MAXWELL TECHNOLOGIES INC
Form 10-K
February 14, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o 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 001-15477

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

Delaware	95-2390133
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3888 Calle Fortunada San Diego, California	92123
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (858) 503-3300
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.10 per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES x NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o
Smaller reporting company x Emerging growth company o

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $183,152,112 as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2018), based on the closing price of the registrant's common stock on that day as reported by the NASDAQ Global Market. Shares of common stock held by each officer and director on June 30, 2018 have been excluded in that such persons may be deemed to be affiliates.

The number of shares of the registrant's Common Stock outstanding as of February 11, 2019, was 46,008,549 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's annual meeting of stockholders (the "Proxy Statement") are incorporated by reference in Part III of this Form 10-K to the extent stated herein. The Proxy Statement will be filed within 120 days of the registrant's fiscal year ended December 31, 2018.

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MAXWELL TECHNOLOGIES, INC.
INDEX TO ANNUAL REPORT ON FORM 10-K
For the fiscal year ended December 31, 2018

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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 former Swiss Subsidiary, Maxwell Technologies, SA. All references to “Nesscap Korea” refer to our Korean Subsidiary, Nesscap Korea Co., Ltd.

Some of the statements contained in this Annual Report on Form 10-K and incorporated herein by reference discuss our plans and strategies for our business or make other forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “anticipates,” “believes,” “estimates,” “expects,” “predicts,” “potential,” “plans,” “intends,” “may,” “coul “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:

- the risk that the pending acquisition by Tesla does not close due to regulatory approval, either party deciding to terminate the agreement after five months from the signing, or the failure of one or more of the other conditions to close under the merger agreement we entered into with Tesla in the anticipated timeframe or at all;
- disruption from the merger making it more difficult to maintain our customer, supplier, key personnel and other strategic relationships;
- uncertainty as to the market value of the Tesla merger consideration to be paid in the merger below an agreed to floor trading price of Tesla common stock at the time of closing;
- the risk that required governmental approvals of the merger (including antitrust approval) will not be obtained or that such approvals will be delayed beyond current expectations;
- the risk that required review and approval of the Form S-4 registration statement for the Tesla common stock to be issued in the merger will be delayed beyond current expectations, including for any delay that may result from a government shut-down;
- the risk of litigation in respect of either Tesla or Maxwell or the merger;
- our intentions, beliefs and expectations regarding our expenses, cost savings, sales, operations and future financial performance;
- our operating results;
- our ability to manage cash flows;
- 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 successfully complete one or more financings;
- our ability to otherwise 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, and uncertainties with respect to, 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.

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Many of these factors are beyond our control. Additionally, there can be no assurance that we will not incur new or additional unforeseen costs or risks 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 Item 1A, Risk Factors, of this document, as well as those discussed elsewhere in this Annual Report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report.

We do not have any obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1. Business

Merger Agreement with Tesla

On February 3, 2019, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) by and among Maxwell, Tesla, Inc., a Delaware corporation (“Tesla”) and Cambria Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Tesla (“Merger Sub”), which contemplates the acquisition of Maxwell by Tesla, through Merger Sub. The Merger Agreement contemplates that Tesla will commence an all stock exchange offer for all of the issued and outstanding shares of Maxwell (the “Offer”), followed by a merger of Merger Sub with and into Maxwell pursuant to which Maxwell will survive as a wholly-owned subsidiary of Tesla (the “Merger”).

In the Offer, each Maxwell stockholder who elects to participate in the Offer will receive a fractional share of common stock of Tesla, $0.001 par value (“Tesla Common Stock”) for each share of Maxwell common stock, par value $0.10 (“Maxwell Common Stock”) exchanged in the Offer. Tesla, through Merger Sub, will commence the Offer to purchase each issued and outstanding share of Maxwell Common Stock for a fraction of a share of Tesla Common Stock, equal to the quotient obtained by dividing $4.75 by the volume weighted average closing sale price of one (1) share of Tesla Common Stock as reported on the NASDAQ Global Select Market (“NASDAQ”) for the five (5) consecutive trading days ending on and including the second trading day immediately preceding the expiration of the Offer (the “Tesla Trading Price”). However, in the event that the Tesla Trading Price is equal to or less than $245.90, then each share of Maxwell Common Stock shall be exchanged for 0.0193 of a share of Tesla Common Stock. Such shares of Tesla Common Stock, plus any cash paid in lieu of any fractional shares of Tesla Common Stock, is referred to as the “Offer Consideration”.

At the effective time of the Merger (the “Effective Time”), each outstanding option to purchase Maxwell Common Stock that is outstanding, unexercised and unexpired immediately prior to the Effective Time (“Maxwell Option”) shall be automatically assumed by Tesla and converted into and become an option to acquire Tesla Common Stock, on the same terms and conditions as were applicable to such Maxwell Option as of immediately prior to the Effective Time, subject to an adjustment for the number of shares and the exercise price pursuant to which such Maxwell Option will be converted into Tesla Common Stock. At the Effective Time, each Maxwell restricted share unit (“Maxwell RSU”) that is outstanding immediately prior to the Effective Time, shall be assumed by Tesla and converted automatically into and become a restricted stock unit covering shares of Tesla Common Stock, on the same terms and conditions as were applicable under the Maxwell RSU as of immediately prior to the Effective Time, subject to an adjustment for the number of shares in which the RSU will be converted into Tesla Common Stock.

The Board of Directors of Maxwell (the “Board”) has unanimously approved the Merger and the Merger Agreement, and the Board has resolved to recommend to the stockholders of Maxwell to accept the Offer and tender their shares of Maxwell Common Stock to Merger Sub pursuant to the Offer. Under the terms of the Merger Agreement, Merger Sub’s obligation to accept and pay for shares of Maxwell Common Stock that are tendered in the Offer is subject to customary conditions. The Merger Agreement contains representations, warranties and covenants of Tesla, Merger Sub and Maxwell that are customary for a transaction of this nature. The Merger is subject to customary closing conditions, including the absence of certain legal impediments, the expiration or termination of the required waiting periods under applicable anti-trust laws, the effectiveness of a registration statement on Form S-4 registering the Tesla Common Stock to be issued in connection with the Merger, and a minimum condition that at least a majority of the aggregate voting power of Maxwell Common Stock outstanding immediately after the consummation of the Offer are tendered in the Offer. Each of the parties may also terminate the Merger Agreement if the closing of the Offer has not occurred within five (5) months of the signing of the Merger Agreement. The transaction is not subject to any financing condition.

We have prepared this Form 10-K and the forward-looking statements contained in this Form 10-K as if we were going to remain an independent company. If the Offer and Merger are consummated, many of the forward-looking statements contained in this Form 10-K will no longer be applicable.

Overview

Maxwell was incorporated under the name Maxwell Laboratories, Inc. in 1965. The Company made an initial public offering of common stock on the NASDAQ Stock Market in 1983, and changed its name to Maxwell Technologies, Inc. in 1996. We are headquartered in San Diego, California, and have design, sales and manufacturing locations in the United States, Germany, China and South Korea. We develop, manufacture and market energy storage and power delivery products for transportation, grid energy storage, industrial and other applications. We are focused on enhancing our technology platforms to achieve sustainable growth in the Automotive, Grid, Rail and Wind markets within Energy Storage, and further advance our Dry Battery Electrode technology to capitalize on what we believe represents an unprecedented long-term growth opportunity.

- Energy Storage: Our market leading 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. Our ultracapacitor cells, multi-cell packs, modules and subsystems provide highly reliable energy storage and power delivery solutions for applications in multiple industries, including automotive, grid energy storage, wind, bus, industrial and truck. Our lithium-ion capacitors are energy storage devices with the power characteristics of an ultracapacitor combined with the 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.
- Dry Battery Electrode Technology: We have developed and transformed our patented, proprietary and fundamental dry electrode manufacturing technology that we have historically used to make ultracapacitors to create a breakthrough technology that can be applied to the manufacturing of batteries. Using this technology, we believe we can create significant performance and cost benefits as compared to today's state of the art lithium-ion batteries. Our dry battery electrode technology has the potential to be a groundbreaking technology within the battery industry with a substantial market opportunity, particularly for use in electric vehicles.

During the period covered by this Annual Report, we also owned and operated a high voltage product line via our former Swiss subsidiary, Maxwell Technologies, SA ("Maxwell SA"). High voltage's CONDIS® capacitor 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. On December 19, 2018, we sold Maxwell SA to RN C Holding SA, a special purpose holding entity and affiliate of Renaissance Investment Foundation, as part of the Company's strategy. This transaction was intended to enhance our balance sheet and provide additional financial resources to further expedite investments in our core technologies across both energy storage and dry battery electrode technology platforms as well as to enhance our ability to support our customers and the various projects underway and planned. Except as specifically indicated, the description of the Company and our assets and operations excludes the high voltage product line. The high voltage product line has been classified as discontinued operations and the results of operations of the high voltage product line for the years ended December 31, 2018 and 2017 have been excluded from the our continuing operating results.

Industry Trends

There are three fast approaching, disruptive megatrends which we believe will drive and create unique long-term growth opportunities in our industry. These megatrends include electrification of combustion engine vehicles, the revolution of battery electric vehicles and renewable power generation in the grid.

- First, as the use of premium features such as e-active suspension, autonomous driving and other power demanding applications continue to penetrate the automotive market, high power and rapid response energy storage and power delivery solutions are increasingly required to address the new technological challenges that these advanced features will create.
- Second, as global emission policies continue to tighten and the cost for lithium-ion batteries continues to fall, the automotive industry is on the verge of an electric vehicle revolution, which we believe will fundamentally change the industry and how automobiles are made and used. Advanced lithium-ion battery performance and reduced costs are at the center of this fundamental change and we believe that innovation in this area could be a major factor in determining the winners and losers in the future of the highly competitive automotive industry.
- Third, as costs for renewable power generation continue to decline and converge on those of traditional forms, renewable penetration on the grid is increasing at accelerated rates. This increasing penetration requires advanced energy storage and power delivery technologies for successful integration and to stabilize the grid as this modernization takes effect.

In recent years, we have also experienced a shift in customer demand from cells to sophisticated, complete subsystem solutions, which require increased intelligence and integration with existing networks, particularly in areas such as the automobile drive train and the energy grid. Therefore, in the year ended December 31, 2018, we streamlined operations, divested our high voltage product line and strengthened our balance sheet to transition Maxwell

Technologies to a Pure-Play energy storage technology company.

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Strategy

Our primary corporate objective is to offer innovative products to our customers to help them achieve their business goals. Further, our strategy is to drive continuous improvements across all facets of operations, enhance our research and development capabilities and diversify our business which we expect will lead to increased revenue, further positioning the Company for accelerated, profitable growth over the long-term to ultimately create sustainable value for our stockholders. Beginning in 2015, we undertook a series of initiatives with the goal of transforming the business to align with our strategy, including organizational restructuring to right size the business and put the cost structure in line with the magnitude of revenue, ramping up our innovation engine in order to provide leading-edge products at a faster rate to our customers and partners, and strengthening of the management team. Additionally, we sought to optimize our portfolio by divesting our Microelectronics product line in 2016, acquiring the core business and operating entities of Nesscap Energy, Inc. in 2017, and divesting our high voltage product line in December 2018. We also strengthened our balance sheet by raising a net $46 million in a convertible debt financing in 2017 and a net $23 million in a public stock offering in August 2018. As a result of these initiatives, we have been able to allocate additional resources to research and development to further build out our technology platform across both energy storage platforms and dry battery electrode technologies. We believe these markets represent the greatest potential for long-term success and that our existing technology and customer footprint provide the Company with a competitive advantage. Our strategy specifically focuses on optimizing and commercializing our two product portfolios:

Energy Storage

The second part of our strategy is to optimize our energy storage portfolio and technology platform to drive business diversification, achieve scale, and to transition our business to higher growth opportunities. The energy storage market is estimated to become a $1.35 billion market by 2023, and projected to grow at approximately 20% on a compounded annual growth rate (“CAGR”), according to a variety of sources, including Navigant Research, CNEAI production data, internal market research and direct customer feedback. Over the last year, we have made steady progress leveraging our core competencies and diversifying our ultracapacitor products to drive sustainable growth in automotive, grid energy storage, rail and wind. Our cumulative design wins in our target markets have more than tripled over the last three years. In 2017, we acquired the core business and operating entities of Nesscap Energy, Inc. in order to drive customer diversification, achieve scale and position the business to win high growth opportunities. We combined Nesscap’s best-in-class small cell product portfolio with Maxwell’s leadership in large cell solutions to create the most complete portfolio available in the market for our customers and we are leveraging the talent of our newly combined R&D teams and plan to launch several new products in 2019 to meet the needs of our customers. As we move into 2019, we believe that the progress we are making in energy storage has positioned us take advantage of the three megatrends in renewable power generation and vehicle electrification, all of which we expect will accelerate our design in momentum as well as advance our strategy to deliver long-term value to our customers, partners and stockholders. In 2018, we released several new intelligent, application specific, standard subsystem products, including 1) a multi-cell subsystem which combines Maxwell’s ultracapacitors with proprietary, advanced power conversion electronics to supply enhanced performance for a wide variety of demanding automotive applications; 2) two new highly scalable subsystem products to deliver reliable, fast responding, long lifetime storage in grids and microgrids; and 3) a wind pitch retrofit system where ultracapacitors are addressing the cost and battery replacement challenges faced by wind turbines already in operation.

We believe that our automotive business, which has historically contributed a modest, but consistent revenue stream, has the largest growth potential for our Company. As features that demand increased and reliable electrical power grow with the proliferation of hybrid electric vehicles and the advent of autonomous driving, the need for high power and rapid response energy storage and power delivery solutions is becoming increasingly important. Automakers are evaluating new electrification strategies to meet the future CO2 emission standards in vehicles while increasing the level of performance and features. Several of these new technologies will likely be adopted in mild-hybrid vehicles where an electric motor assists the combustion engine, allowing it to turn off for longer periods of time while the car is coasting, as well as during short accelerations or braking. However, there are times when additional power is required, such as when stepping on the gas pedal to accelerate the vehicle, and the combustion engine must be powered back on. In this case, we believe that ultracapacitors fit in particularly well to provide the short-term burst of power needed to turn the combustion engine on while, in parallel, the electric motor is fueling the other power needs of the vehicle. As vehicle electrification continues to accelerate, we continue to see increased interest from key OEMs, especially for our newer, complete subsystem solutions, and particularly for autonomous driving applications. We are encouraged by the continued ramp of eActive Suspension and Back-up and Peak Power applications.

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In 2018, we announced a technology partnership with Zhejiang Geely Holding Group (Geely), the parent company of leading brands such as Volvo and Geely Auto, which focuses on the integration of state-of-the-art ultracapacitors and advanced power conversion electronics into Geely's global automotive vehicle lineup in support of their fleet electrification strategy, beginning with the inclusion of Maxwell's ultracapacitor-based peak power subsystem in five model year 2020 mild-hybrid and plug-in hybrid vehicles. These vehicles will initially be available in North America and Europe and the production ramp for these models is slated to begin in late 2019. With our game-changing Geely-Volvo solution, we have demonstrated the benefit that ultracapacitor solutions can provide to support the heightened demand of the growing electric functions in vehicles. Further, we have publicly stated that the Geely-Volvo alliance represents greater than a $100 million market opportunity. We have 14 other confirmed automotive design wins at various stages of progress and in several different applications including Start/Stop, eActive Suspension, eTurbo and Back-up Power for Autonomous Driving. We have also discussed several additional larger opportunities that could provide for considerable volume and drive material revenue growth in 2020 and beyond.

In the grid energy storage market, as costs for renewable power generation continue to fall and converge toward those of traditional forms, renewable penetration into the grid is increasing at accelerated rates. Efficient integration of renewable power sources into the existing grid requires advanced energy storage, stabilization, and power delivery technologies. We believe we are making excellent progress as we are experiencing increasing levels of engagement from customers and are moving rapidly from pilot projects to both large utility-scale as well as small to mid-scale commercial projects at the micro-grid level. In 2018, we launched two new grid products, an open cell pack and a subsystem design. These products are configurable from sub-1 megawatt to hundreds of megawatts, directly addressing existing and growing power quality issues facing the grid infrastructure by delivering fast responding power for applications including voltage support, frequency response and renewables power smoothing for utilities, power generators, and commercial and industrial customers across the globe.

Also in 2018, we announced a subsystem design-in with Siemens Transmission Solutions to deliver economical, fast responding, long life grid voltage and frequency support solutions. Maxwell's Grid Energy Storage Systems are an integral design element in the Siemens' SVC PLUS FS that will provide system inertia in the form of fast, active power injection, which bridges the time gap between grid disruption and the activation of secondary power reserves for large utilities. These solutions are intended to stabilize global power grids. Maxwell's ultracapacitors were selected as the energy storage asset of choice to provide grid frequency and voltage support due to their rapid response time at high power levels, long lifetime and minimal maintenance.

Due to the high reliability and long life of ultracapacitors, our customers are also requesting these products as support systems to improve the performance and lifetime of batteries that are already installed in the grid. We have spent multiple years developing these products due to the complex nature and increased intelligence desired by our customers. Given the demands from the megatrend of renewables entry into the grid and our new product introductions, which directly address these demands, we have a growing number of project opportunities under development in the United States, Europe, and Australia for applications both in front of and behind the meter and expect to see gradual revenue ramp up in 2019, setting the stage for more meaningful growth in 2020.

We believe the rail market is also poised for future growth, driven by a significant light rail infrastructure build-out in China to support continued urbanization. We have partnered with China Railway Rolling Rock Corporation, or CRRC-SRI, in China to develop lithium-ion capacitor based light rail on-board systems. CRRC-SRI's full-scale commercial manufacturing facility in China was readied for cell production in late 2018 and we expect production to being a gradual ramp up 2019 and then build thereafter. Maxwell is the exclusive supplier of electrode to CRRC-SRI, thus we expect our top-line revenue to grow proportionately with CRRC-SRI's cell production ramp up. We are also investing in the advancement of our Generation 2 lithium-ion capacitor technology development and are on track to meet program milestones, including improvement in low temperature capability, lower resistance and increased energy density; we are anticipating we will be production-ready sometime in the third quarter of 2019. We expect that the grid and rail markets could become more significant contributors to our revenue growth in the coming years. Additionally, we are discussing additional development opportunities with our partner for Generation 3 technology, which we believe would further advance power and energy densities, lead to new applications and, ultimately, new revenue and growth opportunities.

The wind market in China continues to be a significant revenue contributor to Maxwell with growth opportunities coming from the ongoing development of offshore wind resources in China and the deployment of our new wind pitch retrofit systems for existing commercial wind farms in North America and Europe. Our retrofit modules are designed to replace existing battery-based emergency pitch control systems for reliable and fail-safe performance, and can considerably reduce the cost of ownership for operating wind energy. Deployment of retrofit modules into commercial wind farms began to ramp up in 2018 and we expect to continue to penetrate the 20,000 turbine opportunity in the U.S. as we grow the number of turbine installations and as we reach more wind farms throughout 2019 and beyond. Overall, we believe Maxwell is well positioned in the wind market and we anticipate the market to moderately grow in the future.

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We are constantly working on improving technical performance of our products, such as higher temperature capability, higher voltage levels and higher power density as well as increasing reliability and ruggedness of our products for an extended application lifetime. We are increasing our focus on developing entire system solutions and supporting rapid product implementations in emerging markets and applications. We expect this could lead to higher gross margin opportunities. In order to develop new, innovative solutions and accelerate time-to-market for these solutions, we are focused on developing these capabilities ourselves and on establishing technical and commercial relationships with value-added partners within our target market segments and applications, including value-added distributors, solution level integrators, tier-one suppliers and automotive manufacturers.

Dry Battery Electrode Technology

Our strategy is focused on commercializing our dry battery electrode technology, which we believe is a unique and transformative battery technology that addresses a significantly larger market opportunity, particularly in electric vehicles. A significant megatrend is fast approaching in the automotive industry as emission policies and regulations enacted by global governments continue to tighten. To meet these requirements, electric vehicles are expected to become more heavily adopted, which necessitates that the cost of lithium-ion batteries must continue to fall as well as meet targeted performance requirements. The shift towards hybrid and electric vehicles is accelerating and is likely to fundamentally change the industry, including how automobiles are made and used. Lithium-ion batteries are attracting substantial investment as auto makers drive toward lower cost electric vehicles with longer range between charges. We believe that improved lithium-ion batteries are the key enabling technology for vehicle electrification, and as such, cost reduction and performance improvement have become critical targets for the world’s leading lithium-ion battery manufacturers and automotive OEMs. We believe that our dry battery electrode technology can successfully address the need to improve energy density, extend battery life and improve durability, lead to significant cost reductions and production capacity density increases and address customers’ demands for more environmentally-responsible solutions. Further, we believe that our patent-protected, proprietary manufacturing process, which has been utilized through many years of ultracapacitor production, can be applied to the manufacturing of battery electrode without the use of solvents to produce a highly reliable electrode material with uniform characteristics resulting in enhanced product performance, long-term durability, and lower manufacturing cost.

By applying our proprietary dry manufacturing process and trade secrets to the production of lithium-ion batteries, we believe that we can create significant performance and cost benefits when compared to today’s state of the art technology. In 2016, we signed a 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. We have completed this proof-of-concept, which we believe has demonstrated the significant performance and cost advantages of our dry electrode manufacturing process compared with wet electrode manufacturing, while providing the required consistency and reproducibility in manufacturing a pilot-scale dry electrode roll. Throughout 2018, following the proof-of-concept, we have continued to make additional technology advances.

As the trend toward battery electric vehicles continues to increase, efforts are accelerating in the automotive and energy storage industries to prepare for this coming demand. We believe that our dry battery electrode technology could be a central enabling technology for the battery electric vehicle market. We have experienced increasing interest from additional large, brand name, global players in the energy storage and automotive industries regarding future joint development and commercialization efforts and we are currently in deep discussions with potential partners regarding broader collaborations, with the ultimate goal of commercialization, which we believe could unlock significant value for our customers, partners and shareholders. Given the recent successes in the proof-of-concept, the additional technology advancements and the increasing interest from global leaders from automotive and energy storage markets, we have begun to shift more investment towards the development of dry battery electrode technology. Moreover, in 2019 we intend to begin building a state-of-the art pilot-scale manufacturing facility to further prove the benefits and manufacturability of this technology. In addition, we are highly focused on attaining broader, scale-up agreements with our current and prospective partners that could accelerate the commercialization of this breakthrough technology.

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General Product Line and Technology Overview

Dry Battery Electrode Technology

Our dry battery electrode technology leverages our core dry electrode process technology currently used to manufacture ultracapacitors. This unique electrode manufacturing process expands our core technology into batteries of varying chemistry with value-added performance features over wet-coated electrode technology at a reduced production cost. The performance differentiators afforded by dry coating technology are higher energy density, longer operating lifetime, high temperature operating robustness and higher charge/discharge rate capability. As a solvent-less process technology, dry electrode manufacturing is less costly and much more environmentally friendly. We believe that the investment in manufacturing equipment for dry processing is significantly less than wet coating technology, with much lower energy consumption as there is no need to use, remove and recapture solvent from electrode during fabrication. In addition to offering benefits over today’s battery chemistries, dry process technology enables electrode production using high energy density, liquid sensitive materials that are more encumbered by wet coating processes.

Energy Storage

Our energy storage products consist primarily of ultracapacitors. Ultracapacitors enhance the efficiency and reliability of devices or systems that generate or consume electrical energy. They differ from other energy storage and power delivery products by combining rapid charge/discharge capabilities typically associated with film and electrolytic capacitors with energy storage capacity generally associated with batteries. Although batteries store significantly more electrochemical energy than ultracapacitors, they cannot charge and discharge as rapidly and efficiently as ultracapacitors. Conversely, although electrolytic capacitors can deliver bursts of high power very rapidly, they have limited energy storage capacity, and therefore cannot sustain power delivery as long as ultracapacitors. Also, unlike batteries, which store energy by means of a chemical reaction and experience gradual depletion of their energy storage and power delivery capability over hundreds to a few thousand charge/discharge cycles, ultracapacitors’ energy storage and power delivery mechanisms involve minimal chemical reactions, so they can be charged and discharged hundreds of thousands to millions of times in typical operating environments with negligible performance degradation. This ability to store energy, deliver bursts of power and perform reliably for many years, with little or no maintenance, makes ultracapacitors an attractive and efficient energy storage option for a wide range of energy-consuming and generating devices and applications.

The core of our technology for the majority of our ultracapacitor products is a proprietary, solvent-free or dry, electrode manufacturing process. This high throughput roll-to-roll process produces high-reliability electrode material with uniform thickness resulting in enhanced product performance and long-term durability. The process enables a favorable cost position versus competitors. As part of our offerings, we market our dry processed electrode material to other ultracapacitor manufacturers. We have licensed our proprietary cell architecture to manufacturers in China, Taiwan and Korea to expand and accelerate acceptance of ultracapacitor products in large and rapidly growing global markets. In addition to our dry electrode process technology, in 2017, we broadened our technology base and product portfolio through our acquisition of a Korea-based manufacturer specializing in small cell technology utilizing a wet electrode manufacturing process.

Complementary to our ultracapacitor products, lithium-ion capacitors are energy storage devices, which due to their unique materials and design, have more than three times the energy density, similar power density, and a similarly long cycle life compared with ultracapacitors, as well as very low self-discharge similar to lithium-ion batteries.

Products and Applications

Our products incorporate our know-how and proprietary energy storage and power delivery technologies at both the component and system levels for specialized, high-value applications that demand “life-of-the-application” reliability.

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Dry Battery Electrode

The critical and performance governing components in a given battery are the electrodes. Battery devices are comprised of at least two electrodes, a negative electrode paired with a positive electrode, interposed by an ionically conductive film in between the electrochemical couple and filled with electrolyte in a sealed package. The incumbent wet electrode coating technology is limited by at least one of the following values: cost, electrode architecture, material platform and safety. Solvent used in wet coated electrode manufacturing imparts higher system cost, limits specific energy of the electrode due to thickness barrier, limits liquid sensitive battery material usage and is inherently toxic. As such, our dry battery electrode process technology, a solvent-free manufacturing method, is expected to deliver all the noted values since no solvent and/or liquid is required. Value-added benefits include reduction in system cost by simplifying electrode production, significantly reducing manufacturing facility requirements, enablement of broad-range material use, flexibility in electrode architecture for high specific energy design and accommodation of eco-friendly manufacturing. Our patent portfolio extends to certain of these technologies. Our dry electrode process technology can be used to produce batteries for consumer electronics, healthcare products, industrial goods, grid energy storage systems and automotive applications, which comprise an enormous market potential. In applications that demand high energy density and long runtime, our dry electrode is advantageously positioned as we can furnish electrode architectures that are unmatched by today's product offering in an economical and socially responsible fashion. The dry electrode can be further applied to advanced battery chemistries, offering well over 300 Wh/kg at the cell level.

Energy Storage

Ultracapacitors, also known as electrochemical double-layer capacitors ("EDLC") or supercapacitors, store energy electrostatically. Although ultracapacitors are electrochemical devices, minimal chemical reactions are involved in their energy storage mechanism. Their electrostatic energy storage mechanism is fully reversible, allowing ultracapacitors to be rapidly charged and discharged hundreds of thousands to millions of times with minimal performance degradation.

Compared with batteries, which require minutes or hours to fully charge or discharge, ultracapacitors discharge and recharge in as little as fractions of a second. Although ultracapacitors store only about five to ten percent as much electrical energy as a battery of comparable size, they can deliver or absorb electric energy up to 100 times more rapidly than batteries. Because they operate reliably through hundreds of thousands to millions of charge cycles, compared with only hundreds to a few thousand equivalent cycles for batteries, ultracapacitors have significantly higher lifetime energy throughput, which equates to significantly lower cost on a life cycle basis. Our ultracapacitor products have significant advantages over batteries, including:

- the ability to charge and discharge up to 100 times faster;
- significantly lower weight per unit of power delivery;
- higher charge/discharge turnaround efficiency, minimizing energy loss;
- the ability to operate reliably and continuously in extreme temperatures (-40º C to +65º C);
- minimal to no maintenance requirements;
- "life of the application" durability; and
- minimal environmental issues associated with disposal because they contain no heavy metals.

With no moving parts and negligible chemical reactions involved in their energy storage mechanism, ultracapacitors provide a simple and highly reliable solution to buffer short-term mismatches between power available and power required. Additionally, ultracapacitors offer the advantage of storing energy in the same form in which it is used, as electricity.

Maxwell offers ultracapacitor cells with capacitances ranging from 1 to 3,400 farads. We link our ultracapacitor cells together in multi-cell modules and subsystems to satisfy energy storage and power delivery requirements of specific applications. Applications include peak power assistance and back-up power of mission critical functions in vehicles, stabilization of the grid with incremental use of solar and wind energy, and highly reliable, maintenance-free, energy storage for various types of industrial installations and heavy transportation.

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In many applications, power demand varies widely from moment to moment, and peak power demand typically is much greater than the average power requirement. For example, automobiles require 10 times more power to accelerate than to maintain a constant speed, and forklifts require more power to lift a heavy pallet of material than to move from place to place within a warehouse. Engineers historically have addressed transient peak power requirements by over-sizing the engine, battery or other primary energy source to satisfy all of a system's power demands, including demands that occur infrequently and may last only fractions of a second. Sizing a primary power source to meet brief peak power requirements, rather than for average power requirements, is costly and inefficient. When a primary energy source is coupled with ultracapacitors, which can deliver or absorb brief bursts of high power on demand for periods of time ranging from fractions of a second to several minutes, the primary energy source can be smaller, lighter and less expensive.

To facilitate the adoption of ultracapacitor subsystems, we have developed integration technologies, including proprietary hardware and software solutions supported by robust mechanical designs, with a dedicated team of employee experts who are capable of translating complex customer requirements into application specific standard products. We hold patents for certain of these technologies. Our subsystem products incorporate a range from 6 to 60 of our ultracapacitor cells to provide "plug and play" solutions for applications requiring from 12 to 160 volts, and can intelligently interface with a host controller to enhance the overall performance, reliability and safety of the system.

Manufacturing

Our internal manufacturing operations are conducted in production facilities located in Peoria, Arizona; and Yongin, South Korea. We have made substantial capital investments to expand our internal production facilities and incorporate mechanization and automation techniques and processes. We have trained our manufacturing personnel in advanced operational techniques, added information technology infrastructure and implemented new business processes and systems to increase our manufacturing capacity and improve efficiency, planning and product quality. Our dry-processed ultracapacitor electrode material is currently produced exclusively at our Peoria facility and our wet-processed ultracapacitor electrode material is produced exclusively at our Korean facility. We outsource the assembly of our 60 mm diameter large cell ultracapacitors, and subsequently, assembly of large cell-based multi-cell modules as well as assembly of our mid-size D-cell ultracapacitor products and D-cell-based multi-cell modules to contract manufacturers based in China. Considering our plans to expand our manufacturing facility for certain product lines as further described below, we believe that we have sufficient capacity to meet near-term demand for all of our product lines.

Energy Storage

We produce our dry-processed electrode material for our own ultracapacitor products, and for sale to other ultracapacitor manufacturers such as Yeong-Long Technologies Co., Ltd. ("YEC") at our Peoria facility. In 2013, we completed a major electrode capacity expansion in our Peoria facility. This facility gives us sufficient capacity to support both our current ultracapacitor production requirements and external electrode demand in the near term. As demand increases, additional increments of electrode production capacity can be added within a year through the utilization of established equipment vendors. Additionally, in our South Korea manufacturing facility, we produce wet-processed ultracapacitor electrode material and assemble this material into small and medium cell ultracapacitors; we made investments in 2018 to expand the capacity of this plant in order to meet projected demand for these products.

As noted above, we have outsourced assembly of all other cell types and multi-cell modules to contract manufacturers in China.

To increase reliability, reduce cost, simplify assembly and facilitate automation, we have designed our ultracapacitor products to incorporate lower-cost materials and to reduce both the number of parts in a finished cell and the number of manufacturing process steps required to produce them. We intend to continue using outsourced cell and module assembly in countries with cost-efficient value-added services, but plan to continue to produce our proprietary electrode material only in internal production facilities to ensure the continued protection of our intellectual property.

Suppliers

We generally purchase components and materials, such as carbon powder, certain electronic components, dielectric materials, and ceramic insulators from a variety of suppliers. For certain products, we rely on a limited number of suppliers or a single supplier for a number of reasons, including notably, the cost-effectiveness of doing business with a single supplier. Although we believe there are alternative sources for some of the components and materials that we currently obtain from a single source, there can be no assurance that we will be able to identify and qualify alternative suppliers in a timely and cost-effective manner. Therefore, for certain critical components, we utilize mitigation strategies such as, for example, maintaining an inventory of safety stock on site at our respective manufacturing locations in an effort to minimize the impact of an unforeseen disruption in supply from these outside parties.

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Marketing and Sales

We market and sell our products worldwide through both direct and indirect sales channels for incorporation by integrators and OEM customers into a wide range of end products. Because the introduction of products based on emerging technologies requires customer acceptance of new and unfamiliar technical approaches, and because many OEM customers have rigorous vendor qualification processes, the design-in process and initial sale of our products often take months or even years.

Our principal marketing strategy is to identify applications for which our products and technology offer a compelling value proposition, to become a preferred vendor on the basis of service, value and price, and to negotiate supply agreements that enable us to establish long-term relationships with key OEM and integrator customers. To optimize our go-to-market strategy and tailor our products to end-user application, we organized our marketing team into two specialized ultracapacitor product line teams. One team supports Automotive and Transportation market segments which require highly rugged and robust products with very stringent automotive qualification requirements and solid change management. The other team supports all Green Infrastructure applications such as grid energy storage, wind power and other more stationary applications that require very cost sensitive products with very high service lifetimes and often very complex systems solutions. Our marketing efforts strive to develop application-specific product portfolios and solutions for our Automotive & Transportation and Green Infrastructure market segments. As these design-in sales tend to be technical and engineering-intensive, we organize market-specific teams composed of sales, applications engineering and other technical and operational personnel to work closely with our customers across multiple disciplines to satisfy their requirements for form, fit, function and environmental needs. As time-to-market often is a primary motivation for our customers to use our products, the initial sale and design-in process typically evolve into ongoing account management to ensure on-time delivery, responsive technical support and value-added problem-solving.

We design and conduct discrete marketing programs intended to position and promote each of our product lines. These include trade shows, seminars, advertising, product publicity, distribution of product literature, internet websites and social media. We utilize marketing communications specialists to develop and implement our marketing programs, design and develop marketing materials, negotiate advertising media purchases, write and place product press releases and manage our marketing websites.

We also have an alliance with YEC to assemble and market small cell ultracapacitor products. In addition, we sell electrode material to YEC, both for Maxwell-branded products and for incorporation into YEC’s own ultracapacitor products.

Competition

Each of our product lines has competitors, some of whom have longer operating histories. In some of the target markets for our emerging technologies, we face competition both from products utilizing well-established, existing technologies and other novel or emerging technologies.

Dry Battery Electrode

We have focused our efforts around applying dry battery electrode technology to the production of lithium-ion batteries, which we believe can create significant performance and cost benefits when compared to today’s state of the art lithium-ion batteries that are produced using wet process technology. Our dry battery electrode technology has two types of competitors: current producers of lithium-ion batteries that use wet process technology, which are the standard today in the electric vehicle market, and companies developing new, alternative technologies or processes that could gain broad market acceptance.

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Energy Storage

Our ultracapacitor products have two types of competitors: other ultracapacitor suppliers and purveyors of energy storage and power delivery solutions based on batteries or other technologies. Although a number of companies are developing ultracapacitor products and technology, our principal competitors in the supply of ultracapacitor or supercapacitor products are Panasonic, a division of Matsushita Electric Industrial Co., Ltd., LS Mtron, a unit of LS Cable, Supreme Power Solutions Co., Ltd., Vina Technology Company, Ltd., Samxon, a unit of Man Yue Technology Holdings, Ltd., Skeleton Technologies, Yunasko, Ltd., and Ioxus, Inc. The key competitive factors in the ultracapacitor industry are price, performance (energy stored and power delivered per unit volume), durability and reliability, operational lifetime and overall breadth of product offerings. We believe that our ultracapacitor products and electrode material compete favorably with respect to these competitive factors. However, pricing expectations and competition in certain markets, such as auto and wind, places significant pressure on our pricing and margins for our products, and we are continually pursing 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 due to changes in government subsidy programs which appear to favor battery based energy storage solutions and also place a requirement for local product manufacturing. 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. At the same time, our partner in China, CRRC-SRI, has completed localization requirements for the manufacturing of our ultracapacitor-based modules, and we are positioned to support customer demand for any opportunities that may meet our minimum return requirements.

Ultracapacitors also compete with products based on other technologies, including advanced batteries in power quality and peak power applications, as well as with flywheels, thermal storage and batteries in backup energy storage applications. We believe that the durability, long life, performance and value of ultracapacitors gives them a competitive advantage over these alternative choices in many applications. In addition, integration of ultracapacitors with some of these competing products may provide optimized solutions that neither product can provide by itself. For example, tier 1 auto parts supplier Continental AG designed a combined solution incorporating ultracapacitors with a battery for engine starting in a start-stop-idle elimination system for “micro hybrid” autos which was introduced in 2010 and installed in approximately two million cars by French automaker PSA Peugeot Citroen and was more recently introduced by General Motors for several models under the Cadillac brand.

Research and Development

We maintain active research and development programs to improve existing products and to develop new products. In general, we focus our research and product development activities on:

- designing and producing products that perform reliably for the life of the application or systems into which they are integrated;
- designing efficient manufacturing with low scrap rates to achieve improved profit margins and to enable us to reduce prices to allow our products to penetrate new and price-sensitive applications;
- designing our products to have superior technical performance;
- designing our products to be compact and light;
- designing new products that provide novel solutions to expand our market opportunities; and
- designing new products that convert customer requirements into fully integrated system solutions with built-in intelligence and interface capabilities.

Our current research, development and engineering activities are focused on:

- electrode fabrication and material science, including activated carbon, electrolyte, electrically conductive materials, dielectric materials and ceramics to reduce cost and improve performance, reliability and ease of manufacturing;
- product design and manufacturing processes for high-volume manufacturing; and
- development of integration technologies, including proprietary hardware and software solutions and robust mechanical designs, that are incorporated into complete “plug and play” system solutions.

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Dry Battery Electrode

The principal focus for our dry battery electrode development efforts is to demonstrate the applicability of our high volume, low cost dry electrode fabrication process as it relates to state of the art lithium-ion battery electrode materials. Upon demonstration of this process in large scale, it is expected that our dry electrodes will deliver performance and cost advantages when compared to state of the art lithium-ion battery technology.

Energy Storage

The principal focus of our ultracapacitor development activities is to increase power and energy density, reduce internal resistance, extend operational life, reduce manufacturing cost and increase integration with host applications. Our ultracapacitor designs focus on low-cost, high-capacity cells in standard sizes ranging from 1 to 3,400 farads, multi-cell modules based on various form factors and complete subsystem solutions using proprietary hardware, software and mechanical designs. Our system designs may be specific to a single customer or be intended for more general use by a variety of customers.

Intellectual Property

We place a strong emphasis on inventing, protecting and exploiting proprietary technologies, processes and designs which bring intrinsic value and uniqueness to our product portfolio. We place a high priority on obtaining patents to provide the broadest and strongest possible protection for our products, technologies and other strategic initiatives. Our continued success will depend in part on our ability to protect our existing patents and to secure patent protection on developing technologies. As of December 31, 2018, we held 90 issued U.S. patents and 20 published pending U.S. patent applications, all of which relate to our core technologies, processes and designs, including our dry battery electrode and ultracapacitor products and technology.

Our pending and any future patent applications may not survive the challenges of patent prosecution in the jurisdictions in which we file throughout the world; however, our strategy is to focus on countries generating revenue as well as markets which we deem key to our business strategies and objectives. We routinely seek patent protection in the United States and the principal countries of Europe and Asia. At present, we do not rely on licenses from any third parties to produce our products.

Our existing patent portfolios and pending patent applications relate primarily to:

Dry Battery Electrode

- compositions of the electrode, including its formulation, design and fabrication techniques; and
- materials science associated with raw material components.

Energy Storage

- compositions of the electrode, including its formulation, design and fabrication techniques;
- materials science associated with raw material components;
- physical cell package designs as well as the affiliated processes used in cell assembly;
- cell-to-cell and module-to-module interconnect technologies that minimize equivalent series resistance and enhance the functionality, performance and longevity of ultracapacitor products including system level electronics; and
- module and system designs that facilitate applications of ultracapacitor technology.

While our primary strategy for protecting our proprietary technologies, processes and designs is related to obtaining patents, we also apply for trademark registrations which identify us as the source of the products. Additionally, we promote our technologies, processes and designs in association with these registered trademarks to further distinguish our products from those of our competitors. As of December 31, 2018, we had five formal trademark registrations within the U.S.

Establishing and protecting proprietary products and technologies is a key element of our corporate strategy. Although we attempt to protect our intellectual property rights through patents, trademarks, copyrights, trade secrets and other measures, there can be no assurance that these steps will be adequate to prevent infringement, misappropriation or another misuse by third parties, or will be adequate under the laws of some foreign countries, which may not protect our intellectual property rights to the same extent as do the laws of the U.S.

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We use employee and third-party confidentiality and nondisclosure agreements to protect our trade secrets and unpatented know-how. We require each of our employees to enter into a proprietary rights and nondisclosure agreement in which the employee agrees to maintain the confidentiality of all our proprietary information and, subject to certain exceptions, to assign to us all rights in any proprietary information or technology made or contributed by the employee during his or her employment with us. In addition, we regularly enter into nondisclosure agreements with third parties, such as potential product development partners and customers, to protect any information disclosed in the pursuit of securing possible fruitful business endeavors.

Backlog

Product backlog as of December 31, 2018 was approximately $15.4 million, compared with $19.1 million as of December 31, 2017. Backlog consists of firm orders for products that will be delivered within 12 months. The actual amount of backlog at any particular time may not be a meaningful indicator of future business prospects as this amount is impacted by a number of factors including potential cancellations of orders by our customers.

Significant Customers

Two customers, Beijing Etechwin and Continental Automotive, accounted for 12% and 11% of total revenue in 2018, respectively. Three customers, Continental Automotive, Beijing Etechwin and CRRC-SRI, accounted for 15%, 11% and 10% of total revenue in 2017, respectively.

Government Regulation

Due to the nature of our operations, including, notably, the use of hazardous substances in some of our manufacturing and research and development activities, we are subject to stringent federal, state and local laws, rules, regulations and policies governing workplace safety and environmental protection. These include the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. In the course of our historical operations, materials or wastes may have spilled or been released from properties owned or leased by us or on or under other locations where these materials and wastes have been taken for disposal. These properties and the materials and wastes spilled, released, or disposed thereon are subject to environmental laws which may impose strict liability, without regard to fault of the original conduct, for remediation of contamination resulting from such releases. Under such laws and regulations, we could be required to remediate previously spilled, released, or disposed substances or wastes, or to make capital improvements to prevent future contamination. Failure to comply with such laws and regulations also could result in the assessment of substantial administrative, civil and criminal penalties and even the issuance of injunctions restricting or prohibiting our activities. It is also possible that implementation of stricter environmental laws and regulations in the future could result in additional costs or liabilities to us as well as the industry in general. While we believe we are in substantial compliance with existing environmental laws and regulations, we cannot be certain that we will not incur substantial costs in the future related to unknown liabilities.

Employees

As of December 31, 2018, we had 367 employees in four countries, as follows: 196 full-time, 1 part-time and 2 temporary employees in the U.S.; 132 full-time employees in South Korea; 27 full-time employees in China; and 12 full-time employees in Germany.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Our SEC filings are available free of charge to the public over the Internet at the SEC’s website at http://www.sec.gov. Our SEC filings are also available free of charge on our website at http://www.maxwell.com as soon as reasonably practicable following the time that they are filed with the SEC. The information found on our website is not part of this or any report that we file with the SEC.

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Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. Our business, financial condition and results of operations could be seriously harmed if potentially adverse developments, some of which are described below, materialize and cannot be resolved successfully. In any such case, the market price of our common stock could decline and you may lose all or part of your investment in our common stock.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, including those not presently known to us or that we currently deem immaterial, may also result in decreased revenue, increased expenses or other adverse impacts that could result in a decline in the price of our common stock. You should also refer to the other information set forth in this Annual Report on Form 10-K, including our consolidated financial statements and the related notes.

Risks Related to the Tesla Acquisition

The conditions under the Merger Agreement to Tesla's consummation of the Offer and the subsequent Merger may not be satisfied at all or in the anticipated timeframe.

On February 3, 2019, we entered into the Merger Agreement with Tesla. Under the terms of the Merger Agreement, Merger Sub's obligation to accept and pay for shares of Maxwell Common Stock that are tendered in the Offer is subject to customary conditions, including, among others, (i) the condition that, prior to the expiration of the Offer, there have been validly tendered and not validly withdrawn a number of shares of Maxwell Common Stock that, upon the consummation of the Offer, together with shares of Maxwell Common Stock then owned by Tesla and Merger Sub (if any), would represent at least a majority of the aggregate voting power of Maxwell Common Stock outstanding immediately after the consummation of the Offer; (ii) the expiration or termination of the required waiting period under the applicable antitrust laws; (iii) the effectiveness of a registration statement on Form S-4 filed by Tesla registering Tesla Common Stock to be issued in connection with the Offer and the Merger; (iv) the approval of shares of Tesla Common Stock for listing on the NASDAQ; (v) the absence of legal restraints on Merger Sub's ability to accept and pay for shares of Maxwell Common Stock tendered in the Offer; and (vi) the absence of any changes that have (or would reasonably be expected to have) a material adverse effect on Maxwell's business, operations, assets or financial condition. The Offer and subsequent Merger is not subject to any financing condition.

We intend to pursue all required approvals in accordance with the Merger Agreement. However, no assurance can be given that the required approvals will be obtained and, even if all such approvals are obtained, no assurance can be given as to the terms, conditions and timing of the approvals or that they will satisfy the terms of the Merger Agreement. In addition, there can be no assurances that our stockholders will tender their shares, or that any or all of the other conditions will be satisfied in the timeframe expected, if at all.

Each of the parties may terminate the Merger Agreement if the Closing of the Offer has not occurred within five (5) months of the signing of the Merger Agreement.

While each party has agreed to use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable law to consummate the transactions, including the Offer and the Merger, each party has the right to terminate the Merger Agreement if the closing of the Offer has not occurred within five (5) months after the signing of the Merger Agreement.

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Because the market price of Tesla Common Stock may fluctuate, our stockholders cannot be sure of the market value of the stock consideration they will receive in exchange for their Maxwell shares in connection with the transactions.
Because the market price of Tesla Common Stock may fluctuate, our stockholders cannot be sure of the market value of the stock consideration they will receive in exchange for their Maxwell shares in connection with the transactions.
In connection with the offer and the merger, our stockholders will receive a fixed value of $4.75 per share as part of the exchange. Tesla, through Merger Sub, will commence the Offer to purchase each issued and outstanding share of Maxwell Common Stock for a fraction of a share of Tesla Common Stock. The consideration issuable in the offer and the merger is calculated by reference to the volume weighted average of the daily volume weighted average of the trading price of one (1) share of Tesla common stock as reported on the Nasdaq Global Select Market for the five (5) consecutive trading days ending on and including the second trading day immediately preceding the expiration of the offer (as adjusted as appropriate to reflect any stock splits, stock dividends, combinations, reorganizations, reclassifications or similar events) and subject to a minimum as described below. If the Tesla common stock price is greater than $245.90, the exchange ratio will be equal to the quotient obtained by dividing (1) $4.75 by (2) the Tesla trading price as calculated above. However, if the Tesla common stock price is equal to or less than $245.90, the minimum will apply and the exchange ratio will be fixed at 0.0193 and may result in less than $4.75 in value. Accordingly, the actual number of shares and the value of Tesla common stock delivered to participating Maxwell stockholders will depend on the Tesla stock price, and the value of the shares of Tesla common stock delivered for each such share of Maxwell common stock may be less than $4.75.
Because the offer will not be completed until certain conditions have been satisfied or waived in accordance with the Merger Agreement, a significant period of time may pass between the commencement of the offer, the time you tender your shares and the time that the Offeror accepts your shares for payment. Therefore, at the time you tender your Maxwell Common Stock pursuant to the Offer, you will not know the exact market value of the Tesla Common Stock that will be issued if the Offeror accepts such shares for payment.
The announcement of the Offer and the Merger could negatively impact our future business and operations.
Our announcement of having entered into the Merger Agreement and Tesla and Merger Sub's commencement of the Offer could cause a material disruption to our business and there can be no assurance that the conditions to the completion of the Offer and the Merger will be satisfied. The Merger Agreement may also be terminated by us or Tesla in certain specified circumstances, including, subject to compliance with the terms of the Merger Agreement, by us in order to accept and enter into a third-party acquisition proposal that our board of directors determines constitutes a superior proposal upon payment of a termination fee to Tesla of $8.295 million. We are subject to several risks as a result of the announcement of the Merger Agreement and the Offer, including, but not limited to, the following:

- Pursuant to the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to the consummation of the Merger, which restrictions could adversely affect our ability to realize certain of our business strategies or take advantage of certain business opportunities;
- The attention of our management may be directed toward the consummation of the Offer, the Merger and related matters, and their focus may be diverted from the day-to-day business operations of our company, including from other opportunities that might otherwise be beneficial to us;
- Current and prospective employees may experience uncertainty regarding their future roles with us (and, if the Offer is completed, Tesla), which might adversely affect our ability to retain, recruit and motivate key personnel and may adversely affect the focus of our employees on development and sales of our products;
- Our inability to hire capable employees, given the uncertainty regarding the future of the company, in order to execute on our continuing business operations;
- Our relationships with our customers, partners, manufacturers and suppliers may be disrupted; and
- Any of the above matters could adversely affect our stock price or harm our future business or operations.

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Our business relationships and those of our subsidiaries may be subject to disruption due to uncertainty associated with the Merger, which could have an adverse effect on our results of operations, cash flows and financial position and, following the completion of the Merger, the combined company.

Parties with which we and our subsidiaries do business may be uncertain as to the effects on them of the Merger and related transactions, including with respect to current or future business relationships with us, our subsidiaries or the combined company. These relationships with customers, partners, manufacturers and suppliers may be subject to disruption. Other persons with whom we have a business relationship may delay or defer certain business decisions or might decide to terminate, change or renegotiate their relationships with us, or consider entering into business relationships with parties other than us, our subsidiaries or the combined company. In fact, we have received notifications from certain customers and prospective customers that they are re-evaluating their purchasing decisions which could ultimately result in delayed or cancelled orders. Future opportunities will also be difficult to obtain until more certainty about our future as a combined company with Tesla is understood by customers, manufacturers and suppliers. These disruptions could have an adverse effect on our results of operations, cash flows and financial position. The risk, and adverse effect, of any disruption could be exacerbated by a delay in completion of the Merger or termination of the Merger Agreement.

Consummation of the offer may adversely affect the liquidity of our shares not tendered in the offer.

If the offer is completed, the number of stockholders and the number of publicly-traded shares of our common stock will be significantly reduced. As a result, the closing of the offer can be expected to adversely affect, in a material way, the liquidity of the remaining shares held by the public pending the consummation of the merger. While we currently expect the merger to occur on the day after the offer is completed, there can be no assurance that all conditions to the merger will be satisfied at that time or at all.

If the proposed transactions are not consummated, our business and stock price could be adversely affected and we will need to raise substantial additional capital to fund our ongoing operating or other needs.

The consummation of the transactions contemplated by the Merger Agreement (the "Transactions") is subject to the satisfaction or waiver of certain conditions set forth in the Merger Agreement. If the Offer and/or the Merger are delayed or otherwise not consummated, we could suffer a number of consequences that may adversely affect our business, results of operations and stock price, including the following:

- if the Offer and the Merger are not completed, the trading price of our common stock may change to the extent that the current trading price of our common stock reflects an assumption that the Offer and the Merger will be completed;
- we have incurred and expect to continue to incur significant expenses related to the proposed Transactions. These transaction -related expenses include certain investment banking fees, legal, accounting and other professional fees. Most of these fees must be paid even if the Offer is not consummated;
- we could be obligated to pay (or cause to be paid) to Tesla a $8.295 million termination fee in connection with the termination of the Merger Agreement in certain circumstances;
- failure of the Offer and the Merger may result in negative publicity and/or a negative impression of us in our customers, prospective customers, the investment community or business community generally. The failure to consummate the Transactions may be viewed as a poor reflection on our business or prospects;
- certain of our suppliers, customers, distributors, and other business, collaboration and strategic partners may seek to change or terminate their relationships with us as a result of the proposed Transactions; and
- the market price of our common stock may decline, particularly to the extent that the current market price reflects a market assumption that the proposed Offer and Merger will be completed.

In addition, if the Offer and/or the Merger is not consummated, while we expect to be able to continue as a going concern for at least the next twelve months, we believe that in the future we will need a substantial amount of additional capital, and would expect to have to explore additional funding alternatives, such as equity or debt financings, a potential sale of assets or other strategic financing options, to fund our ongoing operations and strategic and growth objectives. Namely, the development of dry battery electrode technology requires a substantial amount of capital. Moreover, to meet potential growth in demand for our products, particularly for our ultracapacitor products, we will need significant resources for customized production equipment. Further, additional capital may be required to execute on our strategies related to continued expansion into commercial markets, development of new products and technologies, and acquisitions of new or complementary businesses, product lines or technologies. There can be no assurance that if the Offer and/or the Merger were not consummated we would be successful in securing additional capital on a timeframe that coincides with our cash needs, on acceptable terms, or at all.

Additionally, if we were unable to secure additional financing that would likely be needed if the Offer and/or Merger were not consummated, we may violate either or both of the liquidity and EBITDA financial covenants in our revolving credit facility with East West Bank, thereby placing the lender in a position to not lend us any amounts under the Revolving Line of Credit or accelerate repayment of any outstanding principal amount plus accrued interest outstanding at the time of any such violations. Moreover, a default under our East West Bank loan would entitle the holders of our notes to cause the acceleration of our Senior Convertible Notes due 2022, and we would likely not have sufficient funds to repay amounts due upon such acceleration. As a result, we could be required to sell assets such as our intellectual property, and/or declare bankruptcy, and we may not be able to remain in business. Conversely, if we were required to raise additional funds by issuing equity, the issuance of additional shares will result in dilution to our current stockholders. If additional financing is accomplished by the issuance of additional debt, the service cost, or interest, will reduce net income or increase net loss, and we may also be required to issue warrants to purchase shares of common stock in connection with issuing such debt. If we were to sell any of our assets, we may reduce our overall net income, EBITDA or otherwise alter our financial outlook.

Our executive officers and directors may have interests that are different from, or in addition to, those of our stockholders generally.

Our executive officers and directors may have interests in the Offer and Merger that are different from, or are in addition to, those of our stockholders generally. These interests include direct or indirect ownership of our common stock, stock options, and restricted stock units, and the receipt or potential receipt of change in control or other retention or severance payments in connection with the proposed transactions.

The Merger Agreement contains provisions that could make it difficult for a third party to acquire us prior to the completion of the Offer and the Merger.

The Merger Agreement contains restrictions on our ability to obtain a third-party proposal for an acquisition of our company. These provisions include our agreement not to initiate, solicit or knowingly encourage or knowingly facilitate any discussions with third parties regarding other proposals to acquire us, as well as restrictions on our ability to respond to such proposals, subject to fulfillment of certain fiduciary requirements of our board of directors. The Merger Agreement also contains certain termination rights, including, under certain circumstances, a requirement for us to pay (or cause to be paid) to Tesla a termination fee of $8.295 million.

These provisions might discourage an otherwise-interested third party from considering or proposing an acquisition of our company, even one that may be deemed of greater value to our stockholders than the Offer. Furthermore, even if a third party elects to propose an acquisition, the concept of a termination fee may result in that third-party’s offering a lower value to our stockholders than such third party might otherwise have offered.

Uncertainties associated with the Merger may cause a loss of our management personnel and other key, which could adversely affect our future business and operations.

In some of the fields in which we operate, there are only a limited number of people in the job market who possess the requisite skills, and it may be increasingly difficult for us to hire personnel during the pendency of the Merger. Current and prospective employees of ours may experience uncertainty about their roles with the combined company following the Merger, which may materially adversely affect our ability to attract and retain key personnel during the pendency of the Merger. In addition, key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the Merger. The loss of services of certain of our senior management or key employees or the inability to hire new personnel with the requisite skills could restrict our ability to develop our dry battery electrode technology or new products or enhance existing ultracapacitor products in a timely manner, to sell products to customers or to effectively manage our business. Also, our business, financial condition and results of operations could be materially adversely affected by the loss of any of its key employees, by the failure of any key employee to perform in his or her current position, or by our inability to attract and retain skilled employees.

Until the completion of the Merger or the termination of the Merger Agreement in accordance with its terms, in consideration of the agreements made by the parties in the Merger Agreement, we are prohibited from entering into certain transactions and taking certain actions that might otherwise be beneficial to us and our stockholders.

Until the earlier of the Effective Time and the termination of the Merger Agreement, the Merger Agreement restricts us from taking specified actions without the consent of Tesla, and requires us to generally operate in the ordinary course of business consistent with past practices. These restrictions may prevent us from making appropriate changes to its businesses, retaining its workforce, paying dividends or pursuing attractive business opportunities that may arise prior to the completion of the Merger.

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Litigation against us, or the members of our Board of Directors, could prevent or delay the completion of the Merger or result in the payment of damages following completion of the Merger.

While we are not aware of any litigation matters brought against us or our Board of Directors related to the Merger, claims may be asserted by purported stockholder plaintiffs related to the Merger. While often such claims would be without merit, the results of any such potential legal proceedings are difficult to predict and could delay or prevent the Merger from becoming effective in a timely manner. Moreover, any litigation could be time consuming and expensive, could divert our management's attention away from its regular business and, if any lawsuit is adversely resolved against us or members of our Board of Directors (each of whom we are required to indemnify pursuant to indemnification agreements), could have a material adverse effect on our financial condition.

One of the conditions to closing of the Merger is that no governmental entity shall have (i) enacted or issued any law that is in effect as of immediately prior to the Effective Time or (ii) issued or granted any orders or injunctions that is in effect as of immediately prior to the Effective Time, in each case which has the effect of restraining, enjoining or otherwise prohibiting the consummation of the Merger. Consequently, if a settlement or other resolution is not reached in any lawsuit that is filed and a claimant secures injunctive or other relief prohibiting, delaying or otherwise adversely affecting our and/or Tesla's ability to complete the Merger, then such injunctive or other relief may prevent the Merger from becoming effective in a timely manner or at all.

If the offer and the merger do not qualify as a tax-free reorganization, the receipt of Tesla Common Stock pursuant to the offer or merger could be fully taxable to our stockholders

We and Tesla intend the merger to qualify as a "reorganization" within the meaning of Section 368(a) of the Code. However, completion of the offer and merger are not conditioned upon receipt of an opinion from counsel dated as of the closing date that the offer and merger, taken together, qualify as a reorganization. If the merger does not qualify as a "reorganization", the offer and the merger could be fully taxable to all Maxwell stockholders.

Risks Related to Our Business

A substantial percentage of our total revenue depends on the sale of products within a small number of vertical markets and a small number of geographic regions, and the decline in the size of a vertical market or reduction of consumption within a geographic region, without offsetting growth in emerging markets, could impede our growth and profitability.

Sales within a relatively small number of vertical markets and a small number of geographic regions make up a large portion of our revenue. Our ability to grow our sales within this limited number of markets and regions depends on our ability to compete on price, delivery and quality. If a particular market into which we sell experiences a decline, then our customers will decrease their own consumption of our products thereby reducing our revenue. Additionally, a substantial portion of our revenue stems from sales to customers within a limited number of geographic regions including, notably, China and Germany. If certain factors were to arise including, for example, a catastrophic event or shift in economic health and stability within a particular region, then customers within these regions may reduce their consumption of our products resulting in reduced revenue for us. While we have focused efforts targeting growth of product acceptance in other smaller market segments, there can be no assurance that the revenue associated with these emerging markets will be able to fully or partially offset any down turn in the vertical markets where we currently maintain substantial business.

The market for dry battery electrode technology is unproven. Moreover, the successful management of dry battery electrode and other new business lines, new market applications and new product and technology introductions will be necessary for our growth, and such activities could fail to attract or retain customers or generate revenue.

The market for dry battery electrode technology is developing and may not develop as we expect. The market for new technology such as dry battery electrode technology compared to traditional lithium-ion batteries is new and evolving. Considering that the market for dry better electrode technology is unproven, it is uncertain whether it will achieve and sustain high levels of demand, consumer acceptance and market adoption in a timely fashion.

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Given our position as the technology leader for certain products, solutions and technologies we offer, we have a considerable number of new product and technology concepts in the pipeline, including, among others, dry battery electrode. A critical component of our growth strategy and our future success is dependent upon our ability to effectively and accurately develop and ultimately market our dry battery electrode technology and determine which other new products, applications or technologies to pursue. Pursuing product or technology applications targeted at a specific customer base should enable our products to cross over from a narrower range of acceptance by early technology adopters to acceptance by a majority of customers in the application space. Commercial success frequently depends on being the first provider to identify the applicable market opportunities. Consequently, if we are not able to fund our research and development activities appropriately and deliver our dry battery electrode technology or other new products or technologies which address the needs of the markets we serve on a timely basis, our growth prospects will be harmed. Additionally, we must balance the benefits of gaining market acceptance in new or existing markets with the goal of optimizing growth and profitability. That is, it is critical to ensure that the products, technologies and markets we select for development are aimed at large volume or high profile applications which can provide a significant return on our investment. If we fail to identify and pursue the appropriate markets for our products and technologies, our growth potential and operating results could be adversely affected.

In addition, we have invested and expect to continue to invest in new lines of business, new products, and other initiatives to generate revenue. The investment into our dry battery electrode technology is a good example. There is no guarantee that investing in new lines of business, new products, and other initiatives will succeed. If we do not successfully develop new approaches to monetization, we may not be able to maintain or grow our revenue as anticipated or recover any associated development costs, and our business could be seriously harmed.

Our failure to develop and introduce new products and applications or enhancements to existing products and applications on a timely basis could harm our ability to attract and retain customers.

Our industry is characterized by rapidly evolving technology, frequent product introductions and ongoing demands for greater performance and functionality. Therefore, we must continually identify, design, develop and introduce new and updated products and applications with improved features to remain competitive. Part of our strategy is to continue to develop and commercialize of our dry battery electrode technology. To introduce dry battery electrode technology and other products and applications on a timely basis we must:

- design innovative and performance-improving features that differentiate our products and applications from those of our competitors;
- identify emerging technological trends in our target markets, including new standards for our products and applications in a timely manner;
- accurately define and design new products and applications to meet market needs;
- anticipate changes in end-user preferences with respect to our customers’ products;
- rapidly develop and produce these products and applications at competitive prices;
- anticipate and respond effectively to technological changes or product announcements by others; and
- provide effective technical and post-sales support for these new products and applications as they are deployed.

The process of developing dry battery electrode technology, ultracapacitor technology, high-voltage capacitor products and other new technology products and applications and enhancing existing products and applications is complex, costly and uncertain. If we fail to anticipate our customers’ changing needs and emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and applications. If we are unable to extend our core technologies into new applications and new platforms and to anticipate or respond to technological changes, the market’s acceptance of our products and applications could decline and our results would suffer. Additionally, any delay in the development, production, marketing or offering of a new product or application or enhancement to an existing product or application could result in customer attrition or impede our ability to attract new customers, causing a decline in our revenues, earnings or stock price and weakening our competitive position. We maintain strategic relationships with third parties to market certain of our products and applications and support certain functionality. If we are unsuccessful in establishing or maintaining our strategic relationships with these third parties, our ability to compete in the marketplace, to reach new customers and geographies or to grow our revenues would be impaired and our operating results would suffer.

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To remain competitive and stimulate customer demand, we must introduce and commercialize new products successfully as well as adequately educate our prospective customers on the products we offer.

Our ability to compete successfully depends heavily on our ability to ensure a continuing and timely introduction of innovative new products and technologies to the marketplace. We believe that we are unique in that we are a technology leader for the technologies we deliver and typically must first educate the customer regarding the implementation of our solution in their systems before the customer is capable of designing in our products. As a result, we must make significant investments in research and development efforts, including related to our dry battery electrode technology, as well as sales and marketing efforts, including applications engineering resources. By contrast, many of our competitors, including some which are well capitalized with significant financial resources at their disposal, seek to compete primarily through aggressive pricing and very low cost structures. Moreover, current producers of lithium-ion batteries that use wet process technology, and companies developing new, alternative technologies or processes, may be developing dry battery electrode technology thereby adding to the number of competitors in the market, many of which are well-capitalized and some of which may be existing partners of ours. If we are unable to continue to develop and sell innovative new products or if we are unable to effectively educate the prospective customer on the value proposition offered by the implementation of our products, then our ability to maintain a competitive advantage could be negatively affected and our financial condition and operating results could be adversely affected.

Many of our customers are currently the benefactors of government funding or government subsidies.

Our products are currently sold into a limited number of vertical markets, some of which are either directly funded by or partially subsidized with government funding. Our dry battery electrode technology and the use of our ultracapacitor technology in certain applications is still relatively immature, and the costs associated with producing the products is perceived to be high as compared with more mature and readily understood solutions. However, many government entities have determined that they view certain prevailing interests, including, for example, reduction of pollution, to outweigh the economic costs associated with incorporating these clean technologies and therefore are willing to allocate government funding to encourage companies to produce goods which reduce pollution and energy consumption. These markets have and may continue to experience volatility when there are changes or delays in government policies and subsidy programs that support our sales into these markets. For example, 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 a requirement to localize product manufacturing. Accordingly, in 2017 and 2018, our sales into this market were not significant. However, to reduce our dependency on China government influences, we established a localized manufacturing partnership with CRRC-SRI, thus positioning the Company for future revenue opportunities. However, despite our efforts, it is uncertain whether our sales into the China hybrid bus market will resume or recover to historical levels.

If these government entities elect to change their policies on government subsidies or decide to cancel or reduce certain government funding programs, then our customers could cancel or reduce orders for our products.

Uncertainty in the global geopolitical landscape may impede the implementation of our strategy outside the United States.

There is uncertainty as to the position the United States will take with respect to world affairs. This uncertainty may include such issues as U.S. support for existing treaty and trade relationships with other countries, including, notably, China. This uncertainty, together with other recent key global events (such as recently enacted currency control regulations in China, the continuing uncertainty arising from the Brexit referendum in the United Kingdom as well as ongoing terrorist activity), may adversely impact (i) the ability or willingness of non-U.S. companies to transact business in the United States, including with us, (ii) our ability to transact business in other countries, (iii) regulation and trade agreements affecting U.S. companies, (iv) global stock markets (including The Nasdaq Global Market on which our common shares are traded), and (v) general global economic conditions. All of these factors are outside of our control, but may nonetheless cause us to adjust our strategy in order to compete effectively in global markets.

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

There have been and may be 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 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, 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.

Additionally, 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. Furthermore, the United States Trade Representative announced potential additional tariffs of 25% effective as of July 6, 2018, on products imported from China with a value of $34 billion, which includes certain energy storage products sold by us effective as of July 6. The United States has also announced potential tariffs on other countries. We cannot predict what actions may ultimately be taken with respect to tariffs or trade relations between the United States and other countries, what products may be subject to such actions, or what actions may be taken by the other countries in retaliation. Accordingly, it is difficult to predict how such actions may impact our business, or the business of our customers, partners or vendors. Our business operations, as well as the businesses of our customers and vendors on which we are substantially dependent, are located in various countries at risk for escalating trade disputes, including the United States, China, the United Kingdom and other countries within the European Union. Any resulting trade wars could have a significant adverse effect on world trade and could adversely impact our revenues, gross margins and business operations.

We may not be successful in growing through acquisitions or integrating effectively any businesses and operations we may acquire.

Our success depends on our ability to continually enhance and broaden our product offerings in response to changing customer demands, technology, and competitive pressures as well as entry into new vertical markets. In 2017, we completed our acquisition of substantially all of the assets and business of Nesscap Energy, Inc. (“Nesscap”), which acquisition included complementary businesses providing for the expansion of our portfolio of products. We do not know if we will be able to complete any future acquisitions or whether we will be able to successfully integrate any acquired businesses, operate them profitably, or retain their key employees.

There can be no assurance that we will be able to generate sufficient cash flow from any future acquisitions or realize any other anticipated benefits. In addition, there can be no assurance that the due diligence undertaken in connection with an acquisition will uncover all liabilities relating to the acquired business. Nor can there be any assurance that our profitability will be improved as a result of acquisitions. Any acquisition may involve operating risks, such as:

- the difficulty of assimilating the acquired operations and personnel and integrating them into our current business;

- the potential impairment of employee morale;
- the potential disruption of our ongoing business;
- preserving important strategic and customer relationships;
- the diversion of management’s attention and other resources;
- the risks of entering markets in which we have little or no experience;
- the possibility that acquisition-related liabilities that we incur or assume may prove to be more burdensome than anticipated;

- the risks associated with possible violations of the Foreign Corrupt Practices Act, the United Kingdom Bribery Act of 2010, and other anti-corruption laws as a result of any acquisition or otherwise applicable to our business; and
- the possibility that any acquired businesses do not perform as expected.

Our acquisition integration and restructuring and reorganization activities could result in management distractions, operational disruptions and other difficulties.

In the past, we have initiated restructuring and reorganization activities in an effort to improve operational efficiency, and such efforts are expected to continue in the future. These actions are intended to better align our cost structure with near-term revenue, and also to improve engineering and operational efficiencies throughout the organization. Additional reductions-in-force or reorganizations may be required as we continue to realign our business organization, operations and product lines.

While we have made significant progress in our efforts to integrate manufacturing and other operations with the acquired business of Nesscap, we are continuing these integration efforts, and they may not be successful. For example, we may encounter issues with integrating the prior management style and workplace culture of Nesscap to be more aligned with our view of management and workplace culture. We may encounter issues with the transition of products delivered to our customers from the higher cost solutions, either from our legacy facilities or Nesscap's facility, as the case may be, to the integrated cost efficient solutions. Such difficulties, even if managed correctly, could result in delays in the actual integration of our manufacturing operations and therefore a delay in realizing anticipated reductions in expenses. Any restructuring efforts could also disrupt our ability to supply products to customers, detriment relationships with customers and other business partners, divert the attention of management away from other priorities, harm our reputation, expose us to increased risk of legal claims by terminated employees, increase our expenses, increase the workload placed upon remaining employees and cause employees to lose confidence in our future performance and decide to leave. In addition, if we continue to reduce our workforce, it may adversely impact our ability to respond rapidly to new growth opportunities or to remain competitive. Further, employees whose positions were or will be eliminated in connection with these restructuring activities or who otherwise determine to leave may seek employment with our competitors, customers or suppliers. Although each of our employees is required to sign a confidentiality agreement with us at the time of employment, which agreement contains covenants prohibiting, among other things, the disclosure or use of our confidential information and the solicitation of our employees, we cannot guarantee that the confidential nature of our proprietary information will be maintained in the course of such future employment, or that our key continuing employees will not be solicited to terminate their employment with us. We cannot guarantee that any restructuring activities undertaken in the future will be successful, or that we will be able to realize the anticipated cost savings and other anticipated benefits from our restructuring plans.

The sale of our 5.50% Senior Convertible Notes due 2022 significantly increased our amount of long-term debt, and our financial condition and results of operations could be adversely affected if we do not efficiently manage our liabilities.

In September 2017, we issued $40.0 million aggregate principal amount of our 5.50% Senior Convertible Notes due in 2022 (the "Notes") and an additional $6.0 million of Notes upon exercise of the initial purchaser's option in October 2017. As a result of the sale of the Notes, we have a substantial amount of long-term debt. Our maintenance of such debt could adversely affect our financial condition and results of operations. While the Notes will continue to remain outstanding as part of the Merger, notice of the Merger must be delivered to the holders of the Notes prior to the Effective Date. In addition, certain documents must be delivered to the trustee on or prior to the Effective, including a supplemental indenture. If we fail to deliver the proper notification and documents required to be delivered pursuant to the Notes, we could be in violation of the terms of the Notes and certain covenants in the Merger Agreement.

In addition, there are a large number of shares of common stock reserved for issuance upon the potential conversion of our Notes and the issuance of these shares may depress the market price of our common stock.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

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The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Downward pressures on product pricing or changes to our product mix could adversely impact our financial condition and operating results, and such pressures or changes could even result in loss of revenue in exchange for avoidance of gross margin pressures.

We strive to manage gross margin for the products we sell. There can be no assurance that targeted gross margin percentage levels will be achieved. In general, gross margins will remain under downward pressure due to increased competition as well as a potential shift in our sales mix to lower margin business. For example, if we increase sales of our products into markets which traditionally have lower margin rates than our current business, such as the automotive market, we may be forced to reduce our margins to remain competitive. Further, we are beginning to experience significant downward pricing pressure in the Chinese hybrid transit vehicle market, which has historically represented a significant portion of our sales, as a result of changes in the government subsidy program and other market factors. If our cost reduction efforts do not keep pace with these price pressures, or if we continue to pursue certain vertical markets and reduce our margins to maintain or increase sales, then we could experience degradation in our overall profit margins. In addition, gross margins could be negatively impacted by an increase in raw materials, components and labor costs, or by changes to our product mix.

Unfavorable results of legal proceedings and regulatory investigations could materially adversely affect us.

We are subject to various legal proceedings and claims that have arisen out of the ordinary conduct of our business and are not yet resolved, and additional claims may arise in the future. Results of legal proceedings cannot be predicted with certainty. Regardless of merit, litigation may be both time-consuming and disruptive to our operations and could cause significant expense and diversion of management attention. From time to time, we are involved in major lawsuits concerning intellectual property, torts, contracts, shareholder litigation, administrative and regulatory proceedings and other matters, as well as governmental inquiries and investigations, the outcomes of which may be significant to our results of operations and may limit our ability to engage in our business activities. In recognition of these considerations, we may enter into material settlements to avoid ongoing costs and efforts in defending or pursuing a matter. Should we fail to prevail in certain matters, or should several of these matters be resolved against us in the same reporting period, we may be faced with significant monetary damages or injunctive relief against us that could adversely affect our business, financial condition and operating results. While we have insurance related to our business operations, it may not apply to or fully cover any liabilities we incur as a result of these lawsuits. We record reserves for potential liabilities where we believe the liability to be probable and reasonably estimable. However, our actual costs may be materially different from these estimates.

For example, as articulated in Item 3 - Legal Proceedings, we have several pending legal matters in the form of both government and regulatory investigations. In early 2013, we voluntarily provided information to the Enforcement Division of the SEC related to our announcement that we intended to file restated financial statements for fiscal years 2011 and 2012. On June 11, 2015 and June 16, 2016, we received subpoenas from the SEC requesting certain documents related to, among other things, the facts and circumstances surrounding the restated financial statements. We have provided documents and information to the SEC in response to the subpoenas. We entered into a tolling agreement with the SEC effective for the period beginning on September 12, 2016, and currently running through March 2, 2018. We are cooperating with the investigation and recently made an offer of settlement to resolve the matter, which is subject to approval by the SEC Commissioners. The proposed settlement would be entered into by the Company without admitting or denying the SEC's findings and would resolve alleged violations of certain anti-fraud and books and records provisions of the federal securities laws and related rules. Under the terms of the proposed settlement, we would pay $2.8 million in a civil penalty and agree not to commit or cause any violations of certain anti-fraud and books and records provisions of the federal securities laws and related rules. There is no assurance that the proposal will be approved by the SEC Commissioners.

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Further, the Swiss federal prosecutor initiated an investigation into the Company in 2013 for actions which we believe are related to the U.S. Foreign Corrupt Practices Act ("FCPA") investigation previously settled with the SEC and Department of Justice ("DOJ") in 2011. In December 2018, we sold our Swiss subsidiary as part of the sale of our high voltage product line and agreed to indemnify the purchaser for damages which may arise from this matter. While there continues to be no resolution of this matter, the incurrence of excessive fines in accordance with Swiss bribery laws could occur and trigger our obligation to indemnify the purchaser of our Swiss subsidiary which such indemnification obligation have a material adverse impact on our financial condition and results of operation.

Additionally, these legal matters could be both time-consuming and disruptive to our business and our reputation could be harmed as a result of the allegations asserted in public statements and court documents throughout the course of the action. Consequently, our financial condition or operating results could be materially adversely affected.

Activist stockholders may attempt to effect changes to our company, which could adversely affect our corporate governance, results of operations and financial condition.

Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors through various corporate actions, including Board nominations and proxy contests. We may become subject to one or more campaigns by stockholders who desire to increase stockholder value in the short term. If we become engaged in a proxy contest with an activist stockholder in the future, our business and operations could be adversely affected as responding to such contests or other activist stockholder actions would be costly and time-consuming, and we would expect that such actions would disrupt our operations and divert the attention of management and our employees from executing our strategic plans and product launch. In addition, if individuals are elected to our Board with a specific agenda or without relevant experience or expertise, it may adversely affect the ability of the Board to function effectively, as well as our ability to effectively and timely implement our strategic plans, which are focused on building shareholder value. Any perceived uncertainties as to our future direction as a result of stockholder activism or changes to the composition of our Board may lead to the perception of a change in the direction of our business and instability or lack of continuity with respect to our products which may cause concerns for our customers or be exploited by our competitors. As a result, we could experience significant volatility and a decline of our stock price, the loss of potential business opportunities and difficulties in attracting and retaining qualified personnel and customers. For example, we entered into an amended and restated settlement agreement with an activist stockholder in September 2017 pursuant to which, among other things, we agreed to keep the authorized number of our Board of Director's at eight (8) members through the conclusion of the 2018 Annual Meeting. There can be no assurance that we will not be subject to additional campaigns by the same or other stockholders now or in the future.

Our business is subject to risks related to its international operations, including risks related to changing rules and regulations in countries where our business is conducted.

We derive a significant portion of our revenue and earnings from international operations. Such operations outside the U.S. are subject to special risks and restrictions, including: fluctuations in currency values and foreign currency exchange rates, import and export requirements and trade policy, anti-corruption laws, tax laws (including U.S. and foreign taxes on foreign subsidiaries), foreign exchange controls, cash repatriation restrictions, tax implications on inter-company arrangements, data privacy requirements, labor laws, anti-competition regulations, and other potentially detrimental domestic and foreign governmental practices or policies affecting U.S. companies doing business abroad. Compliance with these U.S. and foreign laws and regulations increases the costs of doing business in foreign jurisdictions and these costs may continue to increase in the future as a result of changes in such laws and regulations or in their interpretation. Furthermore, we have implemented policies and procedures designed to ensure compliance with these laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations or our policies. Any violations of rules and regulations could individually or in the aggregate materially adversely affect our financial condition or operating results. Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks.

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Our success could be negatively impacted if we fail to control, oversee and direct foreign subsidiaries and their operations.

We currently own foreign subsidiaries located within Europe and Asia where the employees and cultures represent certain vast differences from employees and cultures within the United States where our corporate headquarters is situated. While the cultural values and philosophies of the people located in Europe and portions of Asia are generally viewed to be in alignment with that of U.S. persons, there are still some significant differences. For example, the respective European data privacy laws take a harsher position regarding the protection of employee personal data and, consequently, there is less information shared with the U.S. parent corporation regarding employees working for our European subsidiaries. Additionally, the human resources and the systems our foreign entities use can be vastly different; notably, our Swiss, Korean, German, and Chinese subsidiaries utilize a primary language other than English for communications. Having substantial international operations also increases the complexity of managing our financial reporting and internal controls and procedures. If we are unable to manage these risks effectively, it could negatively impact our operating performance and our reputation.

Our exposure to fluctuations in foreign currency exchange rates arising from international operations could harm our financial condition and operating results.

As a result of our extensive international operations and significant revenue generated outside the U.S., the dollar amount of our current and future revenue, expenses and debt may be materially affected by fluctuations in foreign currency exchange rates. Our primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar denominated sales in Europe as well as non-U.S. dollar denominated operating expenses incurred throughout the world. Weakening of foreign currencies relative to the U.S. dollar will adversely affect the U.S. dollar value of our foreign currency-denominated sales and earnings, and generally could lead us to raise international pricing, potentially reducing demand for our products. In some circumstances, due to competition or other reasons, we may decide not to raise local prices to the full extent to offset unfavorable exchange rate fluctuations, or at all, which would adversely affect the U.S. dollar value of our foreign currency denominated sales and earnings. Conversely, a strengthening of foreign currencies, while generally beneficial to our foreign currency-denominated sales and earnings, could cause us to realize a reduction in our overall gross margin as the U.S. dollar value of our foreign currency-denominated expenses increases. In an effort to minimize volatility in our statement of operations from transactions denominated in foreign currencies, we employ efforts to maintain our significant operating activities in the local currencies of our each of our operating entities, and minimize activities in non-local currencies for which foreign currency exchange rate changes would impact our operating results, however, we cannot assure that our efforts will be successful.

Our business activities are subject to the FCPA and other anti-bribery laws. If we fail to comply with anti-bribery laws and regulations, we could be subject to civil and/or criminal penalties as well as further expenses related to an additional internal investigation.

Due to our status as a U.S. issuer, we are subject to the FCPA, which prohibits companies from making, promising or offering improper payments or other things of value to foreign officials for the purpose of obtaining or retaining business or a business advantage. For example, in January 2011, we reached settlements with the SEC and DOJ with respect to charges asserted regarding certain payments made to an independent third-party sales agent in China for our high-voltage capacitor products produced by our former Swiss subsidiary, Maxwell SA. As a result, we were required to pay monetary fines totaling $14.4 million, and to implement additional remedial measures to strengthen our compliance program concerning anti-bribery.

We depend upon component and product manufacturing and logistical services provided by third parties, many of whom are located outside of the U.S.

Substantially all of our components and products are manufactured in whole or in part by a few third-party manufacturers. Many of these manufacturers are located outside of the U.S. and are all located within a relatively small geographic location. If a catastrophic event occurs within this area, or the social or economic conditions shift within this geography, we could experience business interruptions, delayed delivery of products, or other adverse impacts to our ongoing business. We have also outsourced much of our transportation and logistics management. While these arrangements may lower operating costs, they also reduce our direct control over production and distribution. Such diminished control could have an adverse effect on the quality or quantity of our products as well as our flexibility to respond to changing conditions. In addition, we rely on third-party manufacturers to adhere to the terms and conditions of the agreements in place with each party. For example, although arrangements with such manufacturers may contain provisions for warranty expense reimbursement, we may remain responsible to the customer for warranty service in the event of product defects. Any unanticipated product defect or warranty liability, whether pursuant to arrangements with contract manufacturers or otherwise, could adversely affect our reputation, financial condition and operating results.

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Our success as a reliable supplier to our customers is highly dependent upon our ability to effectively manage our reliance upon certain suppliers of key component parts, finished goods and specialty equipment.

Because we currently obtain certain key components including, but not limited to binder, separator, paper, aluminum piece parts, die, printed circuit boards and certain finished goods, including, notably, ultracapacitor finished goods, from single or limited sources, we are subject to significant supply and pricing risks. If the particular supplier is unable to provide the appropriate quantity and/or quality of the raw material or the finished goods at the prices required, then we will be unable to produce and deliver our goods to customers, thereby losing out on revenue generation and, potentially, incurring penalties for failing to timely perform. For example, a substantial portion of our revenue is generated from finished goods supplied to us from a single contract manufacturer. If this contract manufacturer is unable to supply the finished goods to us to meet our customer demand, then we could be forced to decline acceptance of customer orders, which could lead to, among other things, a reputation that we are an unreliable supplier and a decline in future demand for our products. Additionally, if we are not aware of potential constraints upon our contract manufacturer for these finished goods before we enter into binding supply commitments with our own customers, then we could be required to pay damages to the customers. While we have established mitigation strategies to attempt to minimize the likelihood and impact of an inability to supply finished goods due to supplier constraints, we cannot be certain that such mitigation strategies will eliminate an adverse effect to our financial condition.

Additionally, we use some custom components that are not common to the rest of the industries served by our suppliers and which are often available from only one source. Also, when a component or product uses new technologies, initial capacity constraints may exist until the particular supplier’s yield has matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers decide to concentrate on the production of common components instead of components customized to meet our unique requirements. If the supply of a key single-sourced component for a new or existing product were delayed or constrained, if such components were available only at significantly higher prices, or if a key manufacturing vendor delayed shipments of completed products to us, then our financial condition and operating results could be adversely affected.

Conversely, diversifying our supplier base to ensure that we have multiple suppliers for each key raw material typically involves additional costs including, but not limited to: higher prices for the raw materials as a direct consequence of purchasing lower volumes from each supplier; additional costs associated with qualifying additional suppliers; and increased resource expense in managing an additional supplier for factors including quality, timely delivery and other standards. If we fail to balance the interests between the reliance upon a single supplier and expense associated with diversifying the supply chain base, then our actual gross profit could fail to meet our targets.

Competition in the energy storage domain has significantly affected, and will continue to affect, our sales.

Many companies are engaged in or are starting to engage in designing, developing and producing energy storage solutions as a consequence of the movement towards clean energy solutions in both the commercial and public sectors. Consequently, more companies are pursuing opportunities in the energy storage domain and are beginning to compete in the markets in which we do business. The success of these new competitors could render our products less competitive, resulting in reduced sales compared with our expectations or past results. Certain companies which recently initiated efforts to enter the markets in which we do business, including, notably, in China, possess greater access to capital resources or utilize different product development strategies which vary in both time to market and innovation methodologies. Consequently, these companies could develop products that are superior to ours, more competitively priced than ours or faster to market than ours. Additionally, significant amounts of U.S. government funds are being invested in the development of batteries with better performance characteristics or lower manufacturing costs than battery technologies currently on the market and, consequently, these new, advanced batteries that include power delivery functionality could compete for market share with our dry battery electrode technology or ultracapacitor products. Moreover, as the market leader for certain markets for energy storage, competitors often follow our lead in the advancement of technologies for energy storage or customers attempt to facilitate second sources of comparable products, thereby requiring us to innovate rapidly in order to continue to serve as the market leader. The success of the technologies and products offered by our competitors could reduce our market share, thereby negatively impacting our financial results.

Our success depends largely on the acquisition of, as well as the continued availability and service of, key personnel.
Much of our future success depends on the continued availability and service of key personnel, including our chief executive officer and senior executive management team as well as highly-skilled employees in technical, marketing and staff positions. Due to the complexity and immaturity of the technologies involved in the products we produce and the markets we serve, we may be unable to find the right personnel with the background needed to serve our goals and objectives. As a market leader for the technologies we develop, there are limited opportunities to hire personnel from competitors or other technology companies with substantial background and experience in our technology fields. Consequently, we seek to hire individuals who are capable of performing well in an environment with limited resources and references to past experiences. We may struggle to find such talented personnel who also thrive in a high growth business atmosphere and who are capable of keeping pace with the rapidly changing environment encouraged by the technologies we create and the markets we serve. These uniquely talented personnel are in high demand in the technology industry and competition for acquiring such individuals is intense. Some of our scientists and engineers are the key developers of our products and technologies and are recognized as leaders in their area of expertise. Without attracting and retaining personnel with the appropriate skill sets, we could fail to maintain our technological and competitive advantage.
Our products and services may experience quality or implementation problems from time to time that could result in decreased sales and operating margin, and could tarnish our reputation.
Our dry battery electrode technology is new, and our ultracapacitor products also represent a relatively new technology, in each case which could contain defects in design or manufacture, or could be implemented incorrectly in the end use application. As a direct consequence of the introduction of new features for our technology as well as new implementations by our customer base, we are still learning about the potential quality issues that could arise during operation in certain applications. Consequently, we are not always capable of anticipating the quality or implementation problems which the products may experience in the field. Products sold into high performance environments such as heavy transportation, automotive markets or grid infrastructure installations could experience additional operating characteristics that could unexpectedly interfere with the intended operation of our products. For example, if the end use application is in an environment which subjects the products to levels of vibration above our internal design and qualification levels, then the products could fail to achieve the customer’s performance requirements. With this sometimes limited understanding of the application and operation of our products in varying end user implementations, our customers may perceive our products as exhibiting quality problems, which could harm our reputation. We strive to respond quickly in addressing the concerns of our customers by modifying our products and assisting our customers in designing new implementation or installation strategies to achieve higher performance characteristics or to satisfy new or modified applications of our products. As such, the release time of next generation products or application solutions can be relatively quick, and we may assume additional risks associated with expediting the release of new or modified products.
We are also building our infrastructure to adequately and efficiently handle any potential recall and the reverse logistics involved in returning our products to our facilities in the event that any defects are found. There can be no assurance that we will be able to detect and fix all defects in the products we sell or will be able to efficiently handle all issues related to product returns or implementation concerns. As we continue to pursue additional vertical markets, we are gaining a better understanding of certain business practices of these markets with respect to potential product recalls. For example, certain portions of the transportation industry are sensitive to product recall issues as they relate to both government regulations as well as customer satisfaction and safety. Failure to successfully prevent a defect in our products which prompts a recall or a failure to successfully manage expenses associated with any recalls could cause lost revenue, harm to our reputation, and significant warranty and other expenses, and result in an adverse impact on our financial condition and operating results.

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Efforts to protect our intellectual property rights and to defend claims against us could increase our costs and will not always succeed; any failures could adversely affect sales and profitability and restrict our ability to do business.

Intellectual property ("IP") rights are crucial to maintaining our competitive advantage and growing our business. We endeavor to obtain and protect our IP rights which we feel will allow us to retain or advance our competitive advantage in the marketplace. However, there can be no assurance that we will be able to adequately identify and protect the portions of IP which are strategic to our business, including, without limitation, IP related to dry battery electrode technology which remains under development and a key part of our strategy. Generally, when strategic IP rights are identified, we will seek formal protection in jurisdictions in which our products are produced or used, jurisdictions in which competitors are producing or importing their products, and jurisdictions into which our products are imported. Different nations may provide limited rights and inconsistent duration of protection for our products. Additionally, we may be unable to obtain protection for or defend our IP in key jurisdictions. For example, the patent prosecution and enforcement system within China is less mature than the systems in other jurisdictions and therefore we may be more limited in our ability to enforce our rights. This disadvantage would likely be compounded by the challenge of any enforcement attempts by us as a foreign entity seeking protection against a Chinese company infringing on our IP in China.

Even if protection is obtained, competitors or others in the chain of commerce may raise legal challenges to our rights or illegally infringe our rights, including through means that may be difficult to prevent or detect. For example, a certain portion of our IP portfolio is related to unique process steps performed during the manufacture of our products which are not readily recognizable in the physical embodiment of the final product. It may be difficult to identify and prove that a competitor is infringing on our rights to such process steps. Further, we are required to divulge certain of our IP to our business partners to enable them to provide quality products or raw materials to us or enable the exploitation and success of strategic partnerships. To the extent that such disclosure occurs in China or other jurisdictions in which the ability to protect IP is more limited, existing or new competitors in this region could begin to use our IP in the development of their own products, which could reduce our competitive edge. Even in jurisdictions in which IP is highly valued, and therefore protected, the financial burden of asserting or defending our IP rights could prove to be cost prohibitive for us thereby putting us in a position in which we must sacrifice our competitive edge.

In addition, because of the rapid pace of technology advancements, and the confidentiality of patent applications in some jurisdictions, competitors may be issued patents stemming from pending patent applications that were unknown to us prior to issuance of the patents. This could reduce the value of our commercial or pipeline products or, to the extent they cover key technologies on which we have unknowingly relied, require that we seek to obtain a license or cease using the technology, no matter how valuable to our business. We may not be able to obtain such a license on acceptable terms. The extent to which we succeed or fail in our efforts to protect our IP will affect our financial condition and results of operations.

Our inability to effectively identify, enter into, manage and benefit from strategic alliances, may limit our ability to pursue certain growth objectives and/or strategies.

Our reputation is important to our growth and success. As a leader in an emerging technology industry, we recognize the value in identifying, selecting and managing key strategic alliances. We are mainly focusing our business on the specific products we deliver and pursuit of strategic alliances with other companies could allow us to provide customers with integrated or other new products, services, or technology advancements derived from the alliances. To be successful, we must first be able to define and identify opportunities which align with our growth plan. Additionally, we cannot be certain that our alliance partners will provide us with the support we anticipate, that such alliance or other relationships will be successful in advancing technology, or that any alliances or other relationships will be successful in manufacturing and marketing new or improved products. Our success is also highly dependent upon our ability to manage the respective parameters of all strategic alliances, promote the benefits to us, and to not prohibit or discourage other opportunities which may be beneficial to us in the future. Also, certain provisions of alliance agreements may include restrictions that limit our ability to independently pursue or exploit the developments under such strategic alliances. Currently, we have alliances with several partners both in the U.S. and throughout the world. We anticipate that future alliances may also be with foreign partners or entities. As a result, such alliances may be subject to the political climate and economies of the foreign countries where such partners reside and operate. If the strategic alliances we pursue are not successful, our business and prospects could be negatively affected.

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Should a catastrophic event or other significant business interruption occur at any of our facilities, we could face significant reconstruction or remediation costs, penalties, third-party liability and loss of production capacity, which could adversely affect our business.

Weather conditions, natural disasters or other catastrophic events could cause significant disruptions in operations, including, specifically, disruptions at our manufacturing facilities or those of our major suppliers or customers. In turn, the quality, cost and volumes of the products we produce and sell could be unexpectedly, negatively affected, which will impact our sales and profitability. Natural disasters or industrial accidents could also damage our manufacturing facilities or infrastructure, or those of our major suppliers or major customers, which could affect our costs, production volumes and demand for our products. However, we have implemented certain mitigation strategies to ensure that certain components and processes involved in the manufacture of our component materials and finished goods are somehow temporarily available so as to reduce the impact of such a catastrophic event.

War, terrorism, geopolitical uncertainties, public health issues, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a strong negative effect on us, our suppliers, logistics providers, manufacturing partners and customers. Our business operations could be subject to interruption by power shortages, terrorist attacks and other hostile acts, labor disputes, public health issues, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to produce and deliver products to our customers, or to receive components from our suppliers, thereby creating delays and inefficiencies in our supply chain. Should major public health issues, including pandemics, arise, we could be negatively affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, and disruptions in the operations of our manufacturing partners and component suppliers. The majority of our research and development activities, our corporate headquarters, information technology systems, and other critical business operations, including certain component suppliers and manufacturing partners, are in locations that could be affected by natural disasters. In the event of a natural disaster, losses could be incurred and significant recovery time could be required to resume operations and our financial condition and operating results could be materially adversely affected. While we may purchase insurance policies to cover the direct economic impact experienced following a natural disaster occurring at one of our own facilities, there can be no assurance that such insurance policies will cover the full extent of our financial loss nor will they cover losses which are not economic in nature such as, for example, our business and reputation as a reliable supplier.

We may be subject to information technology systems failures, network disruptions, breaches in data security and computer crime and cyber-attacks.

Information technology system failures, network disruptions, breaches of data security and sophisticated and targeted computer crime and cyber-attacks could disrupt our operations by impeding the manufacture or shipment of products, the processing of transactions or reporting of financial results, or by causing an unintentional disclosure of confidential information. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. In the ordinary course of our business, we collect and store sensitive data in our data centers and on our networks, including IP, proprietary business information, and personal information of our business partners and employees. Despite our efforts to protect sensitive, confidential or personal data or information, our facilities and systems and those of our third-party service providers may be vulnerable to security breaches, theft, misplaced or lost data, programming and/or human errors that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions, which in turn could adversely affect our reputation, competitiveness and results of operations. While management has taken steps to address these concerns by employee training, implementing certain data and system redundancy, hardening and fail-over along with other network security, comprehensive monitoring of our networks and systems, maintenance of backup and protective systems and other internal control measures, there can be no assurance that the measures we have implemented to date would be sufficient in the event of a system failure, loss of data or security breach. As a result, in the event of such a failure, loss of data or security breach, our financial condition and operating results could be adversely affected.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including IP, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, in our data centers and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption of our operations and the services we provide to customers, and damage to our reputation, which could adversely affect our financial results and competitive position.

Our ability to match our production plans for our ultracapacitor products to the level of product actually demanded by customers has a significant effect on our sales, costs and growth potential.

Customers' decisions are affected by market, economic and government regulation conditions which can be difficult to accurately gauge in advance. In addition, many of the markets for our ultracapacitor products are within emerging industries as well as within project-oriented business models and, as such, it can be difficult to predict our future customer demand. Failure to provide customers and channel partners with demanded quantities of our products could reduce our sales. Conversely, increased capacity which exceeds actual customer demands for our products increases our costs and, consequently, reduces our profit margins on the products delivered. Although we have implemented policies and procedures for refining our forecasting methods, including a more sophisticated mechanism for gauging the sales pipeline to better project timing of new customer demand, there can be no assurance that these policies and procedures will provide accurate intelligence to align our production plans with customer demands. As a result of all of these factors, we could fail to meet revenue or profit margin targets.

Our reputation could be damaged as a result of negative publicity due to the restatement of prior periods financial statements contained within our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and the underlying business causes of such restatement.

We depend upon our reputation to compete for customers, suppliers, investors, strategic partners and personnel. Unfavorable publicity can damage our reputation and negatively impact our economic performance. Our restatement of our prior periods financial statements contained within our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and the underlying business causes of such restatement, could damage our reputation. For example, in June 2015 and June 2016, we received subpoenas from the SEC requesting certain documents related to, among other things, the facts and circumstances surrounding the restated financial statements. In March 2018, we 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, we were 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. There can also be no assurance that unfavorable publicity arising from this matter will not have a material adverse effect on our business.

Our ability to use our tax net operating loss carryforwards is dependent upon the generation of future taxable income, and the absence of significant ownership changes to our common stock.

As of December 31, 2018, we had U.S. federal tax and state tax net operating loss carryforwards of approximately $235.2 million and $43.6 million, respectively. Realization of any benefit from our tax net operating losses is dependent on both our ability to generate future taxable income before our net operating loss carryforwards expire, as well as the absence of certain "ownership changes" to our common stock. An "ownership change," as defined in the applicable federal income tax rules, could place significant limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income we may generate. The issuance of shares of our common stock, including the issuance of shares of common stock upon future conversion or exercise of outstanding stock options, could cause such an "ownership change." In addition, share trading activity by shareholders that own 5% or more of company equity can contribute to the determination of whether an ownership change occurs. Such limitations triggered by an “ownership change,” in conjunction with the net operating loss expiration provisions, could effectively eliminate our ability to use a substantial portion of our net operating loss carryforwards to offset any future taxable income.

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Our stock price continues to be volatile.

Our stock has at times experienced substantial price volatility due to a number of factors, including but not limited to the various factors set forth in this “Risk Factors” section, as well as variations between our actual and anticipated financial results, announcements by us or our competitors, and uncertainty about future global economic conditions. The stock market as a whole also has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that may have been unrelated to these companies’ operating performance. Furthermore, we believe our stock price reflects the potential closing of the Merger. If we fail to close the Merger, we expect that our stock price may significantly decline which could have an adverse impact on investor confidence and employee retention.

Anti-takeover provisions in our certificate of incorporation and bylaws could prevent certain transactions and could make a takeover more difficult.

Some provisions in our certificate of incorporation and bylaws could make it more difficult for a third-party to acquire control of us, even if such change in control would be beneficial to our stockholders. We have a classified board of directors, which means that our directors are divided into three classes that are elected to three-year terms on a staggered basis. Since the three-year terms of each class overlap the terms of the other classes of directors, the entire board of directors cannot be replaced in any one year. Furthermore, our certificate of incorporation contains a “fair price provision” which may require a potential acquirer to obtain the consent of our board to any business combination involving us. Our certificate of incorporation and bylaws also contain provisions barring stockholder action by written consent unless first approved by a majority of the disinterested directors, and the calling by stockholders of a special meeting. Amendment of such provisions requires a super majority vote by the stockholders, except with the consent of the board of directors and a majority of the disinterested directors in certain circumstances. The provisions of our certificate of incorporation and bylaws could delay, deter or prevent a merger, tender offer, or other business combination or change in control involving us that stockholders might consider to be in their best interests. This includes offers or attempted takeovers that could result in our stockholders receiving a premium over the market price for their shares of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our primary operations are located in San Diego, California; Peoria, Arizona; and Yongin, South Korea. We occupy a 36,400 square foot facility in San Diego, California for our principal research and development operations under a lease that expires in March 2023. We also occupy a 30,500 square foot corporate office located in San Diego, California under a lease that expires in April 2023, and we have one five-year renewal option thereafter. Our Peoria, Arizona manufacturing facility occupies 123,000 square feet under a lease that expires in June 2027, and we have one five-year renewal option thereafter. Following our acquisition of Nesscap in April 2017, we lease a research, manufacturing and marketing facility in Yongin, South Korea occupying 53,000 square feet under a lease that expires in January 2021, and we have one three-year renewal option thereafter.

We have a 6,000 square foot sales office in Shanghai, China under a lease expiring in September 2019, and we have a two-year renewal option thereafter. We also have a small sales office in Munich, Germany.

We believe that we have sufficient space to support forecasted production volume and that our facilities are adequate to meet our needs for the foreseeable future. For additional information regarding our expected capital expenditures in fiscal 2019, see Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.

Over the past several years, we have made substantial capital investments to outfit and expand our internal production facilities and incorporate mechanization and automation techniques and processes. Additionally, we have trained our manufacturing personnel in the necessary operational techniques. We have completed certain upgrades and expansions in recent years and, even in the context of manufacturing consolidation efforts, we have capacity flexibility and are able to accommodate other upgrades. Including consideration of our contract manufacturing relationships with Kaifa Technology (H.K.) Limited and Tianjin Lishen Battery Joint-Stock Co. Ltd. in China, we believe that we have sufficient capacity to meet near-term demand.

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Item 3. Legal Proceedings

FCPA Matter

In January 2011, the Company reached settlements with the 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 former 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. In December 2018, the Company sold its Swiss subsidiary as part of the sale of its high voltage product line and agreed to indemnify, within certain parameters, the purchaser for damages which may arise from this matter. 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 4. Mine Safety Disclosures.
Not applicable.

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PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has been quoted on the NASDAQ Global Market under the symbol “MXWL” since 1983.

As of February 11, 2019, there were 268 registered holders of our common stock. Because many of our shares of common stock are held by brokers or other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by the record holders.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. In addition, our ability to pay cash dividends is currently prohibited by the Amended Loan and Security Agreement with East West Bank. We currently intend to retain all available funds and any future earnings for use in the development, operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

None.

Equity Compensation Plans

The information required by this item is incorporated by reference to Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters, included in this Annual Report on Form 10-K.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

Not applicable to a “smaller reporting company” as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations for the years ended December 31, 2018 and 2017 should be read in conjunction with our consolidated financial statements and the related notes included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. In addition, the discussion contains forward-looking statements that are subject to risks and uncertainties, including estimates based on our judgment. These estimates include, but are not limited to, assessing the collectability of accounts receivable, applied and unapplied production costs, production capacities, the usage and recoverability of inventories and long-lived assets, deferred income taxes, pension assets and liabilities, the incurrence of warranty obligations, impairment of goodwill, estimation of the cost to complete certain projects, future revenue and other operating results, cash balances and access to liquidity, accruals for estimated losses from legal matters and estimation of the value of stock-based compensation awards, including the probability that the performance criteria of equity awards will be met. For further discussion regarding forward looking statements, see the section of this Annual Report on Form 10-K entitled Special Note Regarding Forward-Looking Statements.

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:

- Merger Agreement with Tesla
- Executive Overview
- Recent Highlights
- Results of Operations
- Liquidity and Capital Resources
- Contractual Obligations
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Merger Agreement with Tesla

On February 3, 2019, we entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among Maxwell, Tesla, Inc., a Delaware corporation ("Tesla") and Cambria Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Tesla ("Merger Sub"), which contemplates the acquisition of Maxwell by Tesla, through Merger Sub. The Merger Agreement contemplates that Tesla will commence an all stock exchange offer for all of the issued and outstanding shares of Maxwell (the "Offer"), followed by a merger of Merger Sub with and into Maxwell pursuant to which Maxwell will survive as a wholly-owned subsidiary of Tesla (the "Merger").

In the Offer, each Maxwell stockholder who elects to participate in the Offer will receive a fractional share of common stock of Tesla, $0.001 par value ("Tesla Common Stock") for each share of Maxwell common stock, par value $0.10 ("Maxwell Common Stock") exchanged in the Offer. Tesla, through Merger Sub, will commence the Offer to purchase each issued and outstanding share of Maxwell Common Stock for a fraction of a share of Tesla Common Stock, equal to the quotient obtained by dividing $4.75 by the volume weighted average closing sale price of one (1) share of Tesla Common Stock as reported on the NASDAQ Global Select Market ("NASDAQ") for the five (5) consecutive trading days ending on and including the second trading day immediately preceding the expiration of the Offer (the "Tesla Trading Price"). However, in the event that the Tesla Trading Price is equal to or less than $245.90, then each share of Maxwell Common Stock shall be exchanged for 0.0193 of a share of Tesla Common Stock. Such shares of Tesla Common Stock, plus any cash paid in lieu of any fractional shares of Tesla Common Stock, is referred to as the "Offer Consideration".

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At the effective time of the Merger (the “Effective Time”), each outstanding option to purchase Maxwell Common Stock that is outstanding, unexercised and unexpired immediately prior to the Effective Time (“Maxwell Option”) shall be automatically assumed by Tesla and converted into and become an option to acquire Tesla Common Stock, on the same terms and conditions as were applicable to such Maxwell Option as of immediately prior to the Effective Time, subject to an adjustment for the number of shares and the exercise price pursuant to which such Maxwell Option will be converted into Tesla Common Stock. At the Effective Time, each Maxwell restricted share unit (“Maxwell RSU”) that is outstanding immediately prior to the Effective Time, shall be assumed by Tesla and converted automatically into and become a restricted stock unit covering shares of Tesla Common Stock, on the same terms and conditions as were applicable under the Maxwell RSU as of immediately prior to the Effective Time, subject to an adjustment for the number of shares in which the RSU will be converted into Tesla Common Stock.

As soon as practicable following (but on the same day as) the consummation of the Offer and subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, Merger Sub will be merged with and into the Company (the “Merger”), with the Company surviving the Merger as an indirect wholly-owned subsidiary of Tesla. The Merger will be governed by Section 251(h) of the Delaware General Corporation Law (“DGCL”) and effected without a vote of the Company’s stockholders.

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 one commercialized product line: energy storage, which consists primarily of ultracapacitors, with applications in multiple industries, including transportation and grid energy storage. In addition to our existing energy storage product line, we are focused on developing and commercializing 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, and (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.

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. We have 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 2019, we plan to begin to build a pilot-scale manufacturing facility to further prove the benefits and manufacturability of this technology.

In order to achieve our strategic objectives, in the fourth quarter of 2018 we divested our high voltage product line. On December 19, 2018, the Company entered into a Share Purchase Agreement with RN C Holding SA, a special purpose holding entity and affiliate of Renaissance Investment Foundation, (“Renaissance”), providing for the sale of 100% of the shares of our Swiss subsidiary, Maxwell Technologies SA (“Maxwell SA”), and its high voltage capacitor product line to Renaissance. The transaction simultaneously closed with the signing of the Share Purchase Agreement on December 19, 2018. The upfront purchase price was approximately $55.1 million, which after certain reductions and other transaction-related expenses resulted in net cash proceeds of approximately $47.8 million. Additionally, Renaissance has agreed to make milestone payments of up to $7.5 million per year based on the achievement of specific revenue targets related to the high voltage capacitor product line in fiscal years 2019 and 2020 resulting in potential aggregate milestone payments of approximately $15 million.

Except as specifically indicated, the discussion of the Company and our operations excludes the high voltage product line. The high voltage product line has been classified as discontinued operations and the results of operations of the high voltage product line for the years ended December 31, 2018 and 2017 have been excluded from our continuing operating results. For the years ended December 31, 2018 and 2017, the high voltage product line represented 20% and 33% of total revenues, and 49% and 81% of total gross profit, respectively, before the reclassification of high voltage to discontinued operations.

In August 2018, we completed a public offering of 7,590,000 shares of our common stock at a public offering price of $3.25 per share. We received total net proceeds of approximately $23.0 million from the offering, after deducting underwriting discounts, commissions and our offering expenses. Offering net proceeds are being used for general corporate purposes, including research and development expenses, capital expenditures, working capital, repayment of debt and general and administrative expenses.

In September and October 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. Net proceeds from the offering are being used for general corporate purposes, including 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 added complementary businesses to our operations and expanded 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 $1.1 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 2018, revenue was $90.5 million compared with $87.7 million in 2017, representing an overall increase of 3%. The increase in revenue was primarily 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 as well new product launches in grid storage systems. The increases were partially offset by a decrease in wind revenue due to competitive pressure in China and weakened wind sales in Europe.

Gross margin for fiscal year 2018 increased to 11% compared with 6% in 2017. The increase in gross margin was associated with a decrease in product costs mainly due to higher absorption of fixed costs related to higher production volumes and improved utilization at our manufacturing facilities, product transitions and synergies associated with our acquisition of Nesscap, and product mix shifts including the favorable impact of a full year of Korean-manufactured product margins in 2018. These improvements were partially offset by reductions in pricing for our ultracapacitor products in select markets.

Operating expenses in 2018 decreased to 56% of revenue, compared with 65% of revenue in the prior year, primarily attributable to several significant expenses incurred in 2017 including acquisition transaction costs, implementation of restructuring plans and a settlement with the SEC related to our 2011 and 2012 restatement.

As of December 31, 2018, we had cash and cash equivalents of $58.0 million. In addition, the Company has a revolving line of credit expiring in May 2021, under which no borrowings are currently outstanding. During 2018, in order to supplement existing cash, fund our investment plans and forecasted negative cash flow from operations, we raised cash via an equity offering in August 2018 and the sale of the high voltage product line in December 2018 as discussed above. Management believes that our 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.

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. These markets may decline or experience slower rates of growth when there are changes or delays in government policies and subsidy programs. Specifically, the Chinese wind energy market, which represents a significant proportion of historical sales, is heavily dependent on government regulation and subsidy programs and changes to such regulations and programs could significant impact our revenues from this regional market.

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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 pursing opportunities to reduce the cost of our product in order to improve our competitive position and product margins. Specifically, the wind 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 requirements. Accordingly, we have expanded our product line to address the changing demands and to secure our position in this market.

Additionally, recent tariffs and trade disputes have resulted in increased uncertainty related to our business. This uncertainty has caused a decrease or delays in purchases of our products which may continue until these customers determine the extent of the impact of these tariffs on their own business. We cannot predict what actions may ultimately be taken with respect to tariffs or trade relations or which of our products may be affected. Therefore, while we believe these decreases and delays are temporary, there is significant uncertainty about the continuing impact of tariffs and trade disputes on our revenues, gross margins and business operations.

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.

Recent Highlights (other than the Merger Agreement with Tesla)

We continue to 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.
- In June 2018, we announced the launch of two new highly scalable products to deliver reliable, fast responding, long lifetime storage in grids and microgrids. Our new Grid Cell Pack and Grid Energy Storage System inject and absorb power in cycle timeframes, and are designed to stabilize voltage and frequency, firm renewable power output, provide bridging and ramping services, and improve generator response. These products can be deployed as stand-alone energy storage systems or in combination with other energy storage assets to improve project business cases, including stacked functionality and extension of battery life to lower capital expense, operating expense and lifetime cost. The systems are designed to be utilized in greenfield storage projects as well as support existing deployed storage systems.
- In August 2018, we completed a public offering of 7,590,000 shares of our common stock at a public offering price of $3.25 per share. We received total net proceeds of approximately $23.0 million from the offering, after deducting underwriting discounts, commissions and our estimated offering expenses. Offering net proceeds are being used for general corporate purposes, including research and development expenses, capital expenditures, working capital, repayment of debt and general and administrative expenses.
- In August 2018, we announced that our Switzerland-based product line will be delivering high voltage capacitors to the major OEMs involved in a DC grid initiative called the ZhangBei Project, which is the first and largest 550kV DC meshed grid project in the world. This project will secure power supply to Beijing from a variety of renewable sources including wind and solar power. Our high voltage capacitors and resistors are key components for DC circuit breakers and DC voltage dividers by reinforcing DC circuit breaker switching capability and DC voltage divider accurate measurements. The long term stability, temperature control and outstanding insulation design of our high voltage capacitors and voltage dividers help customers handle variable working conditions in high altitude HVDC substations.

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- In September 2018, we announced a grid energy storage subsystem design-in with Siemens to deliver economical, fast responding, long life grid voltage and frequency support solutions. The new Siemens Static VAR Compensator plus Frequency Stabilizer (SVC PLUS FS) enables ISOs, electric utilities and transmission system operators to have better control of their grids and reduce the risk of blackouts. Due to their rapid response time at high power levels, long lifetime, and minimal maintenance, our ultracapacitors were selected as the energy storage asset of choice to provide grid frequency and voltage support. SVC PLUS FS built by Siemens and enabled by our ultracapacitor solution secures the energy and bridging reserves necessary to provide protection against emergency grid system imbalances. As a result, grid reliability increases and the operational expenses for fossil based, short duration must-run generation, as well as GHG and CO2 emissions, are reduced. Further, the system is highly adaptable and flexible in the face of evolving grid demands.
- In December 2018, we announced that we signed and closed a definitive agreement to sell our high voltage product line to Renaissance Investment Foundation ("Renaissance"). Under the terms of the agreement, we sold all shares of our Swiss subsidiary, Maxwell Technologies SA, and its CONDIS® line of high voltage capacitors for $55.1 million in cash and up to $15 million in potential future milestone payments to Renaissance. After certain reductions and other transaction-related expenses, we received net upfront cash proceeds of approximately $47.8 million.
- In January 2019, we announced the launch of a new full-featured 3.0-volt (3.0V) product platform. With the introduction of these next generation ultracapacitors, users have the ability to increase energy and power in the same form factor as the 2.7-volt product line and can significantly cost-optimize their system designs by using fewer ultracapacitor cells or modules. Alternatively, users can upgrade to a 3.0V solution to extend the expected life of their products. The 3.0V platform is designed for single-cell applications as well as multi-cell complex module systems.

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Results of Operations

Comparison of Years Ended December 31, 2018 and 2017

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

	Years Ended December 31,			
	2018		2017	
Total revenue	100	%	100	%
Cost of revenue	89	%	94	%
Gross profit	11	%	6	%
Operating expenses:				
Selling, general and administrative	34	%	43	%
Research and development	22	%	19	%
Restructuring and exit costs	—	%	3	%
Total operating expenses	56	%	65	%
Loss from operations	(45	)%	(59	)%
Interest expense	5	%	2	%
Loss from continuing operations before income taxes	(50	)%	(61	)%
Income tax provision	(1	)%	—	%
Loss from continuing operations	(49	)%	(61	)%
Income from discontinued operations, net of income taxes	9	%	12	%
Net loss	(40	)%	(49	)%

Loss from continuing operations reported for 2018 was $44.4 million, or $1.08 per share, compared with a loss from continuing operations in 2017 of $53.9 million, or $1.52 per share.

The decrease in loss of $9.4 million in 2018 compared with 2017 was primarily related to the following:

- a $4.7 million increase in gross profit associated with a decrease in product costs mainly due to higher absorption of fixed costs related to higher production volumes and improved utilization at our manufacturing facilities, product transitions and synergies associated with our acquisition of Nesscap, and product mix shifts including the favorable impact of a full year of Korean-manufactured product margins in 2018, partially offset by reductions in pricing;
- $2.8 million of expense recorded in 2017 for the proposed settlement with the SEC related to our 2011 and 2012 restatement;
- a $2.3 million decrease in restructuring expense due to our February 2017 and September 2017 restructuring plans;
- $1.9 million of transaction costs in 2017 related to the Nesscap Acquisition;
- a $1.1 million decrease in shareholder related expenses including legal and advisory costs as well as a settlement with a shareholder in connection with the issuance of our convertible senior notes recorded in the third quarter of 2017;
- savings in operating expenses associated with our restructuring and ongoing cost reduction efforts; and
- an offsetting effect related to a $3.0 million increase in interest expense mostly related to our convertible senior notes issued in September and October 2017.

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Revenue and Gross Profit

The following table presents revenue, cost of revenue and gross profit for the years ended December 31, 2018 and 2017 (in thousands, except percentages):

	Years Ended December 31,		2018 vs. 2017	
	2018	2017	Increase (Decrease)	% Change
Revenue	$90,459	$87,709	$2,750	3 %
Cost of revenue	80,459	82,407	(1,948)	(2)%
% of Revenue	89 %	94 %		
Gross profit	$10,000	$5,302	$4,698	89 %
% of Revenue	11 %	6 %		

Revenue

During 2018, revenue increased 3% to $90.5 million, compared with $87.7 million in the prior year. The increase in revenue was primarily 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 as well new product launches in grid storage systems. These increases were partially offset by a decrease in wind revenue due to competitive pressure in China and weakened wind sales in Europe. The increase in revenue was composed of higher volume of $8.5 million offset by lower prices of $5.8 million.

A portion of our revenue is generated through our Korean subsidiary, which has a functional currency of the Korean Won. As such, reported revenue can be materially impacted by changes in exchange rates between the subsidiary's local currency and the U.S. Dollar, our reporting currency. Due to the weakening of the U.S. Dollar against the Korean Won during the year ended December 31, 2018 compared with the same period one year ago, revenue was positively impacted by $0.3 million.

Gross Profit and Gross Margin.

During 2018, gross profit increased $4.7 million, or 89%, to $10.0 million compared with $5.3 million in the prior year. As a percentage of revenue, gross margin increased to 11% in 2018 compared with 6% in the prior year. The increase in gross margin was associated with a decrease in product costs mainly due to higher absorption of fixed costs related to higher production volumes and improved utilization at our manufacturing facilities, product transitions and synergies associated with our acquisition of Nesscap, and product mix shifts including the favorable impact of a full year of Korean-manufactured product margins in 2018. These improvements were partially offset by reductions in pricing for our ultracapacitor products in select markets.

Selling, General and Administrative Expense

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

	Years Ended December 31,		2018 vs. 2017	
	2018	2017	Decrease	% Change
Selling, general and administrative	$30,542	$38,186	$(7,644)	(20)%
% of Revenue	34 %	43 %		

Selling, general and administrative expenses for 2018 decreased by $7.6 million, or 20%, compared with 2017. Selling, general and administrative expenses decreased to 34% of revenue, down from 43% in 2017. Decreases for the year ended December 31, 2018 included a decrease of $2.8 million due to a settlement in 2017 with the SEC related to our 2011 and 2012 restatement, a decrease of $1.9 million related to acquisition expenses in 2017, a decrease of $1.6 million in labor and headcount-related costs mainly resulting from our restructuring and cost reduction efforts, a decrease of $1.1 million related to shareholder proxy advisement fees and settlement costs in 2017, $0.5 million of transaction expenses in the third quarter of 2017 recognized upon the termination of the SDIC agreement and other decreases related to our restructuring and ongoing cost reduction efforts.

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Research and Development Expense

The following table presents research and development expense for the years ended December 31, 2018 and 2017 (in thousands, except percentage):

	Years Ended December 31,		2018 vs. 2017	
	2018	2017	Increase	% Change
Research and development	$19,983	$16,342	$3,641	22 %
% of Revenue	22 %	19 %		

Research and development expenses for 2018 increased by $3.6 million, or 22%, compared with 2017. Research and development expenses increased to 22% of revenue, up from 19% in 2017. The increase was primarily associated with a decrease of $2.2 million in third-party funding under cost-sharing arrangements, an increase of approximately $0.6 million related to the acquisition of the operations of Nesscap and increased automotive market development project activity. 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 $1.1 million, and were primarily incurred in the third quarter of 2017. Total net charges for the year ended December 31, 2018 for the September 2017 restructuring plan were $(112,000), which represented restructuring charges of $45,000 adjusted for reversals of expense of $157,000. The plan was completed in the third quarter of 2018.

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.

The charges related to the 2017 restructuring plans consist of employee severance costs and have been paid in cash.

The following table summarizes the changes in the liabilities for the September 2017 restructuring plan for the year ended December 31, 2018 (in thousands):

	September 2017 Plan
Restructuring liability as of December 31, 2017	$ 817
Costs incurred	45
Amounts paid	(705)
Accruals released	(157)
Restructuring liability as of December 31, 2018	$ —

Additionally, in 2018, we recognized additional facilities costs of $0.1 million as restructuring charges to record changes to the lease liability and sublease income assumption included in the estimated future rent obligation of our leased Peoria, AZ manufacturing facility.

Provision for Income Taxes

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

We recorded an income tax benefit of $1.1 million and an income tax provision of $0.6 million for the years ended December 31, 2018 and 2017, respectively. The income tax benefit in 2018 is primarily related to a continuing operations tax benefit recorded in connection with the sale of our high voltage product line in December 2018, partially offset by Chinese income taxes related to a specialized services contract. The income tax provision in 2017 is primarily related to Chinese income taxes related to a specialized services contract.

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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. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allowed us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, we previously recorded a provisional estimate of the effect of the Tax Act in our financial statements. In the fourth quarter of 2018, we completed our analysis to determine the effect of the Tax Act and recorded immaterial adjustments as of December 22, 2018. The Tax Act created a new requirement that global intangible low-taxed income ("GILTI") earned by our foreign subsidiaries must be included in gross U.S. taxable income which we account for in the period incurred (the "period cost method").

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%. We recorded a decrease related to our deferred tax assets and liabilities of $34.7 million with a corresponding adjustment to our valuation allowance for the year ended December 31, 2017. As our deferred tax asset is offset by a full valuation allowance, this change in rates had no impact on our financial position or results of operations.

We also recorded additional U.S. taxable income of $8.4 million for the year ended December 31, 2017 related to the one-time transition tax, which did not result in additional tax expense due to our net operating losses.

At December 31, 2018, we have a cumulative valuation allowance recorded offsetting our worldwide net deferred tax assets of $67.0 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.

Income from Discontinued Operations

In order to achieve our strategic objectives, in the fourth quarter of 2018 we divested our high voltage product line. The high voltage product line has been classified as discontinued operations and the results of operations of the high voltage product line for the years ended December 31, 2018 and 2017 have been excluded from our continuing operating results. For the years ended December 31, 2018 and 2017, the high voltage product line represented 20% and 33% of total revenues, and 49% and 81% of total gross profit, respectively, before the reclassification of high voltage to discontinued operations. For 2018, $5.4 million of gain on sale, net of income taxes, related to the divestiture of the high voltage product line is included within income from discontinued operations.

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Following is the reconciliation of purchase price to net proceeds received and to the gain recognized in income from discontinued operations (in thousands):

Purchase price	$55,055
Adjustments to purchase price	(791)
Amounts held in escrow	(859)
Payment of withholding taxes	(3,492)
Cash proceeds received	49,913
Transaction expenses	(2,099)
Net cash proceeds received	$47,814

Net cash proceeds received	$47,814
Net assets of high voltage product line	(56,718)
Release of accumulated other comprehensive income from equity	10,120
Release of withholding tax liabilities	890
Release of employee liabilities and cancellation of equity awards	488
Payment of withholding taxes	3,492
Amounts held back in escrow	859
Gain on sale of high voltage product line, before income taxes	6,945
Income tax related to gain on sale	(1,534)
Gain on sale, net of income taxes	$5,411

Liquidity and Capital Resources

Changes in Cash Flow

The following table summarizes our cash flows from operating, investing and financing activities for each of the past two fiscal years (in thousands):

	Years Ended December 31,	
	2018	2017
Total cash provided by (used in):		
Operating activities - continuing operations	$(50,819)	$(22,808)
Investing activities - continuing operations	(10,258)	(1,976)
Financing activities - continuing operations	22,980	43,317
Effect of exchange rate changes on cash and cash equivalents	(214)	878
Operating activities - discontinued operations	(2,750)	7,802
Investing activities - discontinued operations	49,011	(2,418)
Financing activities - discontinued operations	(44)	(32)

In the fourth quarter of 2018, we sold our high voltage product line and received net cash proceeds of approximately $47.8 million. Historically, the high voltage product line has contributed significantly to cash flows provided by operating activities, including a positive contribution of $7.8 million in 2017. Therefore, compared to 2017 and prior years, we expect that in the near-term, the divestiture of the high voltage product line will result in higher cash used in operating activities. In 2018, uncertainties related to U.S. tax reform legislation and tariffs significantly reduced the revenue of the high voltage product line; cash flow used in operating activities of the product line were $2.8 million in 2018.

In 2018, cash used in operating activities of $50.8 million related primarily to a net loss of $44.4 million, which included non-cash charges of $20.0 million, a decrease in accounts payable and accrued liabilities of $9.5 million related to the timing of payments and a large accrual at the end of 2017 for our settlement with the SEC related to our 2011 and 2012 restatement; and an increase in inventory of $12.3 million mainly related to a contract manufacturer transition in 2018 which included recording significant consigned inventory as of December 31, 2018 per the terms of the contract manufacturer agreement.

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In 2017, cash used in operating activities of $22.8 million related primarily to a net loss of $53.9 million, which included non-cash charges of $20.4 million, and an increase in accounts receivable of $9.4 million primarily related to the timing of receipts and a higher volume of sales near the end of 2017 compared with the end of 2016. These decreases in cash were partially offset by an increase in accounts payable and accrued liabilities of $11.0 million due to the acquisition of the operations of Nesscap and a large accrual at the end of 2017 for our settlement with the SEC related to our 2011 and 2012 restatement. Additionally, increases in deferred revenue and various other liabilities partially offset cash used in operating activities.

Cash used in operating activities was $50.8 million for 2018 compared with cash used in operating activities of $22.8 million for 2017. Cash flows from operating activities were impacted by working capital changes which had a negative effect on cash flow of $26.4 million for the year ended December 31, 2018.

Cash used in investing activities was $10.3 million for 2018 compared with cash used in investing activities of $2.0 million for 2017. Cash used in investing activities for 2018 primarily related to capital expenditures of $10.3 million associated with ultracapacitor new product testing and production equipment in San Diego, California and expansion at our Nesscap Korea facility. Cash used in investing activities in 2017 primarily related to $3.4 million of capital expenditures related to new technology investments in our corporate research and development facility in San Diego, California. Cash used in investing activities in 2017 was partially offset by the release of holdback proceeds from the 2016 sale of our microelectronics product line of $1.5 million.

Cash provided by financing activities was $23.0 million for 2018, compared with $43.3 million provided by financing activities in 2017. During 2018, we received net proceeds of $23.0 million from the completion of a public offering of 7,590,000 shares of our common stock in August 2018. Cash provided by financing activities for 2017 primarily resulted from net proceeds of $43.0 million from our issuance of convertible debt in 2017. The remaining net cash provided by financing activities for both years primarily related to proceeds from our employee stock purchase plan.

Liquidity

On December 19, 2018, the Company entered into a Share Purchase Agreement with RN C Holding SA, a special purpose holding entity and affiliate of Renaissance Investment Foundation, (“Renaissance”), providing for the sale of 100% of the shares of the Company’s Swiss subsidiary, Maxwell Technologies SA (“Maxwell SA”), and its high voltage capacitor product line to Renaissance. The transaction simultaneously closed with the signing of the Share Purchase Agreement on December 19, 2018. The upfront purchase price was approximately $55.1 million, which after certain reductions and other transaction-related expenses resulted in net upfront cash proceeds of approximately $47.8 million.

In August 2018, we completed a public offering of 7,590,000 shares of our common stock at a public offering price of $3.25 per share. We received total net proceeds of approximately $23.0 million from the offering, after deducting underwriting discounts, commissions and our estimated offering expenses. Proceeds from the offering are being used for general corporate purposes, including research and development expenses, capital expenditures, working capital, repayment of debt and general and administrative expenses.

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.

In November 2017, we filed a shelf registration statement which allows us to sell up to an aggregate of $125 million of any combination of our common stock, warrants, debt securities or units. Under this registration statement, we may access the capital markets for the three-year period ending November 15, 2020. As of December 31, 2018, $24.7 million of securities have been issued under our shelf registration statement and a balance of $100.3 million remains available for future issuance pursuant to the shelf registration statement.

As of December 31, 2018, we had approximately $58.0 million in cash and cash equivalents, and working capital of $86.1 million. In addition, the we have a revolving line of credit with East West Bank (the “Revolving Line of Credit”) providing for a maximum borrowing amount of $15.0 million, subject to a borrowing base limitation, under which no borrowings were outstanding as of December 31, 2018. As of December 31, 2018, the amount available under the

Revolving Line of Credit was $10.5 million. This facility is scheduled to expire in May 2021. 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.

Capital expenditures are expected to be in the range of $4.0 million to $6.0 million in 2019. Approximately 40% of our planned capital spending is related to production infrastructure associated with our lithium capacitor technology, 50% is related to improving manufacturing processes and capacity for new and existing products, 10% is related to other product research and development investments to support information technology infrastructure and other facilities improvements.

As of December 31, 2018, the amount of cash and short-term investments held by foreign subsidiaries was $2.4 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 some of these funds, which would not be material.

Debt and Credit Facilities

Convertible Senior Notes

In September and October 2017, we issued $46.0 million of 5.50% convertible senior unsecured notes due 2022 (the “Notes”). We received net proceeds, after deducting underwriting discounts and fees and expenses payable by the Company, of approximately $43.0 million. The Convertible Senior 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 Convertible Senior Notes mature on September 25, 2022, unless earlier purchased by the Company, 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 On February 14, 2019, we entered into an amendment to the Loan Agreement to amend and restate the Revolving Line of Credit (the “Revolving Line of Credit”). The Revolving Line of Credit matures on May 8, 2021, and is available up to a maximum of the lesser of: (a) $15.0 million; or (b) a certain percentage of domestic and foreign trade receivables. As of December 31, 2018, prior to the February 2019 amendment, the Revolving Line of Credit was 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 December 31, 2018, the amount available under the Revolving Line of Credit was $10.5 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 65% of our equity interests in our Korean subsidiary. The obligations under the Loan Agreement are also guaranteed directly by our Korean subsidiary. 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. As of December 31, 2018, we were 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. There were no borrowings outstanding under the Revolving Line of Credit as of December 31, 2018.

Other Long-term Borrowings

In 2018, in connection with a contract manufacturer transition, our agreement with the contract manufacturer included a provision that met the lease definition criteria in reference to approximately $1.9 million of manufacturing equipment located at the contract manufacturer’s facility. Some of the terms of the equipment agreement have not yet been finalized; however, the we anticipate that we will make even quarterly payments over 3 years, after which time title of the equipment will transfer to us. As of December 31, 2018, the arrangement was recorded as a capital lease. We utilized a discount rate of 5.0% to calculate the effective interest on this borrowing. At December 31, 2018, we had $1.5 million of capital lease liability outstanding under this arrangement.

Critical Accounting Estimates

We consider an accounting estimate to be critical if: 1) the accounting estimate requires us to make assumptions about matters that were uncertain at the time the accounting estimate was made and 2) changes in the estimate are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Also see Note 1, Summary of Significant Accounting Policies, in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, which discusses the significant accounting policies.

We believe the following are either (i) critical accounting policies that require us to make significant estimates or assumptions in the preparation of our consolidated financial statements or (ii) other key accounting policies that may require us to make difficult or subjective judgments.

Revenue Recognition

Nature of Estimates Required. Our revenues primarily result from the sale of manufactured products and reflect the consideration to which we expect to be entitled. We record revenue based on a five-step model in accordance with ASC 606. For our customer contracts, we identify the performance obligations, determine the transaction price, allocate 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.

Assumptions and Approach Used. 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 our 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 we have 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.

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

Approximately five percent of total revenue is derived from non-product sales. When our 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 we satisfy over time, revenue is recognized by consistently applying a method of measuring progress toward complete satisfaction of that performance obligation. We use the input method to recognize revenue on the basis of our efforts or inputs to the satisfaction of a performance obligation relative to the total inputs expected to satisfy that performance obligation. We use the actual costs incurred relative to the total estimated costs to determine our progress towards contract completion.

Excess and Obsolete Inventory

Nature of Estimates Required. Estimates are principally based on assumptions regarding the ability to sell the items in our inventory. Due to the uncertainty and potential volatility inherent in these estimates, changes in our assumptions could materially affect our results of operations.

Assumptions and Approach Used. Our estimate for excess and obsolete inventory is evaluated on a quarterly basis and is based on rolling historical inventory usage and assumptions regarding future product demand. As actual levels of inventory change or specific products become slow moving or obsolete, our estimated reserve may materially change.

Defined Benefit Plan Liability

Nature of Estimates Required. We use several significant assumptions within the actuarial models utilized in measuring our pension assets and obligations for our Korean defined benefit plan obligations.

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Assumptions and Approach Used. The discount rate and certain other assumptions and estimates impact plan expense and asset and liability measurement. We evaluate these critical assumptions at least annually. We periodically evaluate actuarial assumptions involving demographic factors, which are used to measure the Korean defined benefit plan obligations, such as retirement age, mortality and turnover, and update them to reflect our experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors. The projected Korean defined benefit plan obligation as of December 31, 2018 was $4.5 million.

Goodwill Impairment

Nature of Estimates Required. We review goodwill annually at the reporting unit level at the same time every year or when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. We have established December 31 as the annual impairment test date. We first make a qualitative assessment as to whether goodwill is impaired and if it is more likely than not that goodwill is impaired, we perform a quantitative impairment analysis to determine if goodwill is impaired. We may also determine to skip the qualitative assessment in any year and move directly to the quantitative test. For the quantitative test, we determine the fair value of the reporting unit, then compare the fair value of the reporting unit to its carrying 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.

Assumptions and Approach Used. The determination of fair value requires a number of significant assumptions and judgments, including assumptions about future economic conditions, revenue growth, operating margins, and discount rates.

In 2018 and 2017, we performed qualitative assessments of our reporting units which included an evaluation of changes in industry, market and macroeconomic conditions as well as consideration of each reporting unit’s financial performance, our long-range plan and any other significant trends. In 2018, we substantially integrated the operations related to our Nesscap Acquisition in 2017; therefore, we determined that we had one reporting unit, which represented a combination of two reporting units from our prior year assessment. We first assessed each former reporting separately, and then as a combined, single reporting unit. Our qualitative assessments indicated that it was not more likely that not that goodwill is impaired.

No impairments of goodwill were reported during the years ended December 31, 2018 and 2017.

Business Combinations

Nature of Estimates Required. We apply the provisions of ASC 805, Business Combinations, in accounting for acquisitions. It requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at the acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as any contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are required to be recorded to our consolidated statements of operations.

Assumptions and Approach Used. Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date, including estimates for intangible assets, contractual obligations assumed, pre-acquisition contingencies and any contingent consideration, where applicable. Although we believe that the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from management of the acquired company and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets we have acquired include but are not limited to: future expected cash flows from assumed contracts for which our future expected cash flow estimates include estimated cash flow amounts and time periods over which such cash flows are expected to be received, estimated retention and renewal rates of existing customer contracts assumed as a part of the acquisition, and estimated costs to sell, market, deliver and support such assumed contracts, among other estimates; future expected cash flows from acquired developed technology including estimated amounts to be received for such developed technology and the time period over which such cash flows are expected to be received, among other estimates; and discount rates. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

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Convertible Debt

Nature of Estimates Required. We account for convertible debt instruments that may be settled in cash upon conversion by separating the liability and equity components of the instruments in a manner that reflects our nonconvertible debt borrowing rate.

Assumptions and Approach Used. In September and October 2017, we issued $46.0 million aggregate principal amount of 5.50% Convertible Senior Notes due 2022. The fair value of the liability component was estimated through discounting future interest and principal payments, an income approach, due under the Notes at a discount rate of 12.00%, an interest rate equal to the estimated borrowing rate for similar non-convertible debt. We determined our nonconvertible debt borrowing rate by using Level 3 inputs, including utilization of credit assumptions and high yield bond indices. Determining the fair value of the debt component requires the use of accounting estimates and assumptions. These estimates and assumptions are judgmental in nature and could have a significant impact on the determination of the debt component, and the associated non-cash interest expense.

The difference between the face value of the Notes and the fair value of the debt component results in us recording the debt at a discount. We are amortizing this debt discount over the life of the Notes as additional non-cash interest expense utilizing the effective interest method.

Stock-Based Compensation

Nature of Estimates Required. Our stock-based compensation awards include stock options, restricted stock, restricted stock units, and shares issued under our employee stock purchase plan (“ESPP”). We record compensation expense for our stock-based compensation awards in accordance with the criteria set forth in the Stock Compensation Subtopic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Under the guidance, the fair value of each employee stock option is estimated on the date of grant using an option pricing model that meets certain requirements. We use the Black-Scholes option pricing model to estimate the fair value of stock option grants. The determination of the fair value of stock options utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends.

The fair value of restricted stock awards (“RSAs”) and restricted stock unit awards (“RSUs”) is based on the closing market price of our common stock on the date of grant. Compensation expense equal to the fair value of each RSA or RSU is recognized ratably over the requisite service period. For RSUs with vesting contingent on the achievement of Company performance conditions, we use the requisite service period that is most likely to occur. The requisite service period is estimated based on the performance period as well as any time-based employee service requirements. If it is unlikely that a performance condition will be achieved, no compensation expense is recognized unless it is later determined that achievement of the performance condition is likely. Expense may be adjusted for changes in the expected outcomes of the related performance conditions, with the impact of such changes recognized as a cumulative adjustment in the consolidated statement of operations in the period in which the expectation changes.

We issue market-condition RSUs to certain members of executive management. Since the vesting of the market-condition RSUs is dependent on stock price performance, the fair value of these awards is estimated using a Monte-Carlo valuation model. The determination of the fair value of market-condition RSUs utilizing a Monte-Carlo valuation model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends.

Stock-based compensation expense recognized in the consolidated statement of operations is based on equity awards ultimately expected to vest. We estimate forfeitures at the time of grant based on historical experience and our expectation of future forfeitures and revise, as necessary, in subsequent periods with a cumulative catch up adjustment if actual forfeitures differ from those estimates.

Assumptions and Approach Used. In determining the value of stock option and market-condition RSU grants, we estimate an expected dividend yield of zero because we have never paid cash dividends and have no present intention to pay cash dividends. The expected term calculation is based on the actual life of historical stock option grants. Expected volatility is based on our historical stock prices using a mathematical formula to measure the standard deviation of the change in the natural logarithm of our underlying stock price over a period of time commensurate with the expected term. The risk-free interest rate is derived from the zero coupon rate on U.S. Treasury instruments with a term commensurate with the awards expected term.

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For RSUs with vesting contingent on the achievement of Company performance conditions, the amount of compensation expense is estimated based on the expected achievement of the performance condition. This requires us to make estimates of the likelihood of the achievement of Company performance conditions, which is highly judgmental. We base our judgments as to the expected achievement of Company performance conditions based on the financial projections of the Company that are used by management for business purposes, which represent our best estimate of expected Company performance. If it is unlikely that a performance condition will be achieved, no compensation expense is recognized unless it is later determined that achievement of the performance condition is likely. Further, the requisite service period is estimated based on the performance period as well as any time-based employee service requirements.

We evaluate the assumptions used to value stock-based awards on a quarterly basis. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of stock-based awards, we may be required to accelerate, increase or decrease any remaining, unrecognized stock-based compensation expense. Compensation expense may be significantly impacted in the future to the extent our estimates differ from actual results.

Income Taxes

Nature of Estimates Required. We record an income tax valuation allowance when the realization of certain deferred tax assets, including net operating losses, is not likely.

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. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allowed us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, we previously recorded a provisional estimate of the effect of the Tax Act in our financial statements. In the fourth quarter of 2018, we completed our analysis to determine the effect of the Tax Act and recorded immaterial adjustments as of December 22, 2018. The Tax Act created a new requirement that global intangible low-taxed income (“GILTI”) earned by our foreign subsidiaries must be included in gross U.S. taxable income which we account for in the period incurred (the "period cost method").

Assumptions and Approach Used. Deferred income taxes arise from temporary differences between tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. Significant judgments and estimates are required in this evaluation. If we determine that we are able to realize a portion or all of these deferred tax assets in the future, we will record an adjustment to increase their recorded value and a corresponding adjustment to increase income or additional paid in capital, as appropriate, in that same period.

Due to the recent tax legislation, during the year ended December 31, 2017, we 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%. We recorded a decrease related to our deferred tax assets and liabilities of $34.7 million with a corresponding adjustment to our valuation allowance for the year ended December 31, 2017. As our deferred tax asset is offset by a full valuation allowance, this change in rates had no impact on our financial position or results of operations.

The one-time transition tax is based on our total post-1986 earnings and profits (“E&P”) that we previously deferred from U.S. income taxes. To determine the amount of the transition tax, we determined, in addition to other factors, the amount of post-1986 E&P of our relevant subsidiaries. In 2017, we recorded additional U.S. taxable income of $8.4 million, which did not result in additional tax expense due to our net operating losses.

Commitments and Contingencies

Nature of Estimates Required. We are involved in litigation, regulatory and other proceedings and claims. We prosecute and defend these matters aggressively. However, there are many uncertainties associated with any litigation, and there can be no assurance that these actions or other third-party claims against us will be resolved without costly litigation and/or substantial settlement charges.

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Assumptions and Approach Used. We disclose information concerning contingent liabilities with respect to these claims and proceedings for which an unfavorable outcome is more than remote. We recognize liabilities for these claims and proceedings as appropriate based upon the probability of loss and our ability to estimate losses and to fairly present, in conjunction with the disclosures of these matters in our consolidated financial statements, management's view of our exposure. We review outstanding claims and proceedings with external counsel as appropriate to assess probability and estimates of loss. We will recognize a liability related to claims and proceedings at such time as an unfavorable outcome becomes probable and the amount can be reasonably estimated. When the reasonable estimate is a range, the recognized liability will be the best estimate within the range. If no amount in the range is a better estimate than any other amount, the minimum amount of the range will be recognized.

We re-evaluate these assessments each quarter or as new and significant information becomes available to determine whether a liability should be recognized or if any existing liability should be adjusted. The actual cost of ultimately resolving a claim or proceeding may be substantially different from the amount of the recognized liability. In addition, because it is not permissible to recognize a liability until the loss is both probable and estimable, in some cases there may be insufficient time to recognize a liability prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for any of our fiscal years in the two year period ended December 31, 2018. However, there can be no assurance that future inflation would not have an adverse impact on our operating results and financial condition.

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 were originally required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, FASB issued ASU No. 2018-11, Targeted Improvements. This update still requires modified retrospective transition; however, it adds the option to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment in the current period instead of at the beginning of the earliest period presented. The guidance in ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. We are in the process of finalizing our evaluation of current leases and quantifying the impact to our balance sheet. We expect that the adoption of the standard will have a material impact on our consolidated balance sheet for the recognition of certain operating leases as right-of-use assets and lease liabilities. We do not expect the adoption of this standard to have a material impact on our consolidated statements of operations. We will adopt the new accounting standard using the modified retrospective transition option effective January 1, 2019.

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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 this adoption, for the year ended December 31, 2017, we reclassified $39,000, $8,000 and $8,000 (excluding discontinued operations) 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”.

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 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. During the fourth quarter of 2018, our accounting for this change in tax law was considered complete and no longer provisional.

In June 2018, the FASB issued ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for nonemployee share-based payments by aligning the accounting with the requirements for employee share-based compensation. 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 its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General. This ASU modifies the disclosure requirements for defined benefit and other postretirement plans. This ASU eliminates certain disclosures associated with accumulated other comprehensive income, plan assets, related parties, and the effects of interest rate basis point changes on assumed health care costs; while other disclosures have been added to address significant gains and losses related to changes in benefit obligations. This ASU also clarifies disclosure requirements for projected benefit and accumulated benefit obligations. The amendments in this ASU are effective for fiscal years ending after December 15, 2020 and for interim periods therein with early adoption permitted. Adoption on a retrospective basis for all periods presented is required. We are currently evaluating the impact of adoption on our financial statement disclosures.

Off Balance Sheet Arrangements

None.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to a “smaller reporting company” as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto appear on pages 55 to 92 of this Annual Report on Form 10-K.

MAXWELL TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Maxwell Technologies, Inc.
San Diego, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Maxwell Technologies, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes and Schedule II-Valuation and Qualifying Accounts listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated February 14, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2013.

San Diego, California
February 14, 2019

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

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$58,028	$46,192
Trade and other accounts receivable, net of allowance for doubtful accounts of $0 and $32 as of December 31, 2018 and December 31, 2017, respectively	19,966	22,712
Inventories	33,645	23,450
Prepaid expenses and other current assets	2,817	2,159
Current assets of discontinued operations	—	22,463
Total current assets	114,456	116,976
Property and equipment, net	24,377	19,960
Intangible assets, net	10,004	11,715
Goodwill	14,189	14,707
Non-current assets of discontinued operations	—	41,150
Other non-current assets	705	871
Total assets	$163,731	$205,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$16,513	$27,283
Accrued employee compensation	7,146	8,418
Deferred revenue and other current liabilities	4,279	6,572
Short-term borrowings and current portion of long-term debt	438	—
Current liabilities of discontinued operations	—	6,257
Total current liabilities	28,376	48,530
Deferred tax liability, long-term	53	4,988
Long-term debt, excluding current portion	37,969	35,042
Defined benefit plan liability	4,489	3,942
Non-current liabilities of discontinued operations	—	3,983
Other long-term liabilities	2,253	2,793
Total liabilities	73,140	99,278
Commitments and contingencies (Note 13 and Note 15)		
Stockholders' equity:		
Common stock, $0.10 par value per share, 80,000,000 shares authorized at December 31, 2018 and 2017; 45,996,186 and 37,199,519 shares issued and outstanding at December 31, 2018 and 2017, respectively	4,597	3,717
Additional paid-in capital	369,793	337,541
Accumulated deficit	(283,503)	(247,233)
Accumulated other comprehensive income	(296)	12,076
Total stockholders' equity	90,591	106,101
Total liabilities and stockholders' equity	$163,731	$205,379

The accompanying notes are an integral part of these consolidated financial statements.

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

	Years Ended December 31,	
	2018	2017
Revenue	$90,459	$87,709
Cost of revenue	80,459	82,407
Gross profit	10,000	5,302
Operating expenses:		
Selling, general and administrative	30,542	38,186
Research and development	19,983	16,342
Restructuring and exit costs	(26)	2,232
Impairment of assets	218	240
Total operating expenses	50,717	57,000
Loss from operations	(40,717)	(51,698)
Interest expense	4,460	1,413
Other components of defined benefit plans, net	110	55
Other income	(228)	(105)
Foreign currency exchange loss, net	479	242
Loss from continuing operations before income taxes	(45,538)	(53,303)
Income tax provision (benefit)	(1,096)	559
Loss from continuing operations	(44,442)	(53,862)
Income from discontinued operations, net of income taxes	7,894	10,733
Net loss	$(36,548)	$(43,129)
Net income (loss) per share - basic and diluted:		
Continuing operations	$(1.08)	$(1.52)
Discontinued operations	0.19	0.30
Net loss per share - basic and diluted	$(0.89)	$(1.22)
Weighted average common shares outstanding:		
Basic and diluted	41,031	35,480

The accompanying notes are an integral part of these consolidated financial statements.

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

	Years Ended December 31,	
	2018	2017
Net loss	$(36,548)	$(43,129)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(1,694)	5,131
Defined benefit plans, net of tax:		
Actuarial gain (loss) on benefit obligations and plan assets, net of tax benefit of $29 and tax provision of $401 for the years ended December 31, 2018 and 2017, respectively	(633)	1,424
Amortization of prior service cost, net of tax provision of $19 and $30 for the years ended December 31, 2018 and 2017, respectively	75	121
Effect of divestiture on other comprehensive income	(10,120)	—
Other comprehensive income (loss), net of tax	(12,372)	6,676
Comprehensive loss	$(48,920)	$(36,453)

The accompanying notes are an integral part of these consolidated financial statements.

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MAXWELL TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2016	32,135	$ 3,210	$ 296,316	$ (204,104)	$ 5,400	$ 100,822
Common stock issued under employee benefit plans	78	7	319	—	—	326
Share-based compensation	536	54	5,891	—	—	5,945
Cancellation of restricted shares	(10)	—	(13)	—	—	(13)
Issuance of common stock for bonuses and director fees	314	31	1,772	—	—	1,803
Issuance of common stock for acquisition	4,147	415	24,879	—	—	25,294
Equity component of convertible senior notes issued	—	—	8,377	—	—	8,377
Net loss	—	—	—	(43,129)	—	(43,129)
Foreign currency translation adjustments	—	—	—	—	5,131	5,131
Pension and defined benefit liability plan adjustment, net of tax provision of $431	—	—	—	—	1,545	1,545
Balance at December 31, 2017	37,200	3,717	337,541	(247,233)	12,076	106,101
Common stock issued under employee benefit plans	160	16	428	—	—	444
Share-based compensation	496	49	6,308	—	—	6,357
Proceeds from issuance of common stock, net	7,590	759	22,191	—	—	22,950
Issuance of common stock for bonuses and director fees	550	56	3,325	—	—	3,381
Cumulative effect of accounting standards adoption	—	—	—	278		278
Net loss	—	—	—	(36,548)	—	(36,548)
Foreign currency translation adjustments	—	—	—	—	(1,694)	(1,694)
Pension and defined benefit plan liability adjustment, net of tax benefit of $10	—	—	—	—	(558)	(558)
Other comprehensive income recognized in connection with divestiture	—	—	—	—	(10,120)	(10,120)
Balance at December 31, 2018	45,996	$ 4,597	$ 369,793	$ (283,503)	$ (296)	$ 90,591

The accompanying notes are an integral part of these consolidated financial statements.

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

	Years Ended December 31,	
	2018	2017
Operating activities:		
Net loss	$(36,548)	$(43,129)
Less: Income from discontinued operations, net of income taxes	(7,894)	(10,733)
Loss from continuing operations	(44,442)	(53,862)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	6,834	7,599
Amortization of intangible assets	1,237	809
Non-cash interest expense	1,837	444
Loss on lease due to restructuring	86	179
Defined benefit plan cost	700	416
Stock-based compensation expense	9,047	8,239
Gain on sale of property and equipment	(4)	—
Impairment of property and equipment	218	240
Tax benefit related to sale of product line	(1,534)	—
Provision for (recovery of) allowance on accounts receivable	(32)	10
Losses on write downs of inventory	1,534	2,144
Provision for warranties	92	325
Changes in operating assets and liabilities:		
Trade and other accounts receivable	2,815	(9,354)
Inventories	(12,337)	5,563
Prepaid expenses and other assets	202	378
Accounts payable and accrued liabilities	(9,533)	10,986
Deferred revenue and other current liabilities	(1,757)	2,201
Accrued employee compensation	(235)	1,128
Deferred tax liability	(4,394)	(88)
Defined benefit plan and other long-term liabilities	(1,153)	(165)
Net cash used in operating activities - continuing operations	(50,819)	(22,808)
Net cash provided by (used in) operating activities - discontinued operations	(2,750)	7,802
Total net cash used in operating activities	(53,569)	(15,006)
Investing activities:		
Purchases of property and equipment	(10,266)	(3,379)
Proceeds from sale of property and equipment	8	—
Cash used in acquisition, net of cash acquired	—	(97)
Proceeds from sale of product line	—	1,500
Net cash used in investing activities - continuing operations	(10,258)	(1,976)
Net cash provided by (used in) investing activities - discontinued operations	49,011	(2,418)
Total net cash provided by (used in) investing activities	38,753	(4,394)

The accompanying notes are an integral part of these consolidated financial statements.

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

	Years Ended December 31,	
	2018	2017
Financing activities:		
Repayments of line of credit and other borrowings	(15,414)	—
Line of credit borrowings	15,000	—
Proceeds from convertible debt, net of discount and issuance costs	—	42,991
Proceeds from sale of common stock, net of offering costs	22,950	—
Proceeds from issuance of common stock under equity compensation plans	444	326
Net cash provided by financing activities - continuing operations	22,980	43,317
Net cash used in financing activities - discontinued operations	(44)	(32)
Total net cash provided by financing activities	22,936	43,285
Effect of exchange rate changes on cash and cash equivalents	(214)	878
Increase in cash and cash equivalents	7,906	24,763
Cash and cash equivalents, beginning of period - continuing operations	46,192	8,122
Cash and cash equivalents, beginning of period - discontinued operations	3,930	17,237
Cash and cash equivalents, end of period	58,028	50,122
Cash and cash equivalents, end of period - discontinued operations	—	3,930
Cash and cash equivalents, end of period - continuing operations	$58,028	$46,192

Cash paid for:		
Interest	$2,805	$82
Income taxes	$49	$45
Supplemental schedule of noncash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	$115	$392
Equipment purchased under capital leases	$1,911	$—
Common stock issued for acquisition of Nesscap	$—	$25,294
Amounts in escrow related to sale of product line	$859	$—

The accompanying notes are an integral part of these consolidated financial statements.

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MAXWELL TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless the context otherwise requires, all references to "Maxwell," the "Company," "we," "us," and "our" refer to Maxwell Technologies, Inc. and its subsidiaries, and all references to "Maxwell SA" refer to our Swiss subsidiary, Maxwell Technologies, SA.

Note 1—Description of Business and Summary of Significant Accounting Policies

Description of Business

Maxwell Technologies, Inc. is a Delaware corporation originally incorporated under the name Maxwell Laboratories, Inc. in 1965. The Company made an initial public offering of common stock on the NASDAQ Stock Market in 1983, and changed its name to Maxwell Technologies, Inc. in 1996. The Company is headquartered in San Diego, California, and has two manufacturing facilities located in Yongin, South Korea and Peoria, Arizona. In addition, the Company uses two contract manufacturers located in China.

The Company develops, manufactures and markets energy storage and power delivery products for transportation, grid energy storage, industrial and other applications. 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, modules and subsystems 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 the 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.

In addition to its energy storage product line, 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.

In December 2018, the Company sold its high voltage capacitor product line. High voltage's CONDIS® capacitor products included 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 results of the high voltage product line are included in discontinued operations.

In April 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. The acquisition added complementary businesses to the Company's operations and expanded the Company's portfolio of ultracapacitor products.

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.

Financial Statement Presentation

The accompanying 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.

During the fourth quarter of 2018, the Company sold its high voltage capacitor product line. The divestiture of the high voltage product line met the definition of a strategic shift that has a significant effect on the Company's operations and financial results; therefore, the results of operations for the high voltage product line have been presented as discontinued operations in accordance with ASC 205-20, Presentation of Financial Statements-Discontinued Operations for all periods presented. Additionally, high voltage's assets and liabilities as of December 31, 2017 are separately presented as related to discontinued operations on the consolidated balance sheet. Unless otherwise noted, discussion within these notes to the consolidated financial statements relates to continuing operations. Refer to Note 9 for additional information on discontinued operations.

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Liquidity

On December 19, 2018, the Company entered into a Share Purchase Agreement with RN C Holding SA, a special purpose holding entity and affiliate of Renaissance Investment Foundation, (“Renaissance”), providing for the sale of 100% of the shares of the Company’s Swiss subsidiary, Maxwell Technologies SA (“Maxwell SA”), and its high voltage capacitor product line to Renaissance. The transaction simultaneously closed with the signing of the Share Purchase Agreement on December 19, 2018. The upfront purchase price was approximately $55.1 million, which after certain reductions and other transaction-related expenses resulted in net upfront cash proceeds of approximately $47.8 million.

In August 2018, the Company completed a public offering of 7,590,000 shares of its common stock at a public offering price of $3.25 per share. The Company received total net proceeds of approximately $23.0 million from the offering, after deducting underwriting discounts, commissions and offering expenses.

As of December 31, 2018, the Company had approximately $58.0 million in cash and cash equivalents, and working capital of $86.1 million. In addition, the Company has a revolving line of credit with East West Bank (the “Revolving Line of Credit”), under which no borrowings were outstanding as of December 31, 2018. As of December 31, 2018, the amount available under the Revolving Line of Credit was $10.5 million. This facility is scheduled to expire in May 2021. 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.

Reclassifications

The divestiture of the high voltage product line during the fourth quarter of 2018 met the definition of a strategic shift that has a significant effect on the Company’s operations and financial results; therefore, the results of operations for the high voltage product line have been reclassified as discontinued operations for all periods presented. Additionally, high voltage’s assets and liabilities as of December 31, 2017 have been reclassified and are now separately presented as related to discontinued operations on the consolidated balance sheet.

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 year ended December 31, 2017. See further information under Recent Accounting Pronouncements below.

Interest income of $79,000 for the year ended December 31, 2017 which was previously included in “interest expense, net” has been reclassified to “other income” in the consolidated statement of operations, to conform to the current period presentation.

“Unrealized loss on foreign currency exchange rates” for the year ended December 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, 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 and other defined benefit plan assets and liabilities, 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.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash in readily available checking and money market accounts. Cash equivalents consist of highly liquid investments that are readily convertible to cash and that mature within three months or less from the date of purchase. The carrying amounts approximate fair value due to the short maturities of these instruments.

Accounts Receivable and Allowance for Doubtful Accounts

Trade receivables are stated at gross invoiced amount less an allowance for uncollectible accounts. The allowance for doubtful accounts reflects management’s best estimate of probable losses inherent in the accounts receivable balance.

Management determines the allowance for doubtful accounts based on known troubled accounts, historical experience and other currently available evidence.

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Inventories

Inventories are stated at the lower of cost (first-in first-out basis) or net realizable value. Finished goods and work-in-process inventory values include the cost of raw materials, labor and manufacturing overhead. Inventory when written down to net realizable value establishes a new cost basis and its value is not subsequently increased based upon changes in underlying facts and circumstances. The Company also makes adjustments to reduce the carrying amount of inventories for estimated excess or obsolete inventories. Factors influencing these adjustments include inventories on-hand compared with historical and estimated future sales for existing and new products and assumptions about the likelihood of obsolescence.

The Company utilizes contract manufacturers for manufacturing and assembly of some of its products. In 2018, the Company entered into an agreement with a new contract manufacturer in Asia. The terms of the agreement include the storage of Company owned electrode materials at the contract manufacturer's facility which the Company records as consigned inventory. Additionally, the contract manufacturer is required to procure and stock raw materials sufficient to meet Maxwell's forecasts, that, once processed, the Company is obligated to repurchase as finished goods; therefore, the Company also records these materials as consigned inventory and consigned inventory liability. The agreement with the contract manufacturer also requires a certain quarterly purchase commitment by the Company, and indicates that should the Company not meet its quarterly purchase commitment, an adjustment to the price shall be negotiated for the reduced purchase amount.

Property and Equipment

Property and equipment are carried at cost and are depreciated using the straight-line method. Depreciation is provided over the estimated useful lives of the related assets (three to ten years). Leasehold improvements are depreciated over the shorter of their estimated useful life or the term of the lease. Leasehold improvements funded by landlords are recorded as property and equipment, which is depreciated over the shorter of the estimated useful life of the asset or the lease term, and deferred rent, which is amortized over the lease term. As of December 31, 2018 and 2017, the net book value of leasehold improvements funded by landlords was $1.0 million and $1.2 million, respectively. As of December 31, 2018 and 2017, the unamortized balance of deferred rent related to landlord funding of leasehold improvements was $1.0 million and $1.2 million, respectively, which is included in "accounts payable and accrued liabilities" and "other long-term liabilities" in the consolidated balance sheets. In 2018, in connection with a transition to a new contract manufacturer, the Company recorded leased equipment of $1.9 million for production line equipment located at the contract manufacturer's facility that met the definition of a capital lease, which will be depreciated over the three-year term of the agreement.

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. No impairments of goodwill were reported during the years ended December 31, 2018 and 2017. Also see Note 5, Goodwill and Intangible Assets, for further discussion of the Company's goodwill impairment analysis.

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. During each of the years ended December 31, 2018 and 2017, the Company recorded impairment charges of $0.2 million. These impairment charges related to property and equipment which were no longer forecasted to be utilized during their remaining useful lives and for which the fair values approximated zero.

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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 December 31, 2018 and 2017, the accrued warranty liability included in “accounts payable and accrued liabilities” in the consolidated balance sheets was $0.9 million and $1.3 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.

Income Taxes

Deferred income taxes are provided on a liability method in accordance with the Income Taxes Topic of the FASB ASC, whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their reported amounts at each period end. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. The guidance also provides criteria for the recognition, measurement, presentation and disclosures of uncertain tax positions. A tax benefit from an uncertain tax position may be recognized if it is “more likely than not” that the position is sustainable based solely on its technical merits.

Concentration of Credit Risk

The Company maintains cash balances at various financial institutions primarily in California. Cash balances commonly exceed the $250,000 Federal Deposit Insurance Corporation insurance limit. The Company has not experienced any losses in such accounts and management believes that the Company is not exposed to any significant credit risk with respect to such cash and cash equivalents.

Financial instruments, which subject the Company to potential concentrations of credit risk, consist principally of the Company’s accounts receivable. The Company’s accounts receivable result from product sales to customers in various industries and in various geographical areas, both domestic and foreign. The Company performs credit evaluations of its customers and generally requires no collateral. Two customers, Beijing Etechwin and Continental Automotive, accounted for 12% and 11% of total revenue in 2018, respectively. Two customers accounted for 10% or more of total accounts receivable at December 31, 2018; CRRC-SRI and Wuxi Chirun Technology accounted for 12% and 10% of accounts receivable, respectively. Three customers, Continental Automotive, Beijing Etechwin and CRRC-SRI, accounted for 15%, 11% and 10% of total revenue in 2017, respectively. Two customers accounted for 10% or more of total accounts receivable at December 31, 2017; Continental Automotive and CRRC-SRI accounted for 15% and 11% of accounts receivable, respectively.

Research and Development Expense

Research and development expenditures are expensed in the period incurred. Third-party funding of research and development expense under cost-sharing arrangements is recorded as an offset to research and development expense in the period the expenses are incurred. Research and development expense was $20.0 million and $16.3 million, net of third-party funding under cost-sharing arrangements of $0.2 million and $2.5 million, for the years ended December 31, 2018 and 2017, respectively. For the year ended December 31, 2017, third-party funding under cost-sharing arrangements included $2.2 million related to a joint development agreement to fund the short-term costs of developing technologies for the automotive market.

Shipping and Handling Expense

The Company recognizes shipping and handling expenses as a component of cost of revenue.

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Advertising Expense

Advertising costs are expensed in the period incurred. Advertising expense was $0.3 million and $0.4 million for the years ended December 31, 2018 and 2017, respectively.

Foreign Currencies

The Company's primary foreign currency exposure is related to its subsidiary in Korea. The functional currency of the Korean subsidiary is the Korean Won. The Company's Korean subsidiary has U.S. dollar, Euro and local currency (Korean Won) revenue and operating expenses. Changes in these currency exchange rates impact the reported U.S. dollar amount of revenue, expenses and debt. Assets and liabilities of the Korean subsidiary are translated at month-end exchange rates, and revenue, expenses, gains and losses are translated at rates of exchange that approximate the rate in effect at the time of the transaction. Any translation adjustments resulting from this process are presented separately as a component of accumulated other comprehensive income within stockholders' equity in the consolidated balance sheets. Foreign currency transaction gains and losses on intercompany balances considered long term in nature are accounted for as translation adjustments within equity. Accumulated other comprehensive income is recognized in the statement of operations when the related business is divested. All other foreign currency transaction gains and losses are reported in "foreign currency exchange loss, net" in the consolidated statements of operations.

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 consolidated balance sheet.

Related Party Transactions

As part of the Nesscap Acquisition, Titan Power Solution LLS ("Titan") became a customer of the Company. In May 2018, I2BF Global Ventures ("I2BF), of which a member of our board of directors is a founding partner and current director, obtained a controlling interest in Titan. During the year ended December 31, 2018, we received payments of approximately $397,000 from Titan related to the purchase of the Company's products, of which payments of $282,000 were received by us after I2BF became a controlling owner of Titan in May 2018.

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Net Income or 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 loss per share (in thousands, except per share data):

	Years Ended December 31,	
	2018	2017
Numerator:		
Loss from continuing operations, net of income taxes	$(44,442)	$(53,862)
Income from discontinued operations, net of income taxes	7,894	10,733
Net loss	$(36,548)	$(43,129)
Denominator:		
Weighted average common shares outstanding, basic and diluted	41,031	35,480
Net income (loss) per share - basic and diluted:		
Continuing operations	$(1.08)	$(1.52)
Discontinued operations	0.19	0.30
Net loss per share - basic and diluted	$(0.89)	$(1.22)

The following table summarizes instruments that may be convertible into common shares that are not included in the denominator used in the computation of diluted earnings per share because they are anti-dilutive for continuing operations, and as such the treatment for discontinued operations is also anti-dilutive (in thousands of shares):

	2018	2017
Outstanding options to purchase common stock	357	361
Unvested restricted stock awards	—	26
Unvested restricted stock unit awards	2,757	2,650
Employee stock purchase plan awards	122	38
Bonus and director fees to be paid in stock awards	734	477
Convertible senior notes	7,245	7,245
	11,215	10,797

Stock-Based Compensation

The Company issues stock-based compensation awards to its employees and non-employee directors, including stock options, restricted stock, restricted stock units, and shares under an employee stock purchase plan. The Company records compensation expense for stock-based awards in accordance with the criteria set forth in the Stock Compensation Subtopic of the FASB ASC. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock option grants. The determination of the fair value of stock options utilizing the Black-Scholes model is affected by the Company’s stock price and a number of assumptions, including expected volatility, expected term, risk-free interest rate and expected dividends.

The fair value of restricted stock awards (“RSAs”) and restricted stock unit awards (“RSUs”) with service-based or performance-based vesting is based on the closing market price of the Company’s common stock on the date of grant. Compensation expense equal to the fair value of each RSA or RSU is recognized ratably over the requisite service period. For RSUs with vesting contingent on Company performance conditions, the Company uses the requisite service period that is most likely to occur. The requisite service period is estimated based on the performance period as well as any time-based service requirements. If it is unlikely that a performance condition will be achieved, no compensation expense is recognized unless it is later determined that achievement of the performance condition is likely. Expense may be adjusted for changes in the expected outcomes of the related performance conditions, with the impact of such changes recognized as a cumulative adjustment in the consolidated statement of operations in the period in which the expectation changes.

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The Company issues market-condition RSUs to certain members of executive management. Since the vesting of the market-condition RSUs is dependent on stock price performance, the fair values of these awards are estimated using a Monte-Carlo valuation model. The determination of the fair value of market-condition RSUs utilizing a Monte-Carlo valuation model is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends.

In 2016, Company adopted a bonus plan that enabled participants to earn annual incentive bonuses based upon achievement of specified financial and strategic performance objectives. Under the terms of this plan, the Company has the ability to settle bonuses earned under the plan with common stock or fully vested RSUs. The Company settled the majority of bonuses earned under in 2017 in stock during 2018. For the fiscal year 2018 performance period, the Company intends to settle the amounts earned under the bonus plan in stock or fully vested RSUs in the first quarter of 2019. The stock-based compensation expense accrued under this bonus plan represents stock-settled debt per ASC 718 and ASC 480, as such, the Company has recorded a liability for bonuses expected to be paid in fully vested RSUs in "accrued employee compensation" in the Company's consolidated balance sheets.

Stock-based compensation expense recognized in the consolidated statements of operations is based on equity awards ultimately expected to vest. The Company estimates forfeitures at the time of grant and revises forfeitures, if necessary, in subsequent periods with a cumulative catch up adjustment if actual forfeitures differ from those estimates. For market-condition awards, because the effect of the market-condition is reflected as an adjustment to the awards' fair value at grant date, subsequent forfeitures due to the Company's stock price performance do not result in a reversal of expense.

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 were originally required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, FASB issued ASU No. 2018-11, Targeted Improvements. This update still requires modified retrospective transition; however, it adds the option to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment in the current period instead of at the beginning of the earliest period presented. The guidance is effective for annual and interim reporting periods beginning after December 15, 2018. The Company is in the process of finalizing its evaluation of current leases and quantifying the impact to its balance sheet. The Company expects that the adoption of the standard will have a material impact on its consolidated balance sheet for the recognition of certain operating leases as right-of-use assets and lease liabilities. The Company does not expect the adoption of this standard to have a material impact on its consolidated statements of operations. The Company will adopt the new accounting standard using the modified retrospective transition option effective January 1, 2019.

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, for the year ended December 31, 2017, the Company reclassified $39,000, $8,000 and $8,000 (excluding discontinued operations) 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".

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. During the fourth quarter of 2018, the Company's accounting for this change in tax law was considered complete and no longer provisional.

In June 2018, the FASB issued ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for nonemployee share-based payments by aligning the accounting with the requirements for employee share-based compensation. 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 August 2018, the FASB issued ASU No. 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General. This ASU modifies the disclosure requirements for defined benefit and other postretirement plans. This ASU eliminates certain disclosures associated with accumulated other comprehensive income, plan assets, related parties, and the effects of interest rate basis point changes on assumed health care costs; while other disclosures have been added to address significant gains and losses related to changes in benefit obligations. This ASU also clarifies disclosure requirements for projected benefit and accumulated benefit obligations. The amendments in this ASU are effective for fiscal years ending after December 15, 2020 and for interim periods therein with early adoption permitted. Adoption on a retrospective basis for all periods presented is required. The Company is currently evaluating the impact of adoption on its financial statement disclosures.

Business Enterprise Information

The Company operates as a single operating segment with a single product line. According to the FASB ASC Topic Disclosures about Segments of an Enterprise and Related Information, operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer who evaluates the Company's financial information and resources and assesses performance on a consolidated basis.

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Revenue by geographic area is presented below (in thousands):

Revenue from external customers located in[1]:	Years ended December 31, 2018	2017
China	$28,790	$36,251
United States	15,733	7,989
Germany	12,201	11,641
Hungary	12,169	13,451
All other countries [2]	21,566	18,377
Total	$90,459	$87,709

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(1) Location is determined by shipment destination.

(2) Revenue from external customers located in countries included in “All other countries” does not individually comprise more than 10% of total revenue for any of the years presented.

Long-lived assets by geographic location are as follows (in thousands):

	As of December 31, 2018	2017
United States	$15,003	$14,455
China	2,931	1,107
South Korea	6,443	4,398
Total	$24,377	$19,960

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):

Balance Sheet	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
Assets:			
Trade and other accounts receivable, net of allowance	$ 22,712	$ 227	$22,939
Inventories	23,450	(430)	23,020
Liabilities and Stockholders’ Equity:			
Accounts payable and accrued liabilities	27,283	37	27,320
Deferred revenue and other current liabilities	6,572	(518)	6,054
Accumulated deficit	(247,233)	278	(246,955)

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The impact of adoption on the Company's consolidated balance sheet as of December 31, 2018 and consolidated statement of operations for the year ended December 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, along with any existing governing customer agreements when applicable, 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, and are not material.

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 on behalf of customers 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 year ended December 31, 2018.

Approximately 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, which represented 5% of revenue for the year ended December 31, 2018, 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 shipment destination:

Region:	Year Ended December 31, 2018
Americas	$ 16,255
Asia Pacific	39,324
Europe	34,880
Total	$ 90,459

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 December 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 other current liabilities" in the Company's consolidated balance sheets, are as follows:

	Year Ended December 31, 2018
Beginning balance as of December 31, 2017	$ 5,234
Impact of adoption of ASC 606	(518)
Increases due to cash received from customers	3,143
Decreases due to recognition of revenue	(4,356)
Other changes	(24)
Contract liabilities as of December 31, 2018	$ 3,479

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 December 31, 2018 in connection with these contracts is $3.9 million. Of this amount, $0.6 million relates to a specialized services contract which is recognized over time and is expected to be completed within one year. The other $3.3 million relates to a licensing and services contract, for which the estimate of the transaction price allocated to unsatisfied performance obligations was adjusted in the third quarter of 2018; the adjustment did not have a material impact on our financial statements as it primarily pertained to unsatisfied performance obligations. Revenue related to the licensing and services contract is expected 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. 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

	December 31, 2018	December 31, 2017
Raw materials and purchased parts	$ 11,267	$ 8,259
Work-in-process	492	1,026
Finished goods	12,961	14,165
Consigned inventory	8,925	—
Total inventories	$ 33,645	$ 23,450

Warranty

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

	Years Ended December 31,	
	2018	2017
Beginning balance	$1,315	$910
Acquired liability from Nesscap	—	773
Product warranties issued	532	117
Settlement of warranties	(463)	(693)
Changes related to preexisting warranties	(440)	208
Ending balance	$944	$1,315

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Property and equipment, net

	As of December 31, 2018	2017
Machinery, furniture and office equipment	$55,146	$50,195
Leased equipment	1,911	—
Computer hardware and software	9,740	8,955
Leasehold improvements	18,990	17,742
Construction in progress	4,211	2,310
Property and equipment, gross	89,998	79,202
Less accumulated depreciation and amortization	(65,621)	(59,242)
Total property and equipment, net	$24,377	$19,960

Accounts payable and accrued liabilities

	As of December 31, 2018	2017
Accounts payable	$4,675	$17,842
Income tax payable	348	415
Accrued warranty	944	1,315
Consigned inventory liability	7,078	—
Other accrued liabilities	3,468	7,711
Total accounts payable and accrued liabilities	$16,513	$27,283

Accumulated Other Comprehensive Income (Loss)

	Foreign Currency Translation Adjustment	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)	Affected Line Items in the Statement of Operations
Balance as of December 31, 2017	$ 12,957	$ (881)	$ 12,076	
Other comprehensive income (loss) before reclassification	(1,694)	—	(1,694)	
Amounts reclassified from accumulated other comprehensive income (loss)	—	(558)	(558)	Other components of defined benefit plans, net; and Income from discontinued operations, net of income taxes
Other comprehensive income (loss) recognized in connection with divestiture	(10,869)	749	(10,120)	Income from discontinued operations, net of income taxes
Total change in accumulated other comprehensive income (loss)	(12,563)	191	(12,372)	
Balance as of December 31, 2018	$ 394	$ (690)	$ (296)	

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.

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The Nesscap Acquisition adds scale to the Company’s operations and expands the Company’s portfolio of energy storage 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	$26,300

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 goodwill associated with the acquisition is not deductible for income tax purposes.

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):

	Fair Value
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)
Total identifiable net assets	14,676
Goodwill	11,624
Total purchase price	$26,300

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 year ended December 31, 2017, acquisition-related costs of $1.9 million were included in selling, general, and administrative expenses in the Company's consolidated statements of operations.

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

	Estimated Useful Life (in years)	Fair Value
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
Total intangible assets		$11,800

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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.

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

	Year Ended December 31, 2017
Net revenues	$ 92,875
Net loss	(43,849)
Net loss per share:	
Basic and diluted	(1.19)
Weighted average common shares outstanding:	
Basic and diluted	36,809

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.

For the year ended December 31, 2017, $17.3 million of revenue and $0.9 million of net loss included in the Company's consolidated statements of operations was related to Nesscap operations. The Company does not consider the 2017 revenue and net loss related to Nesscap operations to be indicative of the results of the Nesscap Acquisition due to integration activities since the acquisition date.

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 Company performs an impairment test for goodwill annually according to the Intangibles—Goodwill and Other Topic of the FASB ASC. On January 1, 2017, the Company also early adopted ASU 2017 No. 2017-04, Intangibles - Goodwill and Other, which eliminates step two of the quantitative goodwill impairment test. The Company first makes a qualitative assessment of the likelihood of goodwill impairment and if it concludes that it is more likely than not that the carrying amount of a reporting unit is greater than its fair value, then it will be required to perform a quantitative impairment test. Otherwise, performing the impairment test is not required. Qualitative factors assessed at the reporting unit level include, but are not limited to, changes in industry and market structure, competitive environments, planned capacity and new product launches, cost factors such as raw material prices and financial performance of the reporting unit. The Company may also determine to skip the qualitative assessment in any year and move directly to the quantitative test.

The quantitative impairment test consists of estimating the fair value and comparing the estimated fair value with the carrying value of the reporting unit. Any goodwill impairment charge is determined by the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss should not exceed the total amount of goodwill allocated to the reporting unit. The guidance requires goodwill to be reviewed annually at the same time every year or when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. The Company selected December 31 as its annual testing date.

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In 2018, the Company performed a qualitative assessment of its reporting units which included an evaluation of changes in industry, market and macroeconomic conditions as well as consideration of each reporting unit's financial performance and any significant trends. In 2018, the Company substantially integrated the operations related to its Nesscap Acquisition in 2017, which included changes to the Company's reporting structure related to the acquired operations; therefore, the Company determined that it had one reporting unit, which represented a combination of two reporting units from our prior year assessment. The Company first assessed each former reporting separately, and then as a combined, single reporting unit. The Company's qualitative assessments indicated that it was not more likely that not that goodwill is impaired.

The change in the carrying amount of goodwill during 2017 and 2018 was as follows (in thousands):

Balance at December 31, 2016	$ 2,343
Goodwill from Nesscap Acquisition	11,624
Foreign currency translation adjustments	740
Balance at December 31, 2017	14,707
Foreign currency translation adjustments	(518)
Balance at December 31, 2018	$ 14,189

Goodwill of approximately $21.4 million related to discontinued operations was derecognized during the year ended December 31, 2018 in connection with the sale of the Company's high voltage product line and is excluded from the table above.

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

	As of December 31, 2018				
	Useful Life (in years)	Gross Initial Carrying Value	Cumulative Foreign Currency Translation Adjustment	Accumulated Amortization	Net Carrying Value
Customer relationships - institutional	14	$ 3,200	$ 57	$ (390)	$ 2,867
Customer relationships - non-institutional	10	4,400	74	(759)	3,715
Trademarks and trade names	10	1,500	25	(259)	1,266
Developed technology	8	2,700	43	(587)	2,156
Total intangible assets		$ 11,800	$ 199	$ (1,995)	$ 10,004

	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 year ended December 31, 2018, amortization expense of $0.4 million was recorded to "cost of revenue" and $0.9 million was recorded to "selling, general and administrative." For the year ended December 31, 2017, amortization expense of $0.2 million was recorded to "cost of revenue" and $0.6 million was recorded to "selling, general and administrative." Estimated amortization expense for the years 2019 through 2023 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.

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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 $1.1 million, and were primarily incurred in the third quarter of 2017. Total net charges for the year ended December 31, 2018 for the September 2017 restructuring plan were $(112,000), which represented restructuring charges of $45,000 adjusted for reversals of expense of $157,000; the plan was completed in the third quarter of 2018.

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 year ended December 31, 2017 for the February 2017 restructuring plan were $0.9 million; the plan was completed in the third quarter of 2017.

The charges related to both of the 2017 restructuring plans consist of employee severance costs and have been paid in cash. The charges were recorded within “restructuring and exit costs” in the 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 year ended December 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	—	(705)
Accruals released	—	(157)
Restructuring liability as of December 31, 2018	$ —	$ —

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 years ended December 31, 2018 and 2017, the Company recognized additional facilities costs of $0.1 million and $0.2 million, respectively, as restructuring charges to record adjustments to the sublease income assumptions 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 December 31, 2018 and December 31, 2017, lease obligation liabilities related to this leased space of $0.5 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.

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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 December 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.

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%.

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

	As of December 31, 2018	2017
Principal amount	$46,000	$46,000
Unamortized debt discount - equity component	(6,778)	(8,144)
Unamortized debt discount - initial purchaser	(2,024)	(2,431)
Unamortized transaction costs	(319)	(383)
Net carrying value	$36,879	$35,042

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

	Years Ended December 31, 2018	2017
Cash interest expense		
Coupon interest expense	$2,530	$661
Non-cash interest expense		
Amortization of debt discount - equity component	1,366	330
Amortization of debt discount - initial purchaser	407	98
Amortization of transaction costs	64	16
Total interest expense	$4,367	$1,105

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. On February 14, 2019, the Company entered into an amendment to the Loan Agreement to amend and restate the Revolving Line of Credit (the “Revolving Line of Credit”). The Revolving Line of Credit matures on May 8, 2021, and is available up to a maximum of the lesser of: (a) $15.0 million; or (b) a certain percentage of domestic and foreign trade receivables. As of December 31, 2018, prior to the February 2019 amendment, the Revolving Line of Credit was 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 December 31, 2018, the amount available under the Revolving Line of Credit was $10.5 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 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 Korean subsidiary. 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. As of December 31, 2018, the Company is 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 the 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 of $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. There were no borrowings outstanding under the Revolving Line of Credit as of December 31, 2018 and 2017.

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Other Long-term Borrowings

In 2018, in connection with a contract manufacturer transition, the Company's agreement with the contract manufacturer included a provision that met the lease definition criteria in reference to approximately $1.9 million of manufacturing equipment located at the contract manufacturer's facility. Some of the terms of the equipment agreement have not yet been finalized; however, the Company anticipates that it will make even quarterly payments over 3 years, after which time title of the equipment will transfer to Maxwell. As of December 31, 2018, the arrangement was recorded as a capital lease. The Company utilized a discount rate of 5.0% to calculate the effective interest on this borrowing. At December 31, 2018, the Company had $1.5 million of capital lease liability outstanding under this arrangement. As of December 31, 2018, the Company's lease payment commitments under this arrangement were $0.5 million, $0.7 million and $0.4 million for the years ended December 31, 2019, 2020 and 2021, respectively.

Note 8—Fair Value Measurement

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.

As of December 31, 2018 and 2017, the fair value of the Company's convertible senior notes issued in September and October 2017 was approximately $36.0 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—Discontinued Operations

On December 19, 2018, the Company entered into a Share Purchase Agreement with RN C Holding SA, a special purpose holding entity and affiliate of Renaissance Investment Foundation, ("Renaissance"), providing for the sale of 100% of the shares of the Company's Swiss subsidiary, Maxwell Technologies SA ("Maxwell SA"), and its high voltage capacitor product line to Renaissance. The transaction simultaneously closed with the signing of the Share Purchase Agreement on December 19, 2018. The upfront purchase price was approximately $55.1 million, which after certain reductions and other transaction-related expenses resulted in net upfront cash proceeds of approximately $47.8 million. These reductions and transaction related expenses included a $0.9 million holdback that was placed in a third party escrow account to satisfy potential withholding tax obligations, transaction expenses of $2.1 million and additional adjustments for agreed upon net working capital amounts and other financial related adjustments as agreed upon and set forth in the Share Purchase Agreement.

In addition to the upfront purchase price, per the terms of the agreement, Renaissance will make milestone payments of up to $7.5 million per year based on the achievement of specific revenue targets related to the high voltage capacitor product line in fiscal years 2019 and 2020 resulting in potential aggregate milestone payments of approximately $15 million. Renaissance may set off any damages incurred for indemnification matters covered by the Share Purchase Agreement against any future milestone payments. Additionally, up to $5.0 million may be withheld from any potential milestone payments and funded to a separate escrow account to satisfy certain indemnity obligations as set forth in the Share Purchase Agreement. The Company will account for any potential milestone payments received as gain contingencies in accordance with the provisions of ASC 450, Contingencies; therefore, the Company will not record any gain or recognize any income related to the potential milestone payments until the period in which they are realized.

Following is the reconciliation of purchase price to net proceeds received and to the gain recognized in income from discontinued operations (in thousands):

Purchase price	$55,055
Adjustments to purchase price	(791)
Amounts held in escrow	(859)
Payment of withholding taxes	(3,492)
Cash proceeds received	49,913
Transaction expenses	(2,099)
Net cash proceeds received	$47,814

Net cash proceeds received	$47,814
Net assets of high voltage product line	(56,718)
Release of accumulated other comprehensive income from equity	10,120
Release of withholding tax liabilities	890
Release of employee liabilities and cancellation of equity awards	488
Payment of withholding taxes	3,492
Amounts held back in escrow	859
Gain on sale of high voltage product line, before income taxes	6,945
Income tax related to gain on sale	(1,534)
Gain on sale, net of income taxes	$5,411

For the years ended December 31, 2018 and 2017, the Company recognized $7.9 million and $10.7 million, respectively, of income net of income taxes from the discontinued operations of the high voltage product line. The major line items constituting the income of the high voltage product line which are reflected in our consolidated statements of operations as discontinued operations are as follows (in thousands):

	Years Ended December 31,	
	2018	2017
Revenue	$22,620	$42,659
Cost of revenue	13,035	19,462
Gross profit	9,585	23,197
Operating expenses:		
Selling, general and administrative	6,886	7,884
Research and development	2,087	2,084
Total operating expenses	8,973	9,968
Income from operations of discontinued operations	612	13,229
Other components of defined benefit plans, net	938	628
Other income and expense, net	(78)	(26)
Gain on sale of high voltage product line, net of income taxes	5,411	—
Income tax benefit (provision)	1,011	(3,098)
Income from discontinued operations, net of income taxes	$7,894	$10,733

The assets and liabilities of the high voltage product line that were classified as discontinued operations in the consolidated balance sheet as of December 31, 2017 are as follows (in thousands):

	December 31 2017
Cash and cash equivalents	$ 3,930
Trade and other accounts receivable, net of allowance for doubtful accounts	8,931
Inventories	8,778
Prepaid expenses and other current assets	824
Current assets of discontinued operations	$ 22,463
Property and equipment, net	8,084
Goodwill	21,354
Pension asset	11,712
Non-current assets of discontinued operations	$ 41,150
Accounts payable and accrued liabilities	5,475
Accrued employee compensation	652
Deferred revenue and other current liabilities	97
Short-term borrowings and current portion of long-term debt	33
Current liabilities of discontinued operations	$ 6,257
Deferred tax liability, long-term	3,774
Long-term debt, excluding current portion	82
Other long-term liabilities	127
Non-current liabilities of discontinued operations	$ 3,983

Note 10—Stock Plans

The Company's disclosures provided in this note include both continuing operations and discontinued operations.

Equity Incentive Plans

The Company has two active share-based compensation plans as of December 31, 2018: the 2004 Employee Stock Purchase Plan ("ESPP") and the 2013 Omnibus Equity Incentive Plan (the "Incentive Plan"), as approved by the stockholders. Under the Incentive Plan, incentive stock options, non-qualified stock options, restricted stock awards ("RSAs") and restricted stock units ("RSUs") have been granted to employees and non-employee directors. Generally, these awards vest over periods of one to four years. In addition, equity awards have been issued to senior management where vesting of the award is tied to Company performance or market conditions. The Company's policy is to issue new shares of its common stock upon the exercise of stock options, vesting of restricted stock units, granting of restricted stock awards or ESPP purchases.

The Company's Incentive Plan currently provides for an equity incentive pool of 7,900,000 shares. Shares reserved for issuance are replenished by forfeited shares from the Incentive Plan. Additionally, equity awards forfeited under the Company's former 2005 equity incentive plan and shares that were available under other predecessor plans are included in the total shares available for issuance under the Incentive Plan.

For the year ended December 31, 2018, the tax benefit associated with stock option exercises, restricted stock unit vesting, restricted stock grants, and disqualifying dispositions of both incentive stock options and stock issued under the Company's ESPP, was approximately $4.8 million.

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Stock Options

The Company grants stock options to its employees, executive management and directors on a discretionary basis. The following table summarizes total aggregate stock option activity for the year ended December 31, 2018 (in thousands, except for per share data):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at December 31, 2017	361	$ 8.05		
Granted	30	5.37		
Cancelled	(35)	9.41		
Balance at December 31, 2018	356	7.69	5.65	$ —
Vested or expected to vest at December 31, 2018	354	7.70	5.64	—
Exercisable at December 31, 2018	270	8.20	5.10	—

The weighted-average grant date fair value of stock options granted during the years ended December 31, 2018 and 2017 was $2.75 and $2.97, respectively. There were no option exercises for the years ended December 31, 2018 and 2017.

The fair value of the stock options granted during the years ended December 31, 2018 and 2017 was estimated using the Black-Scholes valuation model using the following assumptions:

	Years Ended December 31, 2018	2017
Expected dividends	— %	— %
Expected volatility weighted average	54 %	59 %
Risk-free interest rate	3.0%	1.9%
Expected life/term weighted average (in years)	5.5	5.5

The expected dividend yield is zero because the Company has never paid cash dividends and has no present intention to pay cash dividends. The expected term is based on the Company's historical experience from previous stock option grants. Expected volatility is based on the historical volatility of the Company's stock measured over a period commensurate with the expected option term. The Company does not consider implied volatility due to the low volume of publicly traded options in the Company's stock. The risk-free interest rate is derived from the zero coupon rate on U.S. Treasury instruments with a term comparable to the option's expected term.

As of December 31, 2018, there was $0.1 million of total unrecognized compensation cost related to stock options. The cost is expected to be recognized over a weighted average period of 0.4 years.

Restricted Stock Awards

No RSAs were granted during the years ended December 31, 2018 and 2017. The following table summarizes RSA activity for the year ended December 31, 2018 (in thousands, except for per share data):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	26	$ 14.57
Vested	(25)	14.57
Forfeited	(1)	14.57
Nonvested at December 31, 2018	—	—

The vest date fair value of RSAs vested in 2018 and 2017 was $0.1 million and $0.3 million, respectively.

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Restricted Stock Units

Non-employee directors receive annual RSU awards as partial consideration for their annual retainer compensation. These awards vest in full 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 to executives with vesting contingent on continued service and achievement of specified performance objectives or stock price performance. Each RSU represents the right to receive one unrestricted share of the Company's common stock upon vesting.

The following table summarizes RSU activity for both service-based awards and performance-based awards for the year ended December 31, 2018 (in thousands, except for per share data):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	2,650	$ 6.16
Granted	1,544	6.12
Released	(570)	5.92
Vested with deferred settlement	(45)	5.64
Forfeited	(821)	6.22
Nonvested at December 31, 2018	2,758	6.18

The weighted average grant date fair value of RSUs granted in the years ended December 31 2018 and 2017 was $6.12 and 5.89, respectively. The vest date fair value of RSUs released in the years ended December 31, 2018 and 2017 was $3.0 million and $2.9 million, respectively. As of December 31, 2018, there was $8.3 million of unrecognized compensation cost related to nonvested RSU awards. The cost is expected to be recognized over a weighted average period of 2.0 years.

For the years ended December 31, 2018 and 2017, RSU grants were composed of the following:

	Years Ended December 31			
	2018		2017	
	Shares granted (in thousands)	Average grant date fair value	Shares granted (in thousands)	Average grant date fair value
Service-based	1,111	$ 5.70	1,270	$ 5.53
Performance objectives	78	5.85	158	5.73
Market-condition	355	7.49	368	7.22
Total RSUs granted	1,544	6.12	1,796	5.89

For the year ended December 31, 2018 and 2017, RSUs granted included market-condition RSUs., The market-condition RSUs 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 RSUs 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 market-condition RSUs granted was calculated using a Monte Carlo valuation model with the following assumptions:

	Years Ended December 31,	
	2018	2017
Expected dividend yield	— %	— %
Expected volatility	41% - 47%	53 %
Risk-free interest rate	2.36% - 2.60%	1.55%
Expected term (in years)	2.5 - 2.9	2.8

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

	Years Ended December 31,	
RSU Type	2018	2017
Service-based	$4,054	$3,268
Performance objectives	320	379
Market-condition	1,912	1,539
	$6,286	$5,186

Employee Stock Purchase Plan

Pursuant to the Company's amended and restated 2004 Employee Stock Purchase Plan ("ESPP"), the aggregate number of shares of common stock which may be purchased shall not exceed 1,500,000 shares of common stock of the Company. For the years ended December 31, 2018, 2017, 159,544 and 77,914 shares, respectively, were purchased under the ESPP.

The 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.

The fair value of the "look back" option for ESPP shares issued during the offering period is estimated using the Black-Scholes valuation model for a call and a put option. The share price used for the model is a 15% discount on the stock price on the last trading day before the offering period; the number of shares to be purchased is based on employee contributions. The fair value of ESPP awards was calculated using the following weighted-average assumptions:

	Years Ended December 31,	
	2018	2017
Expected dividends	— %	— %
Expected volatility	42 %	34 %
Risk-free interest rate	1.88 %	0.89 %
Expected life (in years)	0.50	0.45
Fair value per share	$1.28	$1.30

The intrinsic value of shares of the Company's stock purchased pursuant to the ESPP during each of the years ended December 31, 2018 and 2017 was $0.1 million.

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 year ended December 31, 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 year ended December 31, 2017, the Company settled $1.6 million of bonuses earned under the plan for the 2016 performance period with 302,326 shares of fully vested common stock. The Company intends to settle bonuses earned under the plan for the fiscal year 2018 performance period with fully vested common stock of the Company in the first quarter of 2019.

The Company recorded $2.0 million and $2.8 million of stock compensation expense related to the bonuses during the years ended December 31, 2018 and 2017, respectively.

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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 year ended December 31, 2018, the Company settled $399,000 of director fees with 97,138 fully vested RSUs. During the year ended December 31, 2017, the Company settled $164,000 of director fees with 28,732 fully vested RSUs.

Stock-based Compensation Expense

Compensation cost for stock options, RSAs, RSUs, ESPP, bonuses and director fees for the years ended December 31, 2018 and 2017, respectively, is as follows (in thousands):

	Years Ended December 31,	
	2018	2017
Stock options	$271	$237
Restricted stock awards	83	416
Restricted stock units	6,286	5,186
ESPP	148	114
Bonuses settled in stock	1,986	2,826
Director fees settled in stock	304	258
Total stock-based compensation expense, including discontinued operations	9,078	9,037
Less: stock-based compensation expense related to discontinued operations	(31)	(798)
Total stock-based compensation expense, continuing operations	$9,047	$8,239

Stock-based compensation cost included in cost of revenue; selling, general and administrative expense; and research and development expense for the years ended December 31, 2018 and 2017, respectively, is as follows (in thousands):

	Years Ended December 31,	
	2018	2017
Cost of revenue	$1,077	$948
Selling, general and administrative	6,635	6,065
Research and development	1,335	1,226
Total stock-based compensation expense	$9,047	$8,239

Share Reservations

The following table summarizes the shares available for grant under the Company’s stock-based compensation plans as of December 31, 2018:

2013 Omnibus Equity Incentive Plan	3,067,729
2004 Employee Stock Purchase Plan	458,065
Total	3,525,794

Note 11—Shelf Registration Statements

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. 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.

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In August 2018, under the shelf registration statement, the Company completed a public offering of 7,590,000 shares of its common stock at a public offering price of $3.25 per share. The Company received total net proceeds of approximately $23.0 million from the offering, after deducting underwriting discounts, commissions and offering expenses. Offering net proceeds are being used for general corporate purposes, including research and development expenses, capital expenditures, working capital, repayment of debt and general and administrative expenses. As of December 31, 2018, $24.7 million of securities have been issued under the shelf registration statement and a balance of $100.3 million remains available for future issuance.

Note 12—Income Taxes

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. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allowed the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, The Company previously recorded a provisional estimate of the effect of the Tax Act in its financial statements. In the fourth quarter of 2018, the Company completed its analysis to determine the effect of the Tax Act and recorded immaterial adjustments as of December 22, 2018.

While the Tax Act provides for a modified territorial tax system, beginning in 2018, GILTI provisions will be applied providing an incremental tax on low taxed foreign income. The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. During 2018, the Company made an accounting policy election to treat taxes related to GILTI as a current period expense when incurred.

During the year ended December 31, 2017, the Company remeasured its 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%. The Company recorded a decrease related to its deferred tax assets and liabilities of $34.7 million with a corresponding adjustment to its valuation allowance for the year ended December 31, 2017. As the Company's deferred tax asset is offset by a full valuation allowance, this change in rates had no impact on the Company's financial position or results of operations.

The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P") that were previously deferred from U.S. income taxes. The Company recorded additional U.S. taxable income of $8.4 million, which did not result in additional tax expense due to its net operating losses.

For financial reporting purposes, loss from continuing operations before income taxes includes the following components (in thousands):

	Years Ended December 31,	
	2018	2017
United States	$(43,694)	$(52,720)
Foreign	(1,844)	(583)
Total	$(45,538)	$(53,303)

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The provision for income taxes based on loss from continuing operations before income taxes is as follows (in thousands):

	Years Ended December 31,	
	2018	2017
Federal:		
Current	$—	$—
Deferred	(5,763)	18,646
	(5,763)	18,646
State:		
Current	7	5
Deferred	(651)	231
	(644)	236
Foreign:		
Current	405	519
Deferred	(703)	(1,880)
	(298)	(1,361)
(Decrease) increase in valuation allowance	5,609	(16,962)
Tax provision	$(1,096)	$ 559

The provision for income taxes in the accompanying consolidated statements of operations differs from the amount calculated by applying the statutory income tax rate to loss before income taxes. The primary components of such difference are as follows (in thousands):

	Years Ended December 31,	
	2018	2017
Taxes at federal statutory rate	$(9,563)	$(18,123)
State taxes, net of federal benefit	(97)	(236)
Effect of tax rate differential for foreign subsidiary	176	(340)
Valuation allowance, including tax benefits of stock activity	5,609	(16,962)
Tax rate change	(244)	34,732
Discontinued operations	1,927	—
Stock-based compensation	513	224
Foreign withholding taxes	414	295
Return to provision adjustments	667	(2,931)
Subpart F income inclusion	—	2,998
SEC settlement penalty	—	959
Business combination	—	(1,914)
Other, net	(498)	1,857
Tax provision	$(1,096)	$559

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 as evidenced by the cumulative losses from operations through December 31, 2018. Management periodically evaluates the recoverability of the deferred tax assets. At such time as it is determined that it is more likely than not that deferred assets are realizable, the valuation allowance will be reduced accordingly and recorded as a tax benefit. The Company has recorded a valuation allowance of $67.0 million as of December 31, 2018 to reflect the estimated amount of deferred tax assets that may not be realized. The Company increased its valuation allowance by $5.6 million for the year ended December 31, 2018.

At December 31, 2018, the Company has federal and state net operating loss carryforwards of approximately $235.2 million and $43.6 million, respectively. The federal tax loss carryforwards will begin to expire in 2020 and the state tax loss carryforwards will begin to expire in 2023. In addition, the Company has research and development and other tax credit carryforwards for federal and state income tax purposes as of December 31, 2018 of $7.7 million and $9.8 million, respectively. The federal credits will begin to expire in 2019 unless utilized and the state credits have an indefinite life. Pursuant to Internal Revenue Code Sections 382 and 383, use of the Company’s federal net operating loss and credit carryforwards may be limited upon a cumulative change in ownership of more than 50% within a three-year period.

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Items that give rise to significant portions of the deferred tax accounts are as follows (in thousands):

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Tax loss carryforwards	$53,834	$50,183
Accrued foreign taxes	—	1,044
Research and development and other tax credit carryforwards	1,149	792
Uniform capitalization, contract and inventory related reserves	1,388	982
Accrued vacation	327	301
Allowance for doubtful accounts	147	161
Stock-based compensation	2,309	2,029
Capitalized research and development	2,688	3,043
Tax basis depreciation less book depreciation	1,888	1,492
Pension assets	992	1,022
Deferred revenue	798	175
163(j) interest limitation	1,135	—
Other	1,741	2,367
Total	68,396	63,591
Deferred tax liabilities:		
Withholding tax on undistributed earnings of foreign subsidiary	—	(4,879)
Intangible assets	(978)	(1,514)
Foreign exchange gains/losses	(183)	(351)
Total	(1,161)	(6,744)
Net deferred tax assets before valuation allowance	67,235	56,847
Valuation allowance	(67,012)	(61,403)
Net deferred tax assets (liabilities)	$223	$(4,556)

As of December 31, 2018 and 2017, deferred tax assets of $0.3 million and $0.4 million, respectively, were included in other non-current assets in the consolidated balance sheets.

The Company accounts for uncertain tax benefits in accordance with the provisions of section 740-10 of the Accounting for Uncertainty in Income Taxes Topic of the FASB ASC. Of the total unrecognized tax benefits at December 31, 2018, approximately $17.5 million was recorded as a reduction to deferred tax assets, which caused a corresponding reduction in the Company’s valuation allowance of $17.5 million. To the extent unrecognized tax benefits are recognized at a time when a valuation allowance does not exist, the recognition of the $17.5 million tax benefit would reduce the effective tax rate. The Company does not anticipate that the amount of unrecognized tax benefits as of December 31, 2018 will change materially within the 12-month period following December 31, 2018.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at December 31, 2016	$15,579
Increase in current period positions	1,081
Decrease in prior period positions	(518)
Balance at December 31, 2017	16,142
Increase in current period positions	1,167
Increase in prior period positions	340
Decrease in prior period positions	(32)
Balance at December 31, 2018	$17,617

The Company recognizes interest and penalties as a component of income tax expense. Interest and penalties for the years ended December 31, 2018 and 2017 were $(27,000) and $29,000, respectively.

The Company’s U.S. federal income tax returns for tax years subsequent to 2014 are subject to examination by the Internal Revenue Service and its state income tax returns subsequent to 2013 are subject to examination by state tax authorities. The Company’s foreign tax returns subsequent to 2012 are subject to examination by the foreign tax authorities.

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Net operating losses from years for which the statute of limitations has expired (2014 and prior for federal and 2013 and prior for state) could be adjusted in the event that the taxing jurisdictions challenge the amounts of net operating loss carryforwards from such years.

Note 13—Leases

Rental expense amounted to $3.8 million and $3.4 million for the years ended December 31, 2018 and 2017, respectively, and was incurred primarily for facility leases. Future annual minimum rental commitments as of December 31, 2018 are as follows (in thousands):

Fiscal Years	
2019	$2,848
2020	2,736
2021	2,735
2022	2,202
2023	1,218
Thereafter	2,814
Total	$14,553

Note 14—Postretirement Benefit Plans

Korea Defined Benefit Plan

In connection with the Nesscap Acquisition on April 28, 2017, 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.

The following table reflects changes in the defined benefit plan obligation for the period from acquisition to December 31, 2018 (in thousands):

	Year ended December 31, 2018	April 29 through December 31, 2017
Change in benefit obligation:		
Beginning benefit obligation	$ 3,966	$ 3,360
Service cost	590	361
Interest cost	110	55
Benefits paid	(503)	(212)
Actuarial loss	518	174
Effect of foreign currency translation	(172)	228
Projected benefit obligation at end of year	4,509	3,966
Fair value of plan assets	20	24
Unfunded status at end of year	$ 4,489	$ 3,942

Amounts recognized in the consolidated balance sheets consist of (in thousands):

	As of December 31, 2018	2017
Net defined benefit plan liability	$4,489	$3,942
Accumulated other comprehensive loss includes the following:		
Actuarial loss before taxes	$692	$174

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The components of net periodic pension cost and other amounts recognized in other comprehensive income (loss) before taxes are as follows (in thousands):

	Year ended December 31, 2018	April 29 through December 31, 2017
Components of net periodic defined benefit plan cost:		
Service cost	$ 590	$ 361
Interest cost	110	55
Net periodic defined benefit plan cost	$ 700	$ 416
Other amounts recognized in other comprehensive income (loss) before income taxes are as follows:		
Actuarial loss on benefit obligation	$ 518	$ 174
Total loss recognized in other comprehensive income (loss), before taxes	518	174
Total loss recognized in net periodic defined benefit plan cost and other comprehensive income (loss), before taxes	$ 1,218	$ 590

Assumptions used to determine the benefit obligation and net periodic defined benefit plan cost are as follows:

	Year ended December 31, 2018	April 29 through December 31, 2017
Discount rate	2.46 %	2.98 %
Rate of compensation increase	6.96 %	6.11 %

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2019	$372
2020	364
2021	419
2022	331
2023	414
Years 2024 through 2028	1,293
Total	$3,193

In compliance with local labor law, the Company is required to make contributions for foreign line workers. Employer contributions of $7,000 were paid during the year ended December 31, 2018 and $6,000 were paid during the period from acquisition to December 31, 2017. The Company expects to make contributions of approximately $7,000 in 2019.

U.S. Plan

The Company has a postretirement benefit plan covering its employees in the United States. Substantially all U.S. employees are eligible to elect coverage under a contributory employee savings plan which provides for Company matching contributions based on one-half of employee contributions up to certain plan limits. The Company’s matching contributions under this plan totaled $0.4 million and $0.5 million for the years ended December 31, 2018 and 2017, respectively.

Note 15—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.

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FCPA Matter

In January 2011, the Company reached settlements with the 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 former 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. In December 2018, the Company sold its Swiss subsidiary as part of the sale of its high voltage product line and agreed to indemnify, within certain parameters, the purchaser for damages which may arise from this matter. 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.

Note 16—Subsequent Events

On February 3, 2019, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Tesla, Inc., a Delaware corporation (“Tesla”) and Cambria Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Tesla (“Merger Sub”), which contemplates the acquisition of the Company by Tesla, through Merger Sub. The Merger Agreement contemplates that Tesla would commence an all stock exchange offer for all of the issued and outstanding shares of the Company (the “Offer”), followed by a merger of Merger Sub with and into the Company pursuant to which the Company will survive as a wholly-owned subsidiary of Tesla (the “Merger”).

In the Offer, each Company stockholder who elects to participate in the Offer will receive a fractional share of common stock of Tesla (“Tesla Common Stock”) for each share of Company common stock (“Company Common Stock”) exchanged in the Offer. Pursuant to the terms and subject to the conditions of the Merger Agreement, as promptly as practicable (but in no event later than four (4) business days following the date on which Tesla files its Annual Report on Form 10-K for the fiscal year ending December 31, 2018), Tesla will commence the Offer to purchase each issued and outstanding share of Company Common Stock for a fraction of a share of Tesla Common Stock, equal to the quotient obtained by dividing $4.75 by the volume weighted average closing sale price of one (1) share of Tesla Common Stock as reported on the NASDAQ Global Select Market (“NASDAQ”) for the five (5) consecutive trading days ending on and including the second trading day immediately preceding the expiration of the Offer (the “Tesla Trading Price”). However, in the event that the Tesla Trading Price is equal to or less than $245.90, then each share of Company Common Stock shall be exchanged for 0.0193 of a share of Tesla Common Stock. Such shares of Tesla Common Stock, plus any cash paid in lieu of any fractional shares of Tesla Common Stock, is referred to as the “Offer Consideration”.

At the effective time of the Merger, each outstanding option to purchase Company Common Stock that is outstanding, unexercised and unexpired immediately prior to the effective time shall be automatically assumed by Tesla and converted into and become an option to acquire Tesla Common Stock, as further described in the Merger Agreement, Similarly, each Company restricted share unit that is outstanding immediately prior to the effective time, shall be assumed by Tesla and converted automatically into and become a restricted stock unit covering shares of Tesla Common Stock.

The Merger Agreement and the consummation of the transactions contemplated thereby have been unanimously approved by the board of directors of the Company (the “Board”), and the Board has resolved to recommend to the stockholders of the Company to accept the Offer and tender their shares of Company Common Stock to Merger Sub pursuant to the Offer.

Under the terms of the Merger Agreement, prior to the expiration of the Offer and subject to customary limitations and conditions, the Company may terminate the Merger Agreement to accept a “superior proposal” if Tesla chooses not to match such proposal, provided that the Company pays Tesla a termination fee of $8.295 million in cash. Each of the parties may also terminate the Merger Agreement if the closing of the Offer has not occurred within five (5) months of the signing of the Merger Agreement.

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Schedule II
Valuation and Qualifying Accounts (in thousands)

	Balance at the Beginning of the Year ($)	Charged to Expense ($)	Acquisitions/ Transfers and Other ($)	Write-offs Net of Recoveries ($)	Balance at the End of the Year ($)
Allowance for Doubtful Accounts:					
December 31, 2017	22	10	—	—	32
December 31, 2018	32	—	—	(32)	—

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure 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 December 31, 2018, as such term is defined under Rules 13a-15(e) and 15d-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 Annual Report on Form 10-K.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). 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 our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Control—Integrated Framework (2013), management concluded that our internal control over financial reporting was effective as of December 31, 2018.

BDO USA, LLP, the independent registered public accounting firm that audited the consolidated financial statements of Maxwell in this Annual Report on Form 10-K, has issued an unqualified opinion on the effectiveness of our internal controls over financial reporting as of December 31, 2018 which is included in this Item under the heading “Report of Independent Registered Public Accounting Firm”.

Changes in Internal Control Over Financial Reporting

There have been no changes 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Maxwell Technologies, Inc.
San Diego, California

Opinion on Internal Control over Financial Reporting

We have audited Maxwell Technology, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes and Schedule II-Valuation and Qualifying Accounts listed in the accompanying index and our report dated February 14, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP
San Diego, California
February 14, 2019

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Item 9B. Other Information
None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Director Information

The Board is divided into three classes, with the terms of office of each class ending in successive years. The terms of the directors currently serving in Class II, III and I expire on the date of the 2019 Annual Meeting, 2020 Annual Meeting and 2021 Annual Meeting, respectively.

Set forth below is information with respect to the directors of the Company, including their recent employment or principal occupation, a summary of their specific experience, qualifications, attributes or skills within the past five years that led to the conclusion that they are qualified to serve as a director, their period of service as a Company director and their age as of February 11, 2019.

Name and Age	Period Served as a Director, Positions and Other Relationships with the Company, and Business Experience
Jörg Buchheim, 51 (Class II)	Mr. Jörg Buchheim was appointed as a Class II director in July 2016 and serves as a member of the Strategic Alliance Committee. Mr. Buchheim has been the president and CEO of INALFA Roof Systems B.V., a top 3 global supplier of vehicle roof systems located in Europe, since July 2016 and previously served as senior vice president and chief sales officer of Maxwell from March 2016 to June 2016. From 2002 through 2015 he worked at HELLA KGaA Hueck & Co. in a series of senior sales and management positions, including as president and chief executive officer of HELLA China and a member of the HELLA Group Management Board based out of Shanghai. He previously served as HELLA’s global key account manager for Indian OEMs and Hyundai/Kia as well as vice president sales and marketing for Shanghai, China. Prior to joining HELLA, Buchheim worked in European key account sales for Mitsubishi Electric and in project management for Spoerle / Arrow. Mr. Buchheim studied electrical engineering at the University of Applied Sciences in Düsseldorf and graduated with a diploma thesis focused on hybrid vehicles which he completed at the BMW Group Research and Innovation Center. Individual experience: Dr. Buchheim’s extensive experience as a senior executive of numerous companies, including his current position as chief executive officer of an automotive systems company, global automotive industry experience and breadth of knowledge concerning the international marketplace, including his extensive business experience and know-how to establish and grow business in the Chinese market, combined with his extensive network in China, make him further qualified to serve as a director.
Burkhard Goeschel, 73 (Class II)	Dr. Goeschel was appointed a Class II director in February 2007. He serves as the Chairperson of the Strategic Alliance Committee and as a member of the Governance and Nominating Committee. Since January 2013, he has been senior advisor with Roland Berger Strategy Consultants, a leading global strategy consultancy. From 2007 through 2012, he was chief technology officer of MAGNA International, a leading global supplier of technologically advanced automotive systems, components and complete modules. From 2000 until his retirement in 2006, he was a member of the six-person management board of BMW Group, with overall responsibility for research, development and purchasing. Before beginning his career with BMW in 1978, he spent two years as a group leader for engine product development with Daimler Benz. He is an honorary professor of the Technical University in Graz, Austria, holds an honorary doctorate from the Technical University of Munich and is senator and a member of the university’s management board and a trustee of its Institute for Advanced Studies. Further, he is honorary president of the German Research Association for Internal Combustion Engines, is a member of the Council for Technical Sciences of the Union of German Academies of Sciences and Humanities and was general chairperson of the Society of Automotive Engineers 2006 World Congress. In January 2013, Dr. Goeschel was honored by the State of Austria with the Great Golden Cross of the State of Austria. Individual experience: Dr. Goeschel’s global automotive industry experience, breadth of knowledge concerning the international marketplace, and prior experience at BMW Group and MAGNA

International, in addition to a strong technical background and his deep view into the strategic developments of the automotive industry from his experience as a senior advisor with Roland Berger Strategy Consultants, make him further qualified to serve as a director.

Name and Age	Period Served as a Director, Positions and Other Relationships with the Company, and Business Experience
Ilya Golubovich, 33 (Class II)	Mr. Golubovich was appointed as a Class II director in May 2017 and serves as a member of the Compensation Committee, the Governance and Nominating Committee and the Strategic Alliance Committee. Mr. Golubovich is the founding partner of I2BF Global Ventures, a New York based venture capital group focused on early stage technology investments with over $400 million under management. I2BF's portfolio includes over 40 companies working in cleantech, biotechnology, materials science, IT and aerospace technology sectors. He is a member of the board of directors of Dauria Aerospace, Russia's first private space company; Primus Power, a Silicon Valley based developer and producer of advanced flow batteries; E La Carte, a Silicon Valley based restaurant and hospitality automation company; and ServiceTitan, a Glendale-based field service management company. Mr. Golubovich is also a member of the Venture Advisory Council and Mentorship Board of the Skolkovo Foundation as well as the Advisory Council of the Physics and Astronomy Department of Johns Hopkins University. He formerly worked at the Energy Department of the London office of Louis Dreyfus in commodity trading and as a project manager at the Siberian Internet Company (Sibintek). He holds a management science and engineering degree from Stanford University. Individual experience: Mr. Golubovich's broad and varied experience in advising and overseeing companies in the technology sectors, including, notably, his experience with a former ultracapacitor company, along with his expansive geographical exposure to these industries and opportunities make him further qualified to serve as a director.
Richard Bergman, 55 (Class III)	Mr. Bergman was appointed as a Class III director in May 2015. He serves as the Chairperson of the Compensation Committee and as a member of the Audit Committee. Mr. Bergman is president and chief executive officer of Synaptics, Inc., a leading developer of human interface solutions for intelligent devices. He joined Synaptics in 2011, after serving in a series of senior executive positions with AMD, where he was senior vice president and general manager of AMD's Product Group from May 2009 to September 2011, and senior vice president and general manager of AMD's Graphics Product Group (GPG) from October 2006 to May 2009. Prior to AMD, he held other senior management positions in the technology industry at ATI, S3 Graphics, Texas Instruments and IBM. Individual Experience: Mr. Bergman's expertise comes from a career of managing multi-national companies, including in the developing growth markets and related to corporations undergoing restructuring initiatives. Mr. Bergman's personal experience with critical human resources and compensation-related matters provides unique insight into such practices.
John Mutch, 62 (Class III)	Mr. Mutch was appointed as a Class III director in April 2017. He serves as the Chairperson of the Audit Committee and as a member of the Strategic Alliance Committee. Mr. Mutch is the founder and managing partner of MV Advisors LLC, a diversified investment firm which provides focused investment and operational guidance to both private and public companies founded in 2006. Mr. Mutch is a technology industry executive with more than 30 years of experience. From 2003 to 2005, he served as the president and chief executive officer of Peregrine Systems Inc. and successfully restructured the company, culminating in the sale of Peregrine to Hewlett-Packard (HP). From 1999 to 2002, he served as chief executive officer of HNC Software Inc., where he served initially as vice president of marketing and corporate development from 1997 to 1998 and then as president of HNC Software Inc. Insurance Solutions from 1998 to 1999. In his earlier career, Mr. Mutch served a variety of positions, including with Microsoft Corporation. Mr. Mutch is currently the chairman of the board of Aviat Networks, a Nasdaq-listed global provider of microwave networking solutions, where he also serves as the chairperson of the audit committee and as a member of the governance and nominating committee. He currently also serves on the board of Agilysys, Inc., a Nasdaq-listed leading technology company that provides innovative mobile and wireless solutions and services to the hospitality industry, where he serves as a member of the audit committee and compensation committee. He also serves on the board of RhythmOne plc, a LSE AIM-listed company in the digital advertising space

which acquired Yume, Inc., in early 2018 where he served as a board member just prior to the acquisition. Mr. Mutch previously served on the board of Quantum Corporation.

Individual experience: Mr. Mutch been an executive and investor in the technology industry for over 30 years and has a long, sustained track record of creating shareholder value. He has been a public and private company chief executive officer leading companies to significant revenue growth and profitability improvement. Mr. Mutch has served on the board of directors of numerous public and private companies.

Name and Age	Period Served as a Director, Positions and Other Relationships with the Company, and Business Experience
Steven Bilodeau, 60 (Class I)	Mr. Steve Bilodeau was appointed as a Class I director in May of 2016 and serves as the Chairperson of the Board effective as of the 2017 Annual Shareholder Meeting. He also serves as the Chairperson for the Governance and Nominating Committee and as a member of the Audit Committee and the Compensation Committee. Mr. Bilodeau was chief executive officer of Standard Microsystems Corporation (SMSC) from 1999–2008 where he also served as chairman from 2000-2012. Mr. Bilodeau currently serves as a director of Cohu, Inc., and is a member of the audit, compensation, and governance & nominating committees as well as serving as the chair of the compensation committee. He has also previously served as a director of NuHorizons Electronic Corp., Conexant Systems Inc., and Gennum Corporation. Individual experience: Mr. Bilodeau’s extensive experience including more than thirty years of general management and operations experience, as well as extensive experience serving on numerous high technology public company boards make him a valuable resource and sounding board as we continue to pursue new avenues for growth in international markets and further qualifies him to serve as a director.
Franz Fink, 57 (Class I)	Dr. Fink joined Maxwell as President and Chief Executive Officer effective as of May 1, 2014. Immediately prior to joining Maxwell, Dr. Fink was an independent business consultant, assisting companies in the industrial and automotive markets with business optimization and growth initiatives. From 2006 to 2012, Dr. Fink served as president and chief executive officer of Gennum Corp., a leading supplier of high-speed analog and mixed-signal semiconductors for the optical communications, networking, and video broadcast markets that was listed on the Toronto Stock Exchange before being acquired by Semtech Corp. in March 2012. From 2003 to 2006, Dr. Fink was senior vice president and general manager of the Wireless and Mobile Systems Group of Austin, Texas-based Freescale Semiconductor, Inc. From 1991 through 2003, Dr. Fink held a series of senior management positions in the Semiconductor Products Sector of Motorola Corp. in Germany, the United Kingdom and the United States. Dr. Fink holds a doctorate in natural sciences from the department of computer-aided design and a master’s degree in computer science and electrical engineering from the Technical University of Munich, Germany. Individual experience: Dr. Fink is a seasoned technology executive with an established track record of bringing innovative products to the automotive, telecommunications and other global markets. Further, his broad experience in international business operations in addition to his advanced technical education background make him qualified to serve as a director.

Executive Officer Information

Set forth below is information with respect to the executive officers of the Company, including their positions, experience and age, as of February 10, 2019

Name	Age	Position(s)
Franz Fink	57	President, Chief Executive Officer and Director
David Lyle	54	Senior Vice President, Chief Financial Officer, Treasurer and Secretary
Everett Wiggins	55	Vice President, Operations
Emily Lough	37	Vice President, General Counsel and Secretary

Background

Franz Fink

Dr. Fink joined Maxwell as President and Chief Executive Officer effective as of May 1, 2014. Immediately prior to joining Maxwell, Dr. Fink was an independent business consultant, assisting companies in the industrial and automotive markets with business optimization and growth initiatives. From 2006 to 2012, Dr. Fink served as president and chief executive officer of Gennum Corp., a leading supplier of high-speed analog and mixed-signal semiconductors for the optical communications, networking, and video broadcast markets that was listed on the Toronto Stock Exchange before being acquired by Semtech Corp. in March 2012. From 2003 to 2006, Dr. Fink was senior vice president and general manager of the Wireless and Mobile Systems Group of Austin, Texas-based Freescale Semiconductor, Inc. From 1991 through 2003, Dr. Fink held a series of senior management positions in the Semiconductor Products Sector of Motorola Corp. in Germany, the United Kingdom and the United States. Dr. Fink holds a doctorate in natural sciences from the department of computer-aided design and a master’s degree in computer science and electrical engineering from the Technical University of Munich, Germany.

David Lyle

Mr. Lyle joined Maxwell as Senior Vice President, Chief Financial Officer and Treasurer in May 2015. Prior to joining the Company, Mr. Lyle served from July 2007 to May 2015 as the chief financial officer of Entropic Communications, Inc., a provider of semiconductor solutions for home entertainment. From August 2005 to June 2007, Mr. Lyle was the chief financial officer at RF Magic, acquired by Entropic in June 2007. Prior to RF Magic, Mr. Lyle was finance director and controller for the mobile communications business unit of Broadcom Corp., a provider of highly-integrated semiconductor solutions. He joined Broadcom in July 2004 through its acquisition of Zyray Wireless Inc., a WCDMA baseband co-processor company, where he served as chief financial officer beginning in January 2004. Prior to 2004, Mr. Lyle served as chief financial officer of Mobilian Corporation, a wireless data communications semiconductor company, and in various finance roles at Intel Corporation, a semiconductor company. At Intel, Mr. Lyle served in the microprocessor and networking groups and in the strategic investment arm of Intel, now known as Intel Capital. He holds a bachelor of science in business from the University of Southern California, a master of business administration degree from Arizona State University and a master degree in international management from the Thunderbird School of Global Management.

Everett Wiggins

Mr. Wiggins joined Maxwell in 2006 and was promoted to his current position of Vice President of Operations in 2011. Prior to this promotion, Mr. Wiggins was the Vice President of Quality and Sr. Director of Operations while at Maxwell. From 2005 to 2006, Mr. Wiggins was Vice President of Continuation Engineering at Maxtor Corporation, a leading supplier of data storage products for the computing and entertainment industries which was acquired by Seagate Technology in July 2006. From 2001 to 2005, Mr. Wiggins was Vice President of Product Engineering and Quality at Quantum Corporation, a supplier of data storage products for the computing, entertainment and networking industries. Prior to that, Mr. Wiggins held a series of senior management positions at Quantum in the areas of engineering, sales and customer service. He holds a Bachelor of Science in electrical engineering from Rose-Hulman Institute of Technology.

Emily Lough

Ms. Lough joined Maxwell in 2007 and was promoted to her current role in January 2019 as Vice President, General Counsel & Secretary. Prior to this role, Ms. Lough served in a series of legal and management positions at Maxwell, most recently as the Corporate Counsel & Chief Compliance Officer of Maxwell. She holds a Bachelor of Science in chemical engineering at Washington University in St. Louis and juris doctorate from Thomas Jefferson School of Law, where she graduated cum laude.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) requires the Company’s executive officers and directors and persons who own more than ten percent (10%) of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission, or SEC, and the National Association of Securities Dealers, Inc. Executive officers, directors and greater than ten percent (10%) stockholders are required by Commission regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of such forms and the written representations of our executive officers, directors and greater than ten percent (10%) stockholders, we have determined that no person was delinquent with respect to reporting obligations as set forth in Section 16(a) of the Exchange Act.

Corporate Governance

Code of Business Conduct and Ethics

The Company’s Code of Business Conduct and Ethics applies to all of the Company’s employees, officers (including the Company’s chief executive officer, chief financial officer, controller and persons performing similar functions) and directors. The Company’s Code of Business Conduct and Ethics is posted on the Company’s website at investors.maxwell.com in English, French, German, Simplified Chinese and Korean and can also be obtained free of charge by sending a request to the Company’s Corporate Secretary at Maxwell Technologies, Inc., 3888 Calle Fortunada, San Diego, California 92123. Any changes or waivers of the Code of Business Conduct and Ethics for the Company’s Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions will be disclosed on the Company’s website.

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Audit Committee

The Audit Committee oversees the Company's corporate accounting and financial reporting process. For this purpose, the Audit Committee performs several functions. For example, the Audit Committee evaluates the performance of and assesses the qualifications of the independent auditors; determines the engagement of the independent auditors; determines whether to retain or terminate the existing independent auditors or to appoint and engage new auditors to perform any proposed non-permissible audit services; monitors the rotation of partners of the independent auditors on the Company engagement team as required by law; reviews the financial statements to be included in the Annual Report; and discusses with management and the independent auditors the results of the annual audit and the results of the Company's quarterly financial statement reviews. The Audit Committee held ten meetings during the fiscal year ended December 31, 2018.

All members of the Company's Audit Committee are independent (as independence is defined in Nasdaq listing standards). All members have been designated by the Board as the Audit Committee's financial experts. The Audit Committee has adopted a written Audit Committee Charter available at the Company's website at investors.maxwell.com. Our website address is included throughout this Form 10-K for reference only. The information contained on our website is not incorporated by reference into this Form 10-K. The members of the Audit Committee include John Mutch (Chair), Steven Bilodeau and Richard Bergman.

Material Changes to Nominee Recommendation Procedures

There have been no material changes to the procedures by which stockholders may recommend nominees to the Board in 2018.

Item 11. Executive Compensation

The named executive officers of the Company named in our Summary Compensation Table are set forth below.

Name	Age	Position(s)
Franz Fink	57	President, Chief Executive Officer and Director
David Lyle	54	Senior Vice President, Chief Financial Officer, Treasurer and Secretary
Everett Wiggins	55	Vice President, Operations

2018 SUMMARY COMPENSATION TABLE

The following table sets forth all of the compensation awarded to, earned by, or paid to the Company's named executive officers, which include our chief executive officer, our chief financial officer and our vice president of operations in 2018 and 2017.

Name and Principal Position	Year	Salary[(1)] ($)	Stock Awards [(2)] ($)	Option Awards[(2)] ($)	Non-Equity Incentive Plan Compensation[(3)] ($)	All Other Compensation ($)		Total ($)
Franz Fink, Ph.D.	2018	500,000	1,308,394	—	325,000	41,250	(4)	2,174,644
President, Chief Executive Officer and Director	2017	500,000	1,494,310	—	540,000	41,111	(4)	2,575,421
David Lyle	2018	375,000	513,075	—	146,250	43,192	(5)	1,077,517
Senior Vice President, Chief Financial Officer, Treasurer and Secretary	2017	375,000	964,066	—	243,000	47,053	(5)	1,629,119
Everett Wiggins	2018	247,919	299,663	—	81,503	30,303	(6)	659,388
Vice President, Operations	2017	238,108	316,041	—	128,578	30,026	(6)	712,753

(1) The amount of salary for Dr. Fink, Mr. Lyle and Mr. Wiggins reflects that 2018 and 2017 each contained 26 biweekly pay periods.

(2) The amounts shown do not reflect compensation actually received by the NEOs. Instead, the amounts in these columns represent the grant date fair value of the equity awards in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic No. 718, without regard to estimated forfeitures. In accordance with SEC rules, the grant date fair value of an award that is subject to a performance condition is based on the probable outcome of the performance condition. See Note 10 of the notes to our consolidated financial

statements in this Form 10-K for a discussion of all assumptions made by the Company in determining the values of its equity awards.

(3) The amounts in this column reflect annual incentive bonus awards earned in the year reported by the named executive officers under our annual bonus plan, although the actual payment occurs in the subsequent year. Amounts related to 2018 are preliminary as they are pending certification by the Company’s compensation committee. At the Company’s discretion, our NEOs 2018 annual incentive bonus awards will be settled in the form of fully vested RSU awards or cash in 2019. At the Company’s discretion, our NEOs 2017 annual incentive bonus awards were settled in the form of fully vested RSU awards in February 2018.

(4) For 2018, this amount includes $16,000 in car allowance, $17,000 in health and welfare benefits and $8,250 in 401(k) matching contributions. For 2017, this amount includes $16,000 in car allowance, $17,011 in health and welfare benefits and $8,100 in 401(k) matching contributions.

(5) For 2018, this amount includes $16,000 in car allowance, $19,372 in health and welfare benefits and $7,820 in 401(k) matching contributions. For 2017, this amount includes $16,000 in car allowance, $23,344 in health and welfare benefits and $7,709 in 401(k) matching contributions.

(6) For 2018, this amount includes $22,885 in health and welfare benefits and $5,620 in 401(k) matching contributions. For 2017, this amount includes $22,883 in health and welfare benefits and $7,143 in 401(k) matching contributions.

OUTSTANDING EQUITY AWARDS AT 2018 FISCAL YEAR-END

The following table sets forth information regarding each unexercised option and all unvested restricted stock and restricted stock units held by each of our named executive officers as of December 31, 2018.

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Vested Unexercised Options (#) Exercisable	Number of Securities Underlying Unvested Unexercised Options (#) [1] Unexercisable	Option Exercise Price ($/Sh)	Option Expiration Date	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) [1]	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) [9]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) [10]
Franz Fink	73,626	24,541 (2)	7.33	3/13/2025	—	—	—	—
					77,500 (4)	160,425	116,250 (4)	240,638
	—	—	—	—	69,000 (5)	142,830	131,100 (5)	271,377
	—	—	—	—	46,224 (6)	95,684	90,467 (6)	187,267
	—	—	—	—	—	—	30,970 (10)	64,108
	—	—	—	—	12,790 (7)	26,475	—	—
David Lyle	25,160	8,386 (3)	6.03	5/11/2025	—	—	—	—
					30,000 (4)	62,100	45,000 (4)	93,150
	—	—	—	—	30,000 (5)	62,100	38,000 (5)	78,660
	—	—	—	—	—	—	40,000 (11)	82,800
	—	—	—	—	19,260 (6)	39,868	37,695 (6)	78,029
	—	—	—	—	13,003 (8)	26,916	—	—
Everett Wiggins	10,602	3,534 (2)	7.33	3/13/2025	—	—	—	—
					22,500 (4)	46,575	22,500 (4)	46,575
	—	—	—	—	18,750 (5)	38,813	23,750 (5)	49,163

—	—	—	—	9,630	(6)	19,934	18,847	(6) 39,013
—	—	—	—	1,841	(7)	3,811	9,823	(7) 20,334

(1) In general, stock options and restricted stock unit awards held by our named executive officers will vest in full, at target levels, following involuntary termination or resignation following the occurrence of certain triggering events within a specified period following a change in control of the Company. Upon a change in control of the Company, certain service-based and performance-based restricted stock units held by our named executive officers will vest in full, regardless of whether the named executive officer terminates or resigns following a triggering event. These provisions are described in greater detail in “Potential Payments upon Termination or Change in Control” below.

(2) In March 2015, Dr. Fink and Mr. Wiggins were granted 98,167 and 14,136 stock options, respectively, with service-based vesting in equal, annual installments over four years of continuous service.

(3) In May 2015, Mr. Lyle was granted 33,546 stock options with service-based vesting in equal, annual installments over four years of continuous service.

(4) In February 2018, Dr. Fink, Mr. Lyle and Mr. Wiggins were granted 193,750, 75,000 and 45,000 restricted stock unit awards, respectively, of which 77,500, 30,000 and 22,500, respectively, were service-based restricted stock units vesting in equal, annual installments over four years of continuous service. The remaining 116,250, 45,000 and 22,500 awards granted to Dr. Fink, Mr. Lyle and Mr. Wiggins, respectively, were performance-based market stock units with vesting based on the level of the Company's stock price performance against the Nasdaq Composite Index over one, two and three-year performance periods. The potential payout ranges from 0% to 200% of the grant target quantity.

(5) In March 2017, Dr. Fink, Mr. Lyle and Mr. Wiggins were granted 230,000, 80,000 and 50,000 restricted stock unit awards, respectively, of which 92,000, 40,000 and 25,000, respectively, were service-based restricted stock units vesting in equal, annual installments over four years of continuous service. The remaining 138,000, 40,000 and 25,000 awards granted to Dr. Fink, Mr. Lyle and Mr. Wiggins, respectively, were performance-based market stock units with vesting based on the level of the Company's stock price performance against the Nasdaq Composite Index over one, two and three-year performance periods. The potential payout ranges from 0% to 200% of the grant target quantity.

(6) In January 2016, Dr. Fink, Mr. Lyle and Mr. Wiggins were granted 184,900, 77,042 and 38,520 restricted stock unit awards, respectively, of which 92,450, 38,521 and 19,260, respectively, were service-based restricted stock units vesting in equal, annual installments over four years of continuous service. The remaining 92,450, 38,521 and 19,260 awards granted to Dr. Fink, Mr. Lyle and Mr. Wiggins, respectively, were performance-based market stock units with vesting based on the level of the Company's stock price performance against the Nasdaq Composite Index over one, two and three-year performance periods. The potential payout ranges from 0% to 200% of the grant target quantity.

(7) In March 2015, Dr. Fink and Mr. Wiggins were granted 51,160 and 7,367 service-based restricted stock unit awards, respectively, vesting in equal, annual installments over four years of continuous service.

(8) In May 2015, Mr. Lyle was granted 52,012 service-based restricted stock unit awards vesting in equal, annual installments over four years of continuous service.

(9) Computed in accordance with SEC rules as the number of unvested shares multiplied by the closing price of the Company common stock on December 31, 2018, which was $2.07. The actual value realized by the officer depends on whether the shares vest and the future performance of our common stock.

(10) In February 2016, Dr. Fink was granted 46,224 restricted stock unit awards with vesting contingent upon the achievement of two key strategic milestones. Vesting related to the first milestone, which represents 33% of the awards, was contingent on achievement of the first milestone by December 31, 2016. The first milestone was achieved during 2016 and the related awards vested. Vesting related to the second milestone, which represents 67% of the awards, is contingent on achievement of the second milestone by December 31, 2019.

(11) In April 2017, Mr. Lyle was granted 80,000 restricted stock unit awards with vesting contingent upon the achievement of two key strategic milestones. Vesting related to the first milestone, which represents 50% of the awards, was contingent on achievement of the first milestone by December 31, 2017. The first milestone was achieved during 2017 and the related awards vested. Vesting related to the second milestone, which represents 50% of the awards, is contingent on achievement of the second milestone by December 31, 2018. and subsequent certification by the Company's compensation committee, which has not yet occurred.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

Franz Fink

Pursuant to his employment agreement, as amended, if Dr. Fink's employment is terminated without cause, either more than 30 days prior to a change in control or more than 24 months after a change in control, he will receive payment equal to one and one-half times his base salary and target bonus, current year bonus paid at actual achievement prorated based on the number of days employed in the year of termination, and the equivalent of the employer's contribution for health benefits for up to 12 months. In addition, Dr. Fink's initial service-based equity award will vest on a prorated basis for the number of months of employment. All other equity awards will be governed by the terms and conditions of the respective equity award agreements. If Dr. Fink's employment is terminated without cause or should Dr. Fink resign his employment for good reason, either within 30 days prior to a change in control or within 24 months after a change of control, he will receive a lump sum payment equal to two times his base salary and target bonus, current year bonus paid at target prorated based on the number of days employed in the year of termination, the equivalent of the employer's contribution for health benefits for up to 24 months, and waiver of service vesting conditions and deemed attainment at target of all performance-based milestones under each outstanding equity award, except the initial market-condition award which will only vest if the market-condition price target has been met. Pursuant to Dr. Fink's stock award agreements, in the event of termination as a result of death or disability, unvested awards will become fully vested.

David Lyle

Pursuant to his employment agreement, as amended, if Mr. Lyle's employment is terminated without cause, either more than 30 days prior to a change in control or more than 24 months after a change in control, he will receive payment equal to his base salary and target bonus, current year bonus paid at actual achievement prorated based on the number of days employed in the year of termination and the equivalent of the employer's contribution for health benefits for up to 12 months. In addition, if such a termination occurs more than one year following Mr. Lyle's start date, then his initial service-based equity award will vest on a prorated basis for the number of months of employment. All other equity awards will be governed by the terms and conditions of the respective equity award agreements. If Mr. Lyle's employment is terminated without cause or should Mr. Lyle resign his employment for good reason, either within 30 days prior to a change in control or within 24 months after a change of control, he will receive a lump sum payment equal to one and one-half times his base salary and target bonus, current year bonus paid at target prorated based on the number of days employed in the year of termination, the equivalent of the employer's contribution for health benefits for up to 12 months, and waiver of service vesting conditions and deemed attainment at target of all performance-based milestones under each outstanding equity award. Pursuant to Mr. Lyle's stock award agreements, in the event of termination as a result of death or disability, unvested awards will become fully vested.

Everett Wiggins

As Mr. Wiggins does not have an employment agreement, he is a participant under our Severance and Change in Control Plan. Under the Severance and Change in Control Plan, if his employment is terminated without cause, either more than 30 days prior to a change in control or more than 24 months after a change in control, he is entitled to a payment of 6 months of base salary and target bonus, a payment of prorated annual incentive bonus based on actual performance, and 12 months of health benefits. Upon a termination of employment without cause or a resignation for good reason in connection with a change in control, he is entitled to a lump sum payment equal to one year of base salary and target bonus, a payment of prorated annual incentive bonus paid at target achievement, if any, for the year of termination, and 12 months of health benefits. In addition, pursuant to Mr. Wiggins's stock award agreements, in the event of termination of employment as a result of death or disability, unvested awards will become fully vested.

Compensation of Directors

For the fiscal year ended December 31, 2018, non-employee directors of the Company earned compensation for services provided as a director in the form of cash and equity compensation. For services in 2018, each board member earned an annual cash retainer of $50,000. In addition, the chairperson of the Board and each of the chairpersons of the committees of the Board earned additional annual cash compensation as follows: $45,000 to the Chairperson of the Board; $15,000 to the Chairperson of the Audit Committee, $15,000 to the Chairperson of the Strategic Alliance Committee, $12,000 to the Chairperson of the Compensation Committee; and $10,000 to the Chairperson of the Governance and Nominating Committee. Further, each member of the committees of the Board, who does not also serve as the chairperson of a committee, earned the following annual cash compensation: $6,000 to each member of the Audit Committee, Strategic Alliance Committee and Compensation Committee; and $5,000 to each member of the Governance and Nominating Committee.

In addition to the cash compensation described above, each Board member receives annual compensation in the form of equity awards. Annual equity awards granted to our non-employee directors consist of a mix of RSUs and stock options. As a result, for 2018, each non-employee director received a RSU award under the 2013 Omnibus Equity Incentive Plan covering a number of shares of our common stock determined by dividing $85,000 by the closing market price of our common stock on the date of grant, rounded down to the nearest whole share, as well as 5,000 stock options with an exercise price equal to the closing market price of our common stock on the date of grant. Additionally, in 2018, each non-employee director's RSU award was increased by a number of shares of our common stock determined by dividing $21,250 by the closing market price of our common stock on the date of grant to compensate for a three-month shift in the timing of non-employee director grants to coincide with the Company's annual meeting. These awards vest on the earlier of the first anniversary of the date of grant or the Company's 2019 annual meeting, or, if sooner, upon a change in control of the Company.

In addition to the annual RSU and stock option awards described above, directors are eligible to receive additional equity-based awards under our equity incentive plan at the time of their election or appointment, or on a discretionary basis from time to time as determined by the Compensation Committee. In accordance with the 2013 Omnibus Equity

Incentive Plan, directors are limited to stock awards with an aggregate grant date fair value of $300,000 in any calendar year, except that a director may receive stock awards with an aggregate grant date fair value of $400,000 in the calendar year in which he or she is initially appointed to the Board.

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. This program was implemented with the intention of further aligning the interests of directors with those of shareholders by enabling non-employee directors a vehicle to increase their equity stake by receiving payment in the form of equity instead of cash. With the program fully implemented prior to the beginning of the calendar year, all non-employee directors made elections for 2018 compensation for the entirety of the calendar year.

The following table sets forth all of the compensation awarded to, earned by, or paid to each person who served as a director during fiscal year 2018, other than our chief executive officer who did not receive any compensation for services as a director.

Name	Fees Earned or Paid in Cash ($)		Stock Awards [7] ($)	Total ($)
Richard Bergman	67,993	[1]	119,995	187,988
Steven Bilodeau	117,000	[2]	119,995	236,995
Jörg Buchheim	55,991	[3]	119,995	175,986
Burkhard Goeschel, Ph.D.	69,996	[4]	119,995	189,991
Ilya Golubovich	66,992	[5]	119,995	186,987
John Mutch	71,000	[6]	119,995	190,995

(1) Mr. Bergman is the Chairperson of the Compensation Committee and a member of the Audit Committee. Pursuant to Mr. Bergman's election to receive payment of director's fees in fully vested restricted stock units, $67,993 of director's fees were settled with 19,218 shares of fully vested restricted stock units.

(2) Mr. Bilodeau is the Chairperson of the Board and the Chairperson of the Governance and Nominating Committee. He is also a member of the Audit Committee and Compensation Committee.

(3) Mr. Buchheim is a member of the Strategic Alliance Committee. Pursuant to Mr. Buchheim's election to receive payment of his 2018 director's fees in fully vested restricted stock units, $55,991 of director's fees were settled with 15,826 shares of fully vested restricted stock units.

(4) Dr. Goeschel is the Chairperson of the Strategic Alliance Committee and a member of the Governance and Nominating Committee. Pursuant to Dr. Goeschel's election to receive payment of his 2018 director's fees in fully vested restricted stock units, $69,996 of director's fees were settled with 19,784 shares of fully vested restricted stock units.

(5) Mr. Golubovich is a member of the Compensation Committee, Strategic Alliance Committee and Governance and Nominating Committee. Pursuant to Mr. Golubovich's election to receive payment of his 2018 director's fees in fully vested restricted stock units, $66,992 of director's fees were settled with 18,935 shares of fully vested restricted stock units.

(6) Mr. Mutch is the Chairperson of the Audit Committee and a member of the Strategic Alliance Committee.

(7) The amounts in this column represent the grant date fair value of equity awards granted during the year ended December 31, 2018. The amounts for each director consist of 19,785 restricted stock units and 5,000 stock options granted to each of the directors on May 15, 2018 with grant date fair values of $106,245 and $13,750, respectively, per director. The assumptions used to compute the grant date fair value of the stock awards are set forth in Note 10 of this Form 10-K. As of December 31, 2018, each director held 19,785 unvested restricted stock units and 5,000 unvested stock options.

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SECURITIES RESERVED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information regarding outstanding options and shares reserved for future issuance under our equity compensation plans as of December 31, 2018.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights		Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights [2]	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in the First Column)	
Equity compensation plans approved by security holders	4,101,365	(1)	$ 7.86	3,525,794	(3)
Equity compensation plans not approved by security holders	46,549	(4)	6.03	—	
Total	4,147,914		$ 7.69	3,525,794	

(1) Includes 322,571 stock options and 3,778,794 restricted stock units outstanding, at maximum.

(2) Calculated without taking into account the 3,791,797 shares of common stock subject to outstanding RSUs, at maximum, that become issuable as those units vest, without any cash consideration or other payment required for such shares.

(3) Includes 458,065 shares available for future issuance under the 2004 Employee Stock Purchase Plan and 3,067,729 shares available for future issuance under the 2013 Omnibus Equity Incentive Plan.

(4) Includes 33,546 stock options and 13,003 restricted stock units granted to Mr. Lyle as a material inducement for commencement of employment with Maxwell. The terms and conditions of such awards are substantially similar to those for stock options and restricted stock units granted under the 2013 Omnibus Equity Incentive Plan.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information with respect to the beneficial ownership of our common stock by (i) each person (or group of affiliated persons) known by the Company to beneficially own more than five percent of the outstanding shares of common stock; (ii) each director of the Company; (iii) each of the named executive officers, which includes our Chief Executive Officer, our Chief Financial Officer and our Vice President of Operations; and (iv) all current directors and executive officers of the Company as a group. Information for the officers and directors is as of February 8, 2019. The address for each individual is 3888 Calle Fortunada, San Diego, California 92123.

Name and Address of 5% or Greater Beneficial Ownership	Beneficial Ownership Number of Shares [1]		Percentage of Total [2]	
BlackRock Inc. 55 East 52nd Street, New York, NY 10055	2,448,336	(3)	5.32	%

Beneficial Ownership of Directors and Officers	Beneficial Ownership Number of Shares [1]		Percentage of Total [2]	
Franz Fink	1,201,045	(4)	2.60	%
David Lyle	249,101	(5)	*	
Everett Wiggins	27,852	(6)	*	
Rick Bergman	77,918	(7)	*	
Steven Bilodeau	51,990	(8)	*	
Jörg Buchheim	539,870	(9)	1.17	%
Burkhard Goeschel, Ph.D.	209,150	(10)	*	

Ilya Golubovich	1,496,891 (11)	3.25	%
John Mutch	20,370 (12)	—	
All current directors and executive officers as a group (10 persons)	3,897,048 (13)	8.41	%

*Less than one percent.

(1) Information with respect to beneficial ownership is based on information furnished to the Company by each stockholder included in the table or filings with the SEC. The Company understands that, except as footnoted, each person in the table has sole voting and investment power for shares beneficially owned by such person, subject to community property laws where applicable.

(2) Shares of common stock subject to options that are currently exercisable or exercisable within 60 days and restricted stock units settling within 60 days of February 8, 2019 are deemed outstanding for computing the percentage of the person holding such options or awards but are not deemed outstanding for computing the percentage of any other person. Percentage of ownership is based on 46,008,549 shares of common stock outstanding on February 8, 2019.

(3) Information regarding this beneficial owner has been obtained solely from a review of the Schedule 13G/A filed with the SEC by BlackRock Inc. on February 6, 2019.

(4) Consists of (a) 1,047,713 shares of common stock held directly; (b) options to purchase 98,167 shares of common stock currently exercisable or exercisable within 60 days of February 8, 2019; and (c) 55,165 restricted stock units settling within 60 days of February 8, 2019.

(5) Consists of (a) 166,441 shares of common stock held directly; (b) options to purchase 25,160 shares of common stock currently exercisable; and (c) 57,500 restricted stock units settling within 60 days of February 8, 2019, which include 40,000 performance-based restricted stock units expected to settle but not yet certified by the Company's compensation committee.

(6) Consists of (a) options to purchase 14,136 shares of common stock currently exercisable or exercisable within 60 days of February 8, 2019; and (b) 13,716 restricted stock units settling within 60 days of February 8, 2019.

(7) Consists of (a) 27,995 shares of common stock held directly; (b) options to purchase 5,000 shares of common stock currently exercisable; and (c) 44,923 vested restricted stock units with deferred settlement.

(8) Consists of (a) 16,569 shares of common stock held directly; (b) options to purchase 5,000 shares of common stock currently exercisable; and (c) 30,421 vested restricted stock units with deferred settlement.

(9) Consists of (a) 534,870 shares of common stock held directly; and (b) options to purchase 5,000 shares of common stock currently exercisable.

(10) Consists of (a) 204,150 shares of common stock held directly; and (b) options to purchase 5,000 shares of common stock currently exercisable.

(11) Consists of (a) 61,500 shares of common stock held directly; (b) 1,390,204 shares of common stock held directly by I2BF Energy Limited, a wholly-owned subsidiary of I2BF Venture Partners, Ltd. of which Mr. Golubovich is a director and exercises investment and dispositive control; (c) options to purchase 5,000 shares of common stock currently exercisable; and (d) 40,187 vested restricted stock units with deferred settlement. Arbat Capital Group Limited ("Arbat") holds 1,947,302 shares of common stock. Mr. Golubovich is also a director of Arbat and a beneficiary of Global Vision Investments Foundation, which owns approximately 90% of the ownership interest in Arbat. Mr. Golubovich disclaims beneficial ownership of the common stock held by Arbat except to the extent of his pecuniary interest therein and such shares are excluded from the calculation of shares held by Mr. Golubovich in the table above.

(12) Consists of (a)15,370 shares of common stock held directly; and (b) options to purchase 5,000 shares of common stock currently exercisable.

(13) Includes (a) 2,086,282 shares of common stock held directly; (b) options to purchase 172,213 shares of common stock which are currently exercisable or are exercisable within 60 days of February 8, 2019; (c) 132,818 restricted stock units settling within 60 days of February 8, 2019; and (c) 115,531 vested restricted stock units with deferred settlement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

In accordance with the Charter of the Audit Committee as approved by the Board of Directors of Maxwell, the Audit Committee shall act on behalf of the Board and review and approve all related party transactions (as defined in Section 404 of Regulation S-K) involving the Company. As part of the acquisition of the core business and operating entities of Nesscap Energy, Inc. in May 2017, Titan Power Solution LLS ("Titan") became a customer of the Company through our subsidiary Nesscap Korea. In May 2018, I2BF Global Ventures ("I2BF), of which Ilya Golubovich is a founding partner and current director, obtained a controlling interest in Titan. Mr. Golubovich is a member of our Board of Directors and I2BF is a beneficial owner of approximately 3.25% of our common stock as of February 8, 2019. During the fiscal year 2018, we received payments in the aggregate amount of approximately $397,000 from Titan related to the purchase of ultracapacitor products of Maxwell, of which payments in the aggregate amount of $282,000 were received by us after I2BF became a controlling owner of Titan in May 2018. The transaction between

Titan and Maxwell is an arms-length transaction and was approved and ratified by our Audit Committee.

Since the beginning of the Company’s last fiscal year, no other related party transactions were approved by the Audit Committee. Other than the compensation arrangements described herein, in the above “Executive Compensation” section and standard indemnification agreements with our directors and officers, there were no related party transactions in which any director, executive officer or a greater than 5% owner of the Company’s stock, or immediate family member of any of them, had or will have a direct or indirect material interest in the Company.

Item 14. Principal Accounting Fees and Services

The following table presents fees for professional services rendered by BDO USA, LLP and the member firms of BDO, (collectively, BDO), for 2018 and 2017 (in thousands):

	2018	2017
Audit fees	$919	$1,031
Audit-related fees	16	10
Tax fees	—	—
All other fees	—	—
Total	$935	$1,041

Audit Fees. Audit fees include fees and related expenses for professional services rendered by our independent accountant for the annual audit of our financial statements and of our internal control over financial reporting, the quarterly review of our financial statements, review of other documents filed with the SEC and audits of certain subsidiaries and business for statutory and regulatory purposes.

Audit-Related Fees. Audit-related fees are fees for assurance and related services performed by BDO that are reasonably related to the performance of the audit or review of our consolidated financial statements. These fees consist primarily of fees for the audit of employee benefit plans.

Tax Fees. We did not engage BDO for professional services in connection with tax advice or tax planning during the fiscal years ended December 31, 2018 and 2017.

All Other Fees. We did not engage BDO for any other professional services for the fiscal years ended December 31, 2018 and 2017.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee pre-approves all audit and permissible non-audit services prior to commencement of services. During fiscal year 2018, all services rendered by BDO were pre-approved by the Audit Committee.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report.

1. Financial Statements. The consolidated financial statements required by this item are submitted in a separate section beginning on page 55 of this Annual Report on Form 10-K.
2. Financial Statement Schedules. The financial statement schedule entitled “Valuation and Qualifying Accounts” required by this item is submitted in a separate section beginning on page 93 of this Annual Report on Form 10-K.
3. Exhibits.

Exhibit Number	Exhibit Title	Filed Herewith	Form	File No.	Date Filed
2.1†**	Share Purchase Agreement, dated December 19, 2018, by and between Maxwell Technologies, Inc. and RN C Holding SA.		8-K	001-15477	12/19/18
2.2**	Agreement and Plan of Merger, dated February 3, 2019, by and between Maxwell Technologies, Inc., Tesla, Inc. and Cambria Acquisition Corp.		8-K	001-15477	02/04/19
3.1	Composite Certificate of Incorporation of Registrant.		10-K	001-15477	02/16/18
3.2	Amended and Restated Bylaws of Registrant.		8-K	001-15477	01/05/16
4.1	Indenture dated as of September 25, 2017 between the Company and the Trustee.		8-K	001-15477	09/26/17
4.2	Form of 5.50% Convertible Senior Note due 2022 (included in Exhibit 4.1).		8-K	001-15477	09/26/17
10.1*	Indemnity Agreement for Directors of Registrant dated December 2003.		10-K	001-15477	03/30/04
10.2*	Registrant’s 2005 Omnibus Equity Incentive Plan, as amended through May 6, 2010.		8-K	001-15477	05/10/10
10.3*	Form of Restricted Stock Unit Award Agreement under the 2005 Omnibus Equity Incentive Plan.		10-Q	001-15477	08/10/09
10.4*	Form of Restricted Stock Agreement for Service-based Awards under the 2005 Omnibus Equity Incentive Plan, as amended through May 6, 2010.		10-K	001-15477	03/10/11
10.5*	Form of Restricted Stock Agreement for Performance-based Awards under the 2005 Omnibus Equity Incentive Plan, as amended through May 6, 2010.		10-K	001-15477	03/10/11
10.6*	Amended and Restated 2004 Employee Stock Purchase Plan of Registrant.		DEF14A	001-15477	06/02/17
10.7*	Registrant’s 2013 Omnibus Equity Incentive Plan.		DEF14A	001-15477	06/02/17
10.8*	Form of Option Agreement under the 2013 Omnibus Incentive Plan.		8-K	001-15477	03/17/15
10.9*	Form of Restricted Stock Unit Agreement under the 2013 Omnibus Equity Incentive Plan.		8-K/A	001-15477	03/23/15
10.10*	Form of Performance Restricted Stock Unit Agreement under the 2013 Omnibus Equity Incentive Plan.		8-K	001-15477	03/17/15
10.11*	Form of Market Stock Unit Award Agreement under the 2013 Omnibus Equity Incentive Plan.		8-K	001-15477	01/19/16
10.12*	Maxwell Technologies, Inc. Incentive Bonus Plan.		8-K	001-15477	01/19/16
10.13*	Maxwell Technologies, Inc. Severance and Change in Control Plan.		8-K	001-15477	01/19/16
10.14*	Employment Agreement between the Registrant and David Lyle, dated May 8, 2015.		8-K	001-15477	05/11/15
10.15*			8-K	001-15477	01/19/16

	Amendment to Employment Agreement between the Registrant and David Lyle, dated January 15, 2016.			
10.16*	Employment Agreement between the Registrant and Franz Fink, dated April 25, 2014.	8-K	001-15477	05/01/14
10.17*	Amendment to Employment Agreement between the Registrant and Franz Fink, dated January 15, 2016.	8-K	001-15477	01/19/16

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Exhibit Number	Exhibit Title	Filed Herewith	Form	File No.	Date Filed
10.18	Loan and Security Agreement between the Registrant and East West Bank, dated July 3, 2015.		8-K	001-15477	07/07/15
10.19	Amendment No. 1 to Loan and Security Agreement between the Registrant and East West Bank, dated April 12, 2016.		8-K	001-15477	04/12/16
10.20	Amendment No. 2 to Loan and Security Agreement between the Registrant and East West Bank, dated July 27, 2016.		10-Q	001-15477	08/03/16
10.21	Amendment No. 3 to Loan and Security Agreement between the Registrant and East West Bank, dated October 31, 2016.		10-Q	001-15477	11/02/16
10.22†	Localization Agreement, dated January 25, 2017, by and between the Company and CRRC Qingdao Sifang Rolling Stock Research Institute Co., Ltd.		10-K	001-15477	03/01/17
10.23	Amendment No. 4 to Loan and Security Agreement between the Registrant and East West Bank, dated March 1, 2017.		10-K	001-15477	03/01/17
10.24	Arrangement Agreement, dated February 28, 2017, between Maxwell Technologies, Inc. and Nesscap Energy, Inc.		8-K	001-15477	02/28/17
10.25	Form of Voting Agreement, dated February 28, 2017, among Maxwell Technologies, Inc., Nesscap Energy, Inc. and each of the shareholders a party thereto.		8-K	001-15477	02/28/17
10.26	Principal Shareholder Agreement, dated February 28, 2017, among Maxwell Technologies, Inc. and I2BF Energy, Limited and Arbat Capital Group Ltd.		8-K	001-15477	02/28/17
10.27	Amending Agreement to the Arrangement Agreement, dated March 21, 2017, between Maxwell Technologies, Inc. and Nesscap Energy, Inc.		10-Q	001-15477	05/10/17
10.28	Form of Non-Employee Director Restricted Stock Unit Deferral Election		10-Q	001-15477	05/10/17
10.29	Form of Non-Employee Director Fee Election		10-Q	001-15477	05/10/17
10.30	Amendment No. 5 to Loan and Security Agreement, dated September 20, 2017, by and among the Company and East West Bank		8-K	001-15477	09/21/17
10.31	Purchase Agreement, dated September 20, 2017, by and between the Company and Barclays Capital, Inc.		8-K	001-15477	09/26/17
10.32	Tender and Support Agreement, dated as of February 3, 2019, by and among Tesla, Inc., Cambria Acquisition Corp. and directors and certain officers of Maxwell Technologies, Inc. and I2BF Energy, Limited.		8-K	001-15477	2/4/2019
10.33	Second Amendment to Amended and Restated Loan and Security Agreement, dated February 14, 2019, by and between Maxwell Technologies, Inc. and East West Bank	X			
21.1	List of Subsidiaries of Registrant	X			
23.1	Consent of Independent Registered Public Accounting Firm	X			
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (Section 302 Certification) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (Section 302 Certification) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
32.2		X			

	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X
101.LAB	XBRL Taxonomy Extension Label Linkbase	X
101.PRE	XBRL Taxonomy Presentation Linkbase	X

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* Management contract or compensatory plan or arrangement of the company required to be filed as an exhibit.

** Certain schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K promulgated by the SEC. Maxwell agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request

† This Exhibit has been filed separately with the Secretary of the Securities and Exchange Commission without redaction pursuant to a Confidential Treatment Request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(b) See the exhibits required by this item under Item 15(a)(3) above.

(c) See the financial statement schedule required by this item under Item 15(a)(2) above.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on this 14th day of February 2019.

MAXWELL TECHNOLOGIES, INC.

By: /S/ FRANZ FINK
Franz Fink
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned hereby constitutes and appoints Franz Fink and David Lyle, jointly and severally, as his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and on his or her behalf to sign, execute and file this Annual Report on Form 10-K and any or all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and any and all documents required to be filed with respect therewith, with the Securities and Exchange Commission or any regulatory authority, granting unto such attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith and about the premises in order to effectuate the same as fully to all intents and purposes as he or she might or could do if personally present, hereby ratifying and confirming all that such attorneys-in-fact and agents, or his or her substitute or substitutes, may lawfully do or cause to be done.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FRANZ FINK Franz Fink	President, Chief Executive Officer and Director (Principal Executive Officer)	February 14, 2019
/s/ DAVID LYLE David Lyle	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 14, 2019
/s/ RICK BERGMAN Rick Bergman	Director	February 14, 2019
/s/ STEVEN BILODEAU Steven Bilodeau	Chairperson of the Board	February 14, 2019
/s/ JÖRG BUCHHEIM Jörg Buchheim	Director	February 14, 2019
/s/ BURKHARD GOESCHEL Burkhard Goeschel	Director	February 14, 2019
/s/ ILYA GOLUBOVICH Ilya Golubovich	Director	February 14, 2019
/s/ JOHN MUTCH John Mutch	Director	February 14, 2019