREMENTS**

3.1 **Dedicated Management Team**. KAIFA shall designate a group of management level personnel (“**Dedicated Management Team**”) to manage, on an exclusive basis, the manufacturing and other services

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to be performed for MAXWELL pursuant to this Agreement. MAXWELL shall approve key members of the Dedicated Management Team.

3.2 **\*\*\***. KAIFA must offer employment to the individuals identified by MAXWELL (the “ \*\*\* ”) whom are currently or were previously employed by \*\*\* (“ \*\*\* ”) and are expected to end such employment with \*\*\* in \*\*\*. The terms of such offers of employment, including salary and benefits, must not be less than those currently granted to the \*\*\* who remain employed by \*\*\* until \*\*\*. After an initial six (6) month employment period, KAIFA may, in its discretion, terminate all or certain of the \*\*\* , provided that, KAIFA replaces such terminated \*\*\* with equally qualified replacement employees that are approved by MAXWELL.

3.3 **Incentives**. KAIFA shall use its best efforts to retain all members of the Dedicated Management Team and \*\*\* , who are performing their duties satisfactorily, for as long as this Agreement is in effect by offering the members of the Dedicated Management Team and \*\*\* incentive bonuses and/or including non-competition provisions in their employment contracts (to the full extent allowable under applicable law).

3.4 **Replacement Employees**. In the event any member of the Dedicated Management Team \*\*\* shall cease to be an employee of KAIFA, KAIFA shall use its best efforts to replace such member of the Dedicated Management Team \*\*\* with an individual of equal skill and qualifications (“ **Replacement Employee** ”) within ninety (90) days of such employee’s termination; subject to MAXWELL’s approval rights for members of the Dedicated Management Team as outlined in Section 3.1.

3.5 **Other Personnel**. KAIFA shall be responsible for providing all other qualified personnel that may be required for KAIFA to perform its obligations hereunder.

3.6 **MAXWELL Employees**. KAIFA shall provide living accommodations in the KAIFA Dongguan facility to MAXWELL employees that work onsite at the Dongguan site and shall provide such MAXWELL employees with transportation to and from the manufacturing facilities and housing facilities, all at KAIFA’s sole expense.

## 4. **MANUFACTURING FACILITIES AND EQUIPMENT**

4.1 **Manufacturing Facilities**. KAIFA shall provide a secured area to MAXWELL \*\*\*, for MAXWELL’s exclusive production of the Products and shall restrict access to such production area to authorized personnel. The lobby entrance on the \*\*\* shall have approved MAXWELL signage prominently displayed.

4.2 **Facilities Timeline**. KAIFA shall be responsible for constructing and implementing two cell production lines and one module production line, incorporating the \*\*\* (as defined below) pursuant to the milestones/schedule in Appendix A attached hereto.

4.3 **\*\*\* Equipment**. KAIFA will purchase, at its sole expense, the manufacturing equipment and other assets as mutually agreed by MAXWELL and KAIFA (the “ \*\*\* ”) from \*\*\* on mutually agreed timeline, such equipment costs to be amortized over the Products sold to MAXWELL during the first three (3) years of production, such cost to be agreed by both parties. MAXWELL and KAIFA will meet regularly to identify in writing all \*\*\* that is to be purchased by KAIFA. The writing will be in the form of an asset matrix/schedule, to include: (i) asset number, (ii) asset description (both in English and Chinese), (iii) asset location, and (iv) asset cost (USD). After all costs associated with the \*\*\* have been fully amortized pursuant to the terms herein, all title and ownership of such \*\*\* shall be transferred to MAXWELL and KAIFA agrees to execute any and all documents or agreements required to effectuate such transfer of ownership. In the event that the \*\*\* or any portion thereof are destroyed or otherwise damaged due to KAIFA’s negligence or willful misconduct, KAIFA shall pay MAXWELL an amount equal to the cost to repair the damaged \*\*\* . MAXWELL shall compensate KAIFA for reasonable losses resulting from unreasonable delay in the equipment transfer timeline which is caused by MAXWELL or \*\*\*.

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4.4 **Other Equipment & Tooling**. KAIFA shall be responsible for obtaining and/or building, at its sole expense, all other equipment or tooling required to manufacture the Products (“**Tooling**”) pursuant to this Agreement. If the final Tooling cost is higher than \*\*\*, then the Parties will discuss in good faith the potential amortization of certain Tooling costs. To the extent any Tooling costs are amortized, all title and ownership of such Tooling shall be transferred to Maxwell and KAIFA agrees to execute any and all documents or agreements required to effectuate such transfer of ownership.

4.5 **MAXWELL Equipment**. In the event MAXWELL provides any of its own equipment or assets to KAIFA (“**MAXWELL Assets**”), such MAXWELL Assets shall remain the exclusive property of MAXWELL and shall be properly labeled, inventoried and tracked by KAIFA. KAIFA shall properly store and maintain the MAXWELL Assets at its sole expense and shall be responsible for the safekeeping thereof. In the event the MAXWELL Assets or any portion thereof are destroyed or otherwise damaged due to KAIFA’s negligence or willful misconduct, KAIFA shall pay MAXWELL an amount equal to the book value of such damaged MAXWELL Asset. The MAXWELL Assets shall be returned to MAXWELL upon the earlier of (i) the termination or expiration of this Agreement or (ii) MAXWELL’s request.

4.6 **Maintenance and Repair**. KAIFA shall be responsible for maintaining the \*\*\*, Tooling and MAXWELL Assets (collectively, “**Product Manufacturing Equipment**”) to the standards as mutually agreed upon by the Parties and shall ensure that the Product Manufacturing Equipment remains in good, safe operating condition. All maintenance, repairs and servicing of the Product Manufacturing Equipment shall be at KAIFA’s cost and expense. Maxwell shall ensure that the \*\*\* meets the design requirements prior to the start of production. In the event the \*\*\* is not in good working condition upon purchase by KAIFA, KAIFA reserves the right to request a maintenance and repair fee to the extent the initial maintenance and repair costs are higher than other comparable equipment.

4.7 **Exclusive Use**. The \*\*\*, MAXWELL Assets and Tooling shall be used exclusively for the manufacture of the Products for MAXWELL.

5. **APPROVED VENDORS AND SUPPLIERS**. KAIFA shall only utilize vendors and suppliers that are on MAXWELL’s approved vendor and supplier list for the procurement of parts, materials or suppliers related to the manufacture of the Products hereunder.

6. **MAXWELL’S RETAINED RIGHTS**. MAXWELL and/or its successor company retains all rights pertaining to the Products and Technology including, but not limited to, the right to manufacture the Products itself or have the Products manufactured by a third party and the right to sell any of the Products worldwide. Except as provided in Section 2.1, MAXWELL does not grant and nothing herein shall be construed as granting any license to or ownership rights in the Products and Technology.

7. **KAIFA’S FIRST RIGHT OF REFUSAL**. KAIFA shall have the “right of first refusal” for the future manufacture of the Products which MAXWELL would like to outsource for manufacturing. MAXWELL shall notify KAIFA in writing of any future outsourcing for manufacturing of the Products, including its quantity requirements, proposed pricing, and any other required terms and conditions. KAIFA shall then notify MAXWELL of its acceptance of the outsourcing offer within twenty (20) business days. If KAIFA fails to reply to MAXWELL within the specified period of time or KAIFA’s response modifies the terms in MAXWELL’s notice, KAIFA will be deemed to have waived such “right of first refusal.” Once KAIFA has accepted such offer, MAXWELL shall engage KAIFA to provide such manufacturing activities and shall not engage any third party for conducting such outsourcing activities.

## 8. **SUPPLY AGREEMENTS**

8.1 **Supply of Products to MAXWELL by KAIFA**. At the beginning of each calendar quarter during the term of this Agreement, MAXWELL agrees to provide KAIFA with a schedule covering MAXWELL’S

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anticipated Product manufacturing requirements for the following three (3) month period (the current quarter) and an estimated rolling monthly forecast for the following two (2) quarters (“**Product Demand Schedule**” or “**PDS**”).

8.1.1 **Binding Forecast**. The PDS shall be a “Binding Forecast” for manufacture of the Products for the current quarter. The Binding Forecast will follow normal terms and conditions with payment made according to the pricing dictated below in Section 9. The estimated rolling monthly forecast also set out in the PDS will be a non-binding forecast to provide KAIFA with anticipated future manufacturing requirements.

8.1.2 **Flexibility**. Subject to Section 8.4, MAXWELL reserves the right to modify the Binding Forecast at no cost to MAXWELL. MAXWELL may order Products in excess of the Binding Forecast by 20% in the first month, 50% in the second month, and 100% in the third month of the current quarter, subject only to raw material availability and maximum capacity of the production line (equipment + labor). If raw materials are not available to and cannot be reasonably secured by KAIFA to manufacture Products in excess of the Binding Forecast, KAIFA shall not be considered in breach of this Agreement by failing to fulfill MAXWELL’s order requirements. Subject to Section 8.4, MAXWELL may also order less than the Binding Forecast by 0% in the first month, 20% in the second month, and 30% in the third month.

8.1.3 **Purchase Order**. MAXWELL will place a blanket purchase order (“**Blanket Purchase Order**”) for each quarter and will make written request to KAIFA for shipment of the Products

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on an as needed basis. The minimum shipment quantity must meet MAXWELL's optimized pallet quantity for the respective product.

8.1.4 **Raw Material Buffer Stock Agreement**. KAIFA shall be required to have "On Hand" enough raw material to cover (i) the current quarter's Binding Forecast and (ii) 4 weeks of the immediately following quarter's non-binding forecast as stated in the PDS for Product SKUs: \*\*\*, or any other Products specifically identified by MAXWELL.

8.2 **Raw Materials**. Other than Consigned Material supplied by MAXWELL pursuant to Section 8.5 below and subject to Section 5 above, KAIFA shall be responsible for procuring all raw materials required for the manufacturing of the Products. In addition to the value-added prices appearing in Appendix B, Maxwell shall pay to Kaifa the previously agreed raw material costs for each Product delivered. Before the conclusion of every calendar quarter, Kaifa shall deliver to Maxwell a schedule of all additional raw material and piece part costs associated with each Product for the immediately following quarter. Maxwell shall approve or reject such raw material and piece part costs in a writing and, if approved, such amount shall be added to the value-added pricing referenced above to constitute the total purchase price of the respective Product. The parties hereby agree that such writing shall constitute a modification of the Agreement whether or not such statement explicitly appears on such writing.

8.3 **Cost Reduction and Volume Plans**. MAXWELL, in cooperation with KAIFA, will publish a cost reduction and volume plan that meets its specific business requirements on a semi-annual basis.

8.3.1 **Proposal Consideration**. MAXWELL agrees to openly consider any cost reduction proposal provided by KAIFA, including but not limited to: material changes, process modifications, parts conditioning and test protocols. MAXWELL will provide KAIFA with a test plan for qualifying any such changes. However, the final decision to implement any of these suggested changes must be agreed to by both Parties after full evaluation and with confirmation in writing.

8.3.2 **External Cost Reduction**. All cost reduction achieved by MAXWELL on any Products outside of the actions specified in this Agreement will be completely to the benefit of MAXWELL, financially or otherwise.

8.4 **Minimum Commitments**. MAXWELL shall purchase a minimum manufacturing volume of \*\*\* Large Series Cells per quarter from Kaifa. In the event MAXWELL purchases less than \*\*\* Large Series Cells in any given quarter, the Parties shall negotiate in good faith a potential price adjustment for the reduced purchase amount. MAXWELL or its wholly owned subsidiaries retain the right to manufacture any of its own Products.

## 8.5 **Supply of Consigned Material.**

8.5.1 MAXWELL shall supply the electrodes to KAIFA for the manufacture of the Large Series Cells (" **Consigned Electrode** "). The Consigned Electrode shall not be purchased by KAIFA, shall remain the exclusive property of MAXWELL and shall be properly labeled, inventoried and tracked by KAIFA. KAIFA shall provide MAXWELL with periodic inventory reports. For

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avoidance of doubt, the pricing of the Products as outlined in Section 8.2 above properly accounts for MAXWELL's supply of electrode.

8.5.2 KAIFA shall store all Consigned Electrode at its sole expense and shall be responsible for the safekeeping thereof. In the event the Consigned Electrode or any portion thereof is destroyed or otherwise damaged due to KAIFA's negligence or willful misconduct, KAIFA shall pay MAXWELL an amount equal to MAXWELL's then current retail price of such Consigned Electrode.

8.5.3 If MAXWELL does not supply KAIFA with adequate Consigned Electrode for the manufacture of Products ordered by MAXWELL, KAIFA shall not be in breach of this Agreement for the failure to meet the order.

8.5.3 MAXWELL shall the right to access any facilities in which the Consigned Electrode are stored, to observe any physical inventory counts performed by KAIFA, and to audit the inventory levels of such Consigned Electrode at any time.

8.6 **Special Terms.** KAIFA acknowledges and agrees that, from time to time, MAXWELL may submit to KAIFA special orders for Products that contain additional requirements, manufacturing, delivery and/or supply obligations contractually required of MAXWELL by third parties (" **Special Terms** "). MAXWELL shall identify such Special Terms in the email submission of such special orders, and copy the respective KAIFA personnel assigned for MAXWELLS account. To the extent that KAIFA accepts an order for Products containing or otherwise referencing such Special Terms, such Special Terms shall be deemed part of this Agreement and contractual obligations of KAIFA hereunder. KAIFA shall defend, indemnify and hold harmless MAXWELL from and against all liabilities, losses, costs, damages, legal fees and claims which MAXWELL suffers from KAIFA's breach of such Special Terms.

## 9. **FINANCIAL TERMS**

9.1 **Payments.** The pricing schedule for the respective Products shall be as outlined in Section 8.2 and Appendix B attached hereto, as amended from time to time. The prices are for DDP MAXWELL Selected Facility (as defined in INCOTERMS 2010) delivery terms.

9.2 **Terms.** All payments by MAXWELL shall be made in US dollars without any set off, deduction or withholding of any kind, unless required by applicable law. Payment shall be made by direct transfer to the bank account stipulated by KAIFA. MAXWELL shall bear its own bank charges. Payment is due net 30 days after the invoice date. Blanket Purchase Orders will remain valid for three (3) months from the date of issuance. The local logistic cost for Consigned Electrode to and from KAIFA's factory once the Consigned Electrode has been delivered to KAIFA's Hong Kong Container terminal by Maxwell, for both receipt and delivery, is inclusive in the pricing and shall be borne by KAIFA supply chain management.

## 10. **CONFIDENTIALITY**

10.1 **Confidential Information.** For purposes of this Agreement, confidential or proprietary information is that which the disclosing party wishes to maintain control by preventing its unauthorized use, reproduction or disclosure, except that it is expressly understood by both Parties that proprietary or confidential information does not include: (a) Information which at the time of disclosure is in the public domain; or (b) Information which, after disclosure, is published or otherwise becomes part of the public domain through no fault of the receiving party; or (c) Information which the receiving party can show was received by it after the time of disclosure hereunder from a third party who did not require the receiving party to hold it in confidence and who did not acquire it, directly or indirectly, from the disclosing party; or (d) Information which was known to the receiving party prior to the time of the disclosure; or (e) Information which is disclosed with the prior written permission of the disclosing party; or (f) Information which is independently developed by the receiving party, as evidenced by its business records. Each party agrees to identify the information deemed

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to be of a confidential or proprietary nature orally, visually, and in the case of physical or electronic writings with markings such as “Confidential Information”. All oral or visual information deemed to be Confidential Information must be confirmed in writing by the disclosing party within thirty (30) days after such oral or visual disclosure.

10.2 **Absolute Confidentiality**. Both Parties agree to the absolute confidentiality of all confidential information including, but not limited to, information pertaining to the manufacture of the Products. Both MAXWELL’s intellectual property and know-how and any KAIFA generated proprietary information will be subject to the confidentiality obligations herein. It is understood and agreed by the parties that this Agreement may be publically disclosed in connection with either parties’ legal reporting and annual disclosure obligations.

10.3 **Responsibility**. Each party agrees to keep in confidence and protect disclosed confidential or proprietary information using a standard of at least reasonable care for a period of five (5) years from the date of termination of this Agreement, and in no event will use a standard of care that is less than it employs with respect to its own confidential information; except, however, that in the case of confidential information that is identified by a party as a trade secret or proprietary know how, such confidential information shall be kept in confidence and protected using a standard of at least reasonable care in perpetuity, or until a disclosing party informs the receiving party that the confidential information is no longer a trade secret or proprietary know how. In addition, each party agrees that it will not disclose to others, duplicate, or use such information for any purpose other than that for which it is intended without the prior written consent of the disclosing party. Each party agrees that prior to disclosure to any Parties that are not employees, representatives, or subsidiaries of the receiving party, written approval from the disclosing party must be obtained.

10.4 **No Reverse Engineering**. KAIFA shall not reverse engineer, disassemble or decompile the Consigned Electrode, which embodies MAXWELL’s Confidential Information and which is provided to KAIFA. Subject to the foregoing, KAIFA shall be permitted to disassemble or decompile the Products for the sole purpose of training its employees on the manufacture of the Products or to perform failure analysis support for defective Products as required under this Agreement.

10.5 **Return of Information**. Upon demand by the disclosing party, all physical or electronic confidential or proprietary information shall be permanently destroyed by the receiving party, or returned by the receiving party to the disclosing party. Such destruction or return of confidential information will be documented in a writing sent to the disclosing party.

## 11. **PROPRIETARY RIGHTS**

11.1 **MAXWELL Indemnity**. MAXWELL agrees to indemnify and hold harmless KAIFA and/or its affiliates from and against all costs, claims, and liabilities based upon the alleged infringement by the Products or the Technology of any patent, design, copyright or other proprietary right or interest of any third party. This indemnity will only apply if MAXWELL is notified within 10 business days in writing of any claim or threatened claim and KAIFA provides MAXWELL with such reasonable assistance as MAXWELL may request with respect to the defense or settlement. Further, the indemnity will not apply to any use of the Products for which they are not intended and will not apply to any infringement of third party intellectual property rights to the extent that the infringement is caused by a modification to the Products or Technology by KAIFA which was not authorized by MAXWELL.

11.1.1 **New License or Design Modification**. In the event that an intellectual property infringement suit is threatened or commenced against KAIFA in concert with its fulfilling its production obligation to MAXWELL, MAXWELL shall either procure for KAIFA the right to use the challenged Technology or change the design of the Products so as to eliminate the infringing characteristics or properties.

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11.1.2 **No Further Warranty**. The foregoing states the entire liability of MAXWELL with respect to patent infringement.

11.2 **KAIFA Indemnity**. KAIFA agrees to indemnify and hold harmless MAXWELL based on any claim that any manufacturing processes developed or provided by KAIFA, including any Process Improvements, under this Agreement infringe or violate any patent, copyright, trademark, trade secret or other proprietary right of the third party. This indemnity will only apply if KAIFA is notified within 10 business days in writing of any claim or threatened claim and MAXWELL provides KAIFA with such reasonable assistance as KAIFA may request with respect to the defense or settlement. Further, the indemnity will not apply to any use of the Products for which they are not intended and will not apply to any infringement of third party intellectual property rights to the extent that the infringement is caused by a modification to the Products or Technology by MAXWELL.

11.3 **Intellectual Property**. KAIFA shall retain ownership of all its intellectual property owned by it prior to this Agreement and shall be the legal owner of those intellectual property generated solely by KAIFA, excluding the Process Improvements described in Section 2 above. All Process Improvements, including the underlying intellectual property therein, shall be considered “work-made-for-hire” for MAXWELL, and therefore, MAXWELL shall be the owner thereof for all purposes throughout the world. If for any reason any of the foregoing Process Improvements are not deemed a work-made-for-hire, then KAIFA hereby grants and irrevocably assigns to MAXWELL all such rights, title and interest to the Process Improvements. During the term of this Agreement, MAXWELL agrees to and hereby does grant to KAIFA an irrevocable, non-exclusive, non-transferable, royalty-free license to use any Process Improvement. MAXWELL also agrees to and hereby does grant to KAIFA an irrevocable, non-exclusive, non-transferable, royalty-free license to reproduce, translate, and use any copyrighted or copyrightable material relating to the Process Improvement including without limitation, any reports, drawings, blueprints, data, software and technical information, for use during the term of this Agreement.

## 12. **DISCLAIMERS; LIMITATION OF LIABILITIES**

12.1 WITH RESPECT TO ANY MATERIALS, INFORMATION, TECHNOLOGY OR SERVICES PROVIDED BY MAXWELL, MAXWELL EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT.

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12.2 MAXWELL shall defend, indemnify and hold KAIFA harmless from and against all liabilities, losses, costs, damages, legal fees and claims which KAIFA suffers in respect of physical injury, death and/or physical damages to any person or property whatsoever that may arise out of or in consequence of the usage of properly manufactured, non-defective Products. MAXWELL WILL NOT BE LIABLE WITH RESPECT TO ANY SUBJECT MATTER UNDER THIS AGREEMENT FOR: (I) ANY INDIRECT, CONSEQUENTIAL, SPECIAL OR PUNITIVE DAMAGES OR FOR ANY LOSS OF BUSINESS, LOSS OF REVENUE OR LOSS OF PROFIT WHETHER SOUNDING IN CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY OR FOR (II) ANY AMOUNTS IN EXCESS IN THE AGGREGATE OF THE AMOUNTS PAYABLE TO KAIFA HEREUNDER DURING THE TWELVE (12) MONTH PERIOD PRIOR TO THE DATE THE CAUSE OF ACTION AROSE.

12.3 KAIFA shall defend, indemnify and hold MAXWELL harmless from and against all liabilities, losses, costs, damages, legal fees and claims which MAXWELL suffers in respect of injury, death and/or physical damages to any person or property whatsoever that may arise out of or in consequence of the usage of improperly manufactured or defective Products. KAIFA WILL NOT BE LIABLE WITH RESPECT TO ANY SUBJECT MATTER UNDER THIS AGREEMENT FOR: (I) ANY INDIRECT, CONSEQUENTIAL, SPECIAL OR PUNITIVE DAMAGES OR FOR ANY LOSS OF BUSINESS, LOSS OF REVENUE OR LOSS OF PROFIT WHETHER SOUNDING IN CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY OR FOR (II) ANY AMOUNTS IN EXCESS IN THE AGGREGATE OF THE AMOUNTS PAYABLE TO KAIFA HEREUNDER DURING THE TWELVE (12) MONTH PERIOD PRIOR TO THE DATE THE CAUSE OF ACTION AROSE.

## 13. TERM AND TERMINATION OF AGREEMENT

13.1 **Term**. This Agreement shall remain in effect for three (3) years following the date of the later of the two signatures at the bottom of this Agreement.

13.2 **Renewal**. This Agreement shall automatically be renewed thereafter on a yearly basis until it is terminated by either party under the termination clauses as referenced below.

13.3 **Termination for Cause**. Both Parties have the right to terminate this Agreement immediately if the other party is in material breach of this Agreement and the party has failed to cure the breach within sixty (60) days after receiving written notice of said breach.

13.4 **Termination for Convenience**. Either Party may terminate this Agreement without cause by giving the other party twelve (12) months written notice. If Maxwell terminates the agreement without cause before the \*\*\* costs are fully amortized pursuant to Section 4.3, MAXWELL shall compensate KAIFA for the remaining un-amortized cost.

13.5 **Post-Termination Activity**. In the case of termination for convenience, both Parties agree to fulfill whatever outstanding activities exist or will exist within the termination notice period. No payments under this Agreement will be refunded upon said termination. All outstanding orders, deliveries, and invoices and other amounts due between the Parties upon termination will be honored and paid.

13.6 **Superseding Agreement**. This Agreement will be terminated if it is superseded by a new agreement executed by both Parties covered under this Agreement.

## 14. OTHER PROVISIONS

14.1 **Assignment**. Subject to the terms hereof, this Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the Parties hereto, but it shall not be assigned in whole or in part by KAIFA without the prior written consent of the other party. KAIFA shall not have the right to subcontract

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any of its obligations under this Agreement to any third party nor to assign all or any portion of its rights under this Agreement to any of its affiliates, other than Dongguan Kaifa Technology Co., Ltd, without the prior express written consent of MAXWELL. Further, KAIFA shall not novate its rights and obligations under this Agreement without the prior express written consent of MAXWELL. Maxwell shall be entitled to assign this Agreement in whole or in part without the consent of KAIFA, provided that KAIFA shall be entitled to adjust payment terms in good faith based on assignee's credit worthiness and financial standing.

14.2 **Amendments and Notices**. This Agreement may only be changed by a written amendment signed by both Parties. All notices, requests, consents and other communication required or permitted under this Agreement shall be in writing and shall be sent by registered mail, facsimile, or e-mail accompanied with a signed original sent by registered mail) to the following addresses:

To KAIFA: Kaifa Technology (HK) Ltd  
2201 HK Worsted Mills IndBldg,  
31-39 Wo Tong Tsui St.,  
Kwai Chung, NT, Hong Kong, Hong Kong  
Fax: 86-755-8327 5054  
Attn.: Diana Cao  
E-mail: JingCao@kaifa.cn

To MAXWELL: Maxwell Technologies, Inc.  
3888 Calle Fortunada  
San Diego, California, USA 92109  
Fax: +1-858-503-3341  
Attn.: Emily Lough  
E-mail: elough@Maxwell.com

Either party may change their above address by written notice to the other party.

14.3 **Warranty**.

10.3.1 KAIFA represents and warrants that: (1) all Products delivered pursuant to this Agreement will be new, unless otherwise specified; (2) all Products will strictly conform to applicable specifications, drawings, and \*\*\* notified in writing by MAXWELL, and all items will be free from material defects in manufacture and \*\*\*; and (3) that any services performed hereunder shall be performed in accordance with the reasonable instructions of MAXWELL, and with the skill and judgment exercised by provider of services of a similar nature. Remedies under this warranty shall be limited to \*\*\*.

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The foregoing warranties shall survive any delivery, inspection, acceptance or payment by MAXWELL. The warranty shall be provided for \*\*\*.

10.3.2 If, however, the Products and related processes fail to meet either Maxwell's written specifications for quality and reliability as agreed to and/or accepted in writing by KAIFA, or any standards established under VDA 6.3 Quality Audits and/or TS 16949 Quality Audits and as a result of the actions or inactions, in whole or in part, on behalf of KAIFA, then KAIFA shall take all necessary actions to regain compliance with all quality and performance standards. Further, if during a future audit KAIFA is issued an official audit action item which results in a downgrade of KAIFA's supplier status to any level below an "A" Quality Supplier or equivalent, according to MAXWELL's customer standards, and such downgrade is caused, in whole or in part, as a result of KAIFA's actions or inactions, then KAIFA shall remedy any issues causing the action item before the next audit cycle, typically ninety (90) days. If KAIFA fails to take the corrective actions identified above within ninety (90) days, then MAXWELL shall have the right to terminate this Agreement for material breach by KAIFA. Such termination shall be immediate as of the respective dates listed above and without the need for notice as provided under Section 13.3. Such termination shall also be without penalty to MAXWELL.

10.3.3 MAXWELL represents and warrants that: (1) the Technology is owned by MAXWELL and it has the right to license the Technology to KAIFA on the terms set out in this Agreement; (2) it has not entered into any agreement, arrangement or understanding which restricts or otherwise inhabits KAIFA's right to use the Technology as contemplated in this Agreement; and (3) the use of the Technology by KAIFA will not require a license from a third party or infringe the rights of a third party.

14.4 **Quality Management**. MAXWELL and KAIFA shall enter into a Supplier Quality Management Agreement that establishes guidelines for effective company-to-company supplier quality management.

14.5 **Headings**. The headings and titles to the Articles and Sections of this Agreement are inserted for convenience only and will not be deemed a part of this Agreement or affect the construction of any provision of this Agreement.

14.6 **Entire Agreement**. This Agreement is the formal written agreement of the Parties and constitutes the entire agreement and understanding between the Parties concerning the subject matter hereof and supersedes all prior writing or understanding of the Parties regarding the manufacture in China of the Products.

14.7 **Waiver**. The failure by either party to enforce at any time any of the provisions of this Agreement, or to exercise any election or option provided herein, shall in no way be construed as a waiver of such provisions or options, nor in any way to affect the validity of this Agreement or any part thereof, or the right of either party thereafter to enforce each and every such provision.

14.8 **Remedies**. Unless otherwise expressly provided in this Agreement, the rights and remedies set forth in this Agreement are in addition to, and not in limitation of, other rights and remedies under this Agreement, at law or in equity, and the exercise of one right or remedy will not be deemed a waiver of any other right or remedy.

14.9 **Force Majeure**. Neither party shall be held responsible for failure or delay to perform all of any part of this Agreement due to flood, fire, earthquake, draught, war or any other event which could not be predicted, controlled, avoided or overcome by the relative party. However, the party affected by the event of Force Majeure shall inform the other party of the occurrence in writing as soon as possible and thereafter send a certificate of the event issued by the relevant authorities to the other party within 15 days after the occurrence. In the event that a condition of Force Majeure shall continue for a period of three (3) months such that this Agreement shall become commercially impracticable, MAXWELL and KAIFA shall each have the right to cancel this Agreement.

# STRATEGIC SUPPLIER AGREEMENT

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14.10 **Dispute Resolution**. If any dispute arises, both Parties will try to resolve the dispute by negotiation. If the dispute is not resolved by negotiation, the dispute will be settled by arbitration using this English version of the Agreement. If either party requests arbitration, it will be held in San Diego, California, USA, in accordance with the rules of the American Arbitration Association. The arbitration award will be final and each party will pay its own arbitration expenses.

14.11 **Governing Law**. This Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

[SIGNATURE PAGE FOLLOWS]

# STRATEGIC SUPPLIER AGREEMENT

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This Agreement has been duly authorized by both KAIFA and MAXWELL and has been signed by both Parties.

MAXWELL TECHNOLOGIES, INC.      KAIFA TECHNOLOGY (HK) LTD

/s/ Earl Wiggins  
Earl Wiggins  
Vice President, Operations

/s/ Hao Zhou  
Hao Zhou  
General Manager of Commercial and Industrial Business Unit

Date May 7, 2018

Date May 4, 2018

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

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# STRATEGIC SUPPLIER AGREEMENT

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## Appendix A Facilities Timeline

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

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# STRATEGIC SUPPLIER AGREEMENT

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## Appendix B Products and Pricing

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

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Franz Fink, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Maxwell Technologies, Inc. for the quarter ended March 31, 2018 .
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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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.

Date: May 9, 2018

MAXWELL TECHNOLOGIES, INC.

By: /s/ Franz Fink

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Franz Fink

President and Chief Executive Officer

(Principal Executive Officer)

## CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, David Lyle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Maxwell Technologies, Inc. for the quarter ended March 31, 2018 .
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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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.

Date: May 9, 2018

MAXWELL TECHNOLOGIES, INC.

By: /s/ David Lyle

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David Lyle

Senior Vice President, Chief Financial Officer,

Treasurer and Secretary

(Principal Financial Officer)

**Certification of Periodic Financial Report by the Principal Executive Officer and  
Principal Financial Officer**

Solely for the purpose of complying with 18 U.S.C. Section 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 that, based on our knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2018

MAXWELL TECHNOLOGIES, INC.

By: /s/ Franz Fink

Franz Fink  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 9, 2018

By: /s/ David Lyle

David Lyle  
Senior Vice President, Chief Financial Officer,  
Treasurer and Secretary  
(Principal Financial Officer)

These certifications are not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates them by reference.