MAXWELL TECHNOLOGIES INC
Form 10-Q
August 07, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 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 1-15477

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)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO 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 an emerging growth company. See the definitions of "accelerated filer", "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
		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 number of shares of the registrant’s Common Stock outstanding as of August 2, 2018 is 38,154,952 shares.

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For the quarter ended June 30, 2018

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PART I – Financial Information

Item 1. Financial Statements

The following condensed consolidated balance sheet as of December 31, 2017, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements, consisting of the condensed consolidated balance sheet as of June 30, 2018, and the condensed consolidated statements of operations and statements of comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017, and the condensed consolidated statements of cash flows for the six months ended June 30, 2018 and 2017, have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

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

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

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

In addition, operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for any subsequent period or for the year ending December 31, 2018.

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

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$21,547	$ 50,122
Trade and other accounts receivable, net of allowance for doubtful accounts of $26 and $36 as of June 30, 2018 and December 31, 2017, respectively	29,723	31,643
Inventories	41,637	32,228
Prepaid expenses and other current assets	2,911	2,983
Total current assets	95,818	116,976
Property and equipment, net	30,453	28,044
Intangible assets, net	10,617	11,715
Goodwill	35,236	36,061
Pension asset	11,753	11,712
Other non-current assets	840	871
Total assets	$184,717	$ 205,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$27,300	$ 32,758
Accrued employee compensation	6,597	9,070
Deferred revenue and customer deposits	4,342	6,669
Short-term borrowings and current portion of long-term debt	5,033	33
Total current liabilities	43,272	48,530
Deferred tax liability, long-term	8,305	8,762
Long-term debt, excluding current portion	35,997	35,124
Defined benefit plan liability	4,038	3,942
Other long-term liabilities	2,451	2,920
Total liabilities	94,063	99,278
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, $0.10 par value per share, 80,000,000 shares authorized at June 30, 2018 and December 31, 2017; 38,161,009 and 37,199,519 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	3,813	3,717
Additional paid-in capital	344,156	337,541
Accumulated deficit	(267,462)	(247,233)
Accumulated other comprehensive income	10,147	12,076
Total stockholders' equity	90,654	106,101
Total liabilities and stockholders' equity	$184,717	$ 205,379

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$29,464	$37,103	$57,880	$63,789
Cost of revenue	24,036	29,350	46,771	49,928
Gross profit	5,428	7,753	11,109	13,861
Operating expenses:				
Selling, general and administrative	9,787	12,120	19,359	21,712
Research and development	5,549	4,449	11,081	9,155
Restructuring and exit costs	78	—	21	997
Total operating expenses	15,414	16,569	30,461	31,864
Loss from operations	(9,986)	(8,816)	(19,352)	(18,003)
Interest expense, net	1,030	97	2,023	160
Other components of defined benefit plans, net	(211)	(143)	(432)	(298)
Other income	(41)	(52)	(41)	(53)
Foreign currency exchange loss, net	238	18	327	115
Loss before income taxes	(11,002)	(8,736)	(21,229)	(17,927)
Income tax provision (benefit)	300	1,382	(722)	2,590
Net loss	$(11,302)	$(10,118)	$(20,507)	$(20,517)
Net loss per share				
Basic and diluted	$(0.30)	$(0.28)	$(0.54)	$(0.61)
Weighted average common shares outstanding:				
Basic and diluted	38,068	35,526	37,797	33,871

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(11,302)	$(10,118)	$(20,507)	$(20,517)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(3,404)	2,814	(1,967)	4,126
Defined benefit plans, net of tax:				
Amortization of prior service cost, net of tax provision of $5 and $8 for the three months ended June 30, 2018 and 2017, respectively; net of tax provision of $10 and $15 for the six months ended June 30, 2018 and 2017, respectively	19	31	38	60
Other comprehensive income (loss), net of tax	(3,385)	2,845	(1,929)	4,186
Comprehensive loss	$(14,687)	$(7,273)	$(22,436)	$(16,331)

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
OPERATING ACTIVITIES:		
Net loss	$(20,507)	$(20,517)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	4,007	4,407
Amortization of intangible assets	630	202
Non-cash interest expense	891	—
Loss on lease due to restructuring	(86)	—
Pension and defined benefit plan cost	499	277
Stock-based compensation expense	5,371	3,792
Gain on sale of property and equipment	(4)	—
Provision for (recovery of) losses on accounts receivable	(10)	2
Provision for losses on inventory	665	828
Provision for warranties	160	209
Changes in operating assets and liabilities:		
Trade and other accounts receivable	1,945	(6,773)
Inventories	(10,887)	6,057
Prepaid expenses and other assets	66	(599)
Pension asset	(308)	(305)
Accounts payable and accrued liabilities	(4,136)	4,714
Deferred revenue and customer deposits	(1,923)	1,351
Accrued employee compensation	(1,444)	240
Deferred tax liability	(380)	(190)
Defined benefit plan and other long-term liabilities	(550)	(197)
Net cash used in operating activities	(26,001)	(6,502)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,847)	(2,060)
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	(7,839)	(657)
FINANCING ACTIVITIES:		
Principal payments on long-term debt and short-term borrowings	(17)	(17)
Line of credit borrowings	5,000	—
Proceeds from issuance of common stock under equity compensation plans	229	194
Net cash provided by financing activities	5,212	177
Effect of exchange rate changes on cash and cash equivalents	53	804
Decrease in cash and cash equivalents	(28,575)	(6,178)
Cash and cash equivalents, beginning of period	50,122	25,359
Cash and cash equivalents, end of period	$21,547	$19,181

See accompanying notes to condensed consolidated financial statements.

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

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

Note 1 – Description of Business and Basis of Presentation

Description of Business

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

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

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

Basis of Presentation

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

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Reclassifications

In accordance with the Company’s adoption of ASU No. 2017-07, non-service cost expense and income related to defined benefit plans were reclassified to “other components of defined benefit plans, net” for the three and six months ended June 30, 2017. See further information under Recent Accounting Pronouncements below.

“Unrealized loss on foreign currency exchange rates” for the six months ended June 30, 2017 has been reclassified to “trade and other accounts receivable” in the consolidated statements of cash flows, to conform to the current period presentation.

Use of Estimates

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

Goodwill

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

Long-Lived Assets and Intangible Assets

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

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

Warranty Obligation

The Company provides warranties on all product sales for terms ranging from one to eight years. The Company accrues for the estimated warranty costs at the time of sale based on historical warranty experience plus any known or expected changes in warranty exposure. As of June 30, 2018 and December 31, 2017, the accrued warranty liability included in “accounts payable and accrued liabilities” in the condensed consolidated balance sheets was $1.1 million and $1.4 million, respectively.

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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.

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

Liquidity and Going Concern

As of June 30, 2018, the Company had approximately $21.5 million in cash and cash equivalents, and working capital of $52.5 million. In addition, the Company has a revolving line of credit with East West Bank (the "Revolving Line of Credit") providing for a maximum borrowing amount of $25.0 million, subject to a borrowing base limitation, under which borrowings of $5.0 million were outstanding as of June 30, 2018. As of June 30, 2018, the amount available under the Revolving Line of Credit, net of $5.0 million in outstanding borrowings, was $11.6 million. In July 2018, the Company borrowed an additional $10.0 million under the Revolving Line of Credit. This facility is scheduled to expire in May 2021.

The Company has incurred significant operating losses for several years and expects to continue to incur losses and negative cash flows from operations for at least the next 12 months following the issuance of these financial statements. During the six months ended June 30, 2018, the Company's use of cash from operations was $26.0 million. Cash resources inclusive of amounts borrowed under the Revolving Line of Credit are not expected to be sufficient to fund forecasted future negative cash flows from operations and obligations as they become due through one year following the issuance of these financial statements, without additional debt or equity financing. Additionally, absent improvement in the Company's operating results as well as additional debt or equity financing, even after giving effect to the amendment to the Revolving Line of Credit dated August 7, 2018, the Company expects that within one year following the issuance of these financial statements, it may not be in compliance with the financial covenants that it is required to meet during the term of the Revolving Line of Credit agreement, including a minimum two-quarter rolling EBITDA requirement and an ongoing minimum liquidity requirement.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern; however, the above conditions raise substantial doubt about the Company's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects that may result should the Company be unable to continue as a going concern.

Management has assessed the Company's ability to continue as a going concern as of the balance sheet date, and for at least one year following the financial statement issuance date. The assessment of a company's ability to meet its obligations is inherently judgmental. However, the Company has historically been able to successfully secure funding and execute alternative cash management plans to meet its obligations as they become due. The following conditions were considered in management's evaluation of its ability to continue as a going concern:

- The Company's operating plan for the next 12 months from the date of issuance of these financial statements contemplates a significant reduction in its net operating cash outflows as compared to the six months ended June 30, 2018, resulting from (a) a return to normal inventory levels as working capital is converted to cash after the completion of its contract manufacturer transition in the second quarter of 2018 and (b) revenue recovery in the Company's high-voltage product line as delayed infrastructure projects are resumed and uncertainties related to tax reform legislation and tariffs are resolved. However, it is uncertain when and to what degree these recoveries in the business will occur.

- The Company may delay otherwise planned spending on capital investments, research and development and other various activities as necessary to help curb cash outflow until if and when necessary funding is obtained to pursue such activities.

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- The Company has a shelf registration statement which allows it to sell up to an aggregate of $125 million of any combination of its common stock, warrants, debt securities or units. Under this registration statement, the Company may access the capital markets for the three-year period ending November 15, 2020. As of June 30, 2018, no securities have been issued under the Company's shelf registration statement.
- The Company is actively pursuing financing alternatives, including additional equity, debt or other fundraising transactions. No assurance can be given that any future financing or funding transaction will be available or, if available, that it will be on terms that are satisfactory to the Company or that the resources will be received in a timely manner. If we are unable to obtain additional financing on commercially reasonable terms, or at all, our business, financial condition and results of operations will be materially adversely affected, and we may be unable to continue as a going concern. Even if the Company is able to obtain additional financing, it may result in significant debt service costs and restrictions on operations, in the case of debt financing, or cause substantial dilution for stockholders, in the case of equity financing. The Company has engaged a third-party financial advisor to assist management in pursuing financing transactions.

Net Income (Loss) per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator				
Net loss	$(11,302)	$(10,118)	$(20,507)	$(20,517)
Denominator				
Weighted-average common shares outstanding	38,068	35,526	37,797	33,871
Net loss per share				
Basic and diluted	$(0.30)	$(0.28)	$(0.54)	$(0.61)

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

	Three and Six Months Ended June 30,	
	2018	2017
Outstanding options to purchase common stock	357	393
Unvested restricted stock awards	—	30
Unvested restricted stock unit awards	3,294	2,499
Employee stock purchase plan awards	50	—
Bonus and director fees to be paid in stock awards	302	226
Convertible senior notes	7,245	—
	11,248	3,148

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.

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Restructuring and Exit Costs

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

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

Recent Accounting Pronouncements

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

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

In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the statement of operations. The new guidance requires entities to report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the statement of operations separately from the service cost component and outside the subtotal of loss from operations. ASU 2017-07 also provides that only the service cost component is eligible for capitalization. This standard impacts the Company's gross profit and loss from operations but has no impact on net loss or net loss per share. The Company adopted ASU 2017-07 on January 1, 2018, with adoption applied on a retrospective basis. The Company used the practical expedient that permits it to use the amounts previously disclosed in the defined benefit plans note for the prior comparative periods as the basis for applying the retrospective presentation requirements. In connection with this adoption, for the three months ended June 30, 2017, the Company reclassified $74,000, $50,000 and $19,000 of net non-service costs and income from cost of revenue, selling, general and administrative expense and research and development expense, respectively, to "other components of defined benefit plans, net"; for the six months ended June 30, 2017, the Company reclassified $157,000, $102,000 and $39,000 of net non-service costs and income from cost of revenue, selling, general and administrative expense and research and development expense, respectively, to "other components of defined benefit plans, net".

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.

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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.

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.

There have been no other recent accounting standards, or changes in accounting standards, during the six months ended June 30, 2018, as compared with the recent accounting standards described in our Annual Report on Form 10-K, that are of material significance, or have potential material significance, to the Company.

Note 2 – Revenue Recognition

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

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

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

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	$ 31,643	$ 227	$ 31,870
Inventories	32,228	(430)	31,798
Liabilities and Stockholders' Equity:			
Accounts payable and accrued liabilities	32,758	37	32,795
Deferred revenue and customer deposits	6,669	(518)	6,151
Accumulated deficit	(247,233)	278	(246,955)

The impact of adoption on the Company's consolidated balance sheet as of June 30, 2018 and consolidated statement of operations for the three and six months ended June 30, 2018 was not material.

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

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

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

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

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

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

A portion of the Company's revenue is derived from sales to distributors which represented approximately 6% and 7% of revenue for the three and six months ended June 30, 2018, respectively.

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

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

Product Line:	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Energy Storage	$22,705	$45,707
High-Voltage Capacitors	6,759	12,173
Total	$29,464	$57,880

Region:	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Americas	$4,085	$9,903
Asia Pacific	14,717	24,544
Europe	10,662	23,433
Total	$29,464	$57,880

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 June 30, 2018 and December 31, 2017, the Company's contract liabilities primarily relate to cash received under a licensing and services agreement, amounts received in advance from a customer in connection with a specialized services contract for which revenue is recognized over time, and customer advances. Changes in the Company's contract liabilities, which are included in "deferred revenue and customer deposits" in the Company's condensed consolidated balance sheets, are as follows:

	Six Months Ended

	June 30, 2018
Beginning balance as of December 31, 2017	$5,331
Impact of adoption of ASC 606	(518)
Increases due to cash received from customers	1,335
Decreases due to recognition of revenue	(2,623)
Other changes	(200)
Contract liabilities as of June 30, 2018	$3,325

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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 June 30, 2018 in connection with these contracts is $7.6 million. Of this amount, $2.5 million relates to a specialized services contract which is recognized over time and is expected to be completed within one year. The other $5.1 million relates to a licensing and services contract of which $4.4 million relates to the licensing arrangement with revenue to be recognized at a point in time when certain conditions are met which are dependent on the customer, and therefore the timing of recognition cannot currently be estimated, and $0.7 million relates to services which are recognized over time as the services are provided. The licensing and services arrangement also provides for royalties for product sales that use the licensed intellectual property, which will be recognized at the time the related sales occur.

Note 3 – Balance Sheet Details (in thousands)

Inventories

	June 30, 2018	December 31, 2017
Raw materials and purchased parts	$14,989	$ 12,675
Work-in-process	2,490	1,756
Finished goods	24,158	17,797
Total inventories	$41,637	$ 32,228

Warranty

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

	Six Months Ended June 30, 2018	2017
Beginning balance	$1,413	$1,213
Acquired liability from Nesscap	—	773
Product warranties issued	357	270
Settlement of warranties	(445)	(181)
Changes related to preexisting warranties	(197)	(61)
Ending balance	$1,128	$2,014

Accumulated Other Comprehensive Income

	Foreign Currency Translation Adjustment	Defined Benefit Pension Plan	Accumulated Other Comprehensive Income	Affected Line Items in the Statement of Operations
Balance as of December 31, 2017	$ 12,957	$ (881)	$ 12,076	
Other comprehensive income before reclassification	(1,967)	—	(1,967)	
Amounts reclassified from accumulated other comprehensive income	—	38	38	Cost of Sales, Selling, General and Administrative and Research and Development Expense
Net other comprehensive income for the six months ended June 30, 2018	(1,967)	38	(1,929)	
Balance as of June 30, 2018	$ 10,990	$ (843)	$ 10,147	

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Note 4 – Business Combination

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

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

The Nesscap Acquisition adds scale to the Company’s operations and expands the Company’s portfolio of 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 Company has allocated goodwill to a new reporting unit. 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 three and six months ended June 30, 2017, acquisition-related costs of $1.5 million and $1.8 million, respectively, were included in selling, general, and administrative expenses in the Company's condensed consolidated statements of operations.

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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

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 three and six months ended June 30, 2017 as if the Nesscap Acquisition had occurred at the beginning of fiscal year 2016 (in thousands, except per share amounts):

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Net revenues	$38,096	$69,948
Net loss	(9,346)	(20,487)
Net loss per share:		
Basic and diluted	(0.25)	(0.56)
Weighted average common shares outstanding:		
Basic and diluted	36,757	36,511

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

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

The pro forma data is presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of fiscal year 2016 or of the results of future operations of the combined business. The unaudited pro forma financial information does not reflect any operating efficiencies and cost saving that may be realized from the integration of the acquisition. Also see Note 5, Goodwill and Intangible Assets, for further information on goodwill and intangible assets related to the Nesscap Acquisition.

Note 5 – Goodwill and Intangible Assets

The change in the carrying amount of goodwill from December 31, 2017 to June 30, 2018 was as follows (in thousands):

Balance as of December 31, 2017	$36,061
Foreign currency translation adjustments	(825)
Balance as of June 30, 2018	$35,236

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

	As of June 30, 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	$ 60	$ (273)	$ 2,987
Customer relationships - non-institutional	10	4,400	79	(531)	3,948
Trademarks and trade names	10	1,500	27	(181)	1,346
Developed technology	8	2,700	47	(411)	2,336
Total intangible assets		$ 11,800	$ 213	$ (1,396)	$ 10,617

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

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

For the three and six months ended June 30, 2018, amortization expense of $93,000 and $186,000, respectively, was recorded to "cost of revenue" and $0.2 million and $0.4 million, respectively, was recorded to "selling, general and administrative." For the three and six months ended June 30, 2017, amortization expense of $60,000 was recorded to "cost of revenue" and $142,000 was recorded to "selling, general and administrative." Estimated amortization expense for the remainder of 2018 is $0.6 million. Estimated amortization expense for the years 2019 through 2022 is $1.2 million each year. The expected amortization expense is an estimate and actual amounts could differ due to additional intangible asset acquisitions, changes in foreign currency rates or impairment of intangible assets.

Note 6 – Restructuring and Exit Costs

2017 Restructuring Plans

In September 2017, the Company initiated a restructuring plan to optimize headcount in connection with the acquisition and integration of the assets and business of Nesscap, as well as to implement additional organizational efficiencies. Total charges for the September 2017 restructuring plan were approximately $1.2 million, and were primarily incurred in 2017. Total net charges for the six months ended June 30, 2018 for the September 2017 restructuring plan were $(65,000), which represented restructuring charges of $45,000 adjusted for reversals of expense of $110,000.

In February 2017, the Company implemented a comprehensive restructuring plan that included a wide range of organizational efficiency initiatives and other cost reduction opportunities. Total charges for the restructuring plan were approximately $0.9 million; the plan was completed in the third quarter of 2017. For the six months ended June 30, 2017, the Company recorded $1.0 million of restructuring charges for the February 2017 restructuring plan. No restructuring charges for the February 2017 plan were incurred during the three months ended June 30, 2017. Cash payments for the three and six months ended June 30, 2017 for the February 2017 restructuring plan were approximately $0.3 million and $0.6 million, respectively.

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

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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 six months ended June 30, 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	—	(689)
Accruals released	—	(110)
Restructuring liability as of June 30, 2018	$ —	$ 63

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 second quarter of 2018, the Company recognized additional facilities costs of $0.1 million as restructuring charges to record adjustments to the lease liability and sublease income assumptions included in the estimated future rent obligation of this leased space. In the third quarter of 2017, the Company recognized additional facilities costs of $0.2 million as restructuring charges to record an adjustment to the sublease income assumption included in the estimated future rent obligation of this leased space. The Company has recorded a liability for the future rent obligation associated with this space, net of estimated sublease income, in accordance with ASC Topic 420. As of June 30, 2018 and December 31, 2017, lease obligation liabilities related to this leased space of $0.6 million and $0.7 million, respectively, were included in “accounts payable and accrued liabilities” and “other long term liabilities” in the condensed consolidated balance sheets.

Note 7 – Debt and Credit Facilities

Convertible Senior Notes

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

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

The Notes are convertible into cash, shares of the Company’s common stock, or a combination thereof, at the Company’s election, upon the satisfaction of specified conditions and during certain periods as described below. The initial conversion rate is 157.5101 shares of the Company’s common stock per $1,000 principal amount of Notes, representing an initial effective conversion price of $6.35 per share of common stock and premiums of 27% and 29% to the Company’s $5.00 and $4.94 stock prices at the September 25, 2017 and October 11, 2017 dates of issuance, respectively. The conversion rate may be subject to adjustment upon the occurrence of certain specified events as provided in the indenture governing the Notes, dated September 25, 2017 between the Company and Wilmington Trust, National Association, as trustee (the “Indenture”), but will not be adjusted for accrued but unpaid interest. As of June 30, 2018, the if-converted value of the Notes did not exceed the principal value of the Notes.

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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%.

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

	June 30, 2018	December 31, 2017
Principal amount	$46,000	$ 46,000
Unamortized debt discount - equity component	(7,481)	(8,144)
Unamortized debt discount - initial purchaser	(2,234)	(2,431)
Unamortized transaction costs	(352)	(383)
Net carrying value	$35,933	$ 35,042

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

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018

Cash interest expense		
Coupon interest expense	$ 632	$ 1,265
Non-cash interest expense		
Amortization of debt discount - equity component	335	662
Amortization of debt discount - initial purchaser	101	198
Amortization of transaction costs	16	31
Total interest expense	$ 1,084	$ 2,156

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Revolving Line of Credit

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

As of June 30, 2018, the amount available under the Revolving Line of Credit, net of borrowings, was $11.6 million.

In general, amounts borrowed under the Revolving Line of Credit are secured by a lien on all of the Company’s assets, including its intellectual property, as well as a pledge of 100% of its equity interests in the Company’s Swiss subsidiary and a pledge of 65% of its equity interests in the Company’s Korean subsidiary. The obligations under the Loan Agreement are also guaranteed directly by the Company’s Swiss and Korean subsidiaries. In the event that the Company is in violation of the representations, warranties and covenants made in the Loan Agreement, including certain financial covenants set forth therein, the Company may not be able to utilize the Revolving Line of Credit or repayment of amounts owed pursuant to the Loan Agreement could be accelerated. As of June 30, 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 a Prime Rate plus a margin ranging from 0% to 0.50% or the LIBOR Rate plus a margin ranging from 2.75% to 3.25%, the specific rate for each as determined based upon the Company’s leverage ratio from time to time.

The Company is required to pay an annual commitment fee equal to $125,000, and an unused commitment fee of the average daily unused amount of the Revolving Line of Credit, payable monthly, equal to a per annum rate in a range of 0.30% to 0.50%, as determined by the Company’s leverage ratio on the last day of the previous fiscal quarter.

Borrowings under the Revolving Line of Credit were $5.0 million and $0 as of June 30, 2018 and December 31, 2017, respectively. The interest rate on the Revolving Line of Credit as of June 30, 2018 was 5.00%. In July 2018, the Company borrowed an additional $10.0 million under the Revolving Line of Credit. On August 7, 2018, the Company entered into an amendment to the Loan Agreement to amend certain financial covenants.

Other Long-term Borrowings

The Company has various financing agreements for vehicles. These agreements are for up to an original three-year repayment period with interest rates ranging from 0.9% to 1.9%. At June 30, 2018 and December 31, 2017, $97,000 and $115,000, respectively, was outstanding under these financing agreements.

Note 8 – Fair Value Measurements

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

Fair Value of Assets

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

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

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

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

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As of June 30, 2018 and December 31, 2017, the fair value of the Company's convertible senior notes issued in September and October 2017 was approximately $48.8 million and $52.6 million, respectively, and was measured using Level 2 inputs. The carrying value of other short-term and long-term borrowings approximates fair value because of the relative short maturity of these instruments and the interest rates the Company could currently obtain.

Note 9 – Stock Plans

The Company has two active stock-based compensation plans as of June 30, 2018: the 2004 Employee Stock Purchase Plan and the 2013 Omnibus Equity Incentive Plan under which incentive stock options, non-qualified stock options, restricted stock awards and restricted stock units can be granted to employees and non-employee directors.

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

Stock Options

Stock options are granted to certain employees from time to time on a discretionary basis. Beginning in 2017, non-employee directors receive annual stock option awards as part of their annual retainer compensation. During the three and six months ended June 30, 2018, 30,000 stock options were granted with a weighted average grant date fair value per share of $2.75. During the three and six months ended June 30, 2017, 45,000 stock options were granted with a weighted average grant date fair value per share of $2.95. Compensation expense recognized for stock options for the three months ended June 30, 2018 and 2017 was $68,000 and $57,000, respectively. Compensation expense recognized for stock options for the six months ended June 30, 2018 and 2017 was $140,000 and $107,000, respectively.

The fair value of the stock options granted was estimated using the Black-Scholes valuation model with the following assumptions:

	Three and Six Months Ended June 30,	
	2018	2017
Expected dividend yield	— %	— %
Expected volatility	54 %	59 %
Risk-free interest rate	2.95%	1.87%
Expected term (in years)	5.5	5.5

Restricted Stock Awards

Beginning in 2014, the Company ceased granting restricted stock awards ("RSAs") and began granting restricted stock units ("RSUs") to employees as part of its annual equity incentive award program, therefore, no restricted stock awards were issued during the three and six months ended June 30, 2018 and 2017. During the three months ended June 30, 2018 and 2017, compensation expense recognized for RSAs was $23,000 and $0.1 million, respectively. During the six months ended June 30, 2018 and 2017, compensation expense recognized for RSAs was $83,000 and $0.2 million, respectively.

Restricted Stock Units

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

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For the three and six months ended June 30, 2018 and 2017, PSUs granted included market-condition restricted stock units. The market-condition PSUs will vest based on the level of the Company's stock price performance against a determined market index over one, two and three-year performance periods. The market-condition PSUs have the potential to vest between 0% and 200% depending on the Company's stock price performance and the recipients must remain employed through the end of each performance period in order to vest. The fair value of the market-condition PSUs granted was calculated using a Monte Carlo valuation model with the following assumptions:

	Three and Six Months Ended June 30,	
	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

For the three and six months ended June 30, 2018 and 2017, RSU grants were composed of the following:

	Three Months Ended June 30,			
	2018		2017	
	Shares granted (in thousands)	Average grant date fair value	Shares granted (in thousands)	Average grant date fair value
Service-based	180	$ 5.43	255	$ 5.73
Performance objectives	—	n/a	158	5.73
Market-condition	20	6.56	31	7.89
Total RSUs granted	200	5.54	444	5.88

	Six Months Ended June 30,			
	2018		2017	
	Shares granted (in thousands)	Average grant date fair value	Shares granted (in thousands)	Average grant date fair value
Service-based	1,101	$ 5.72	922	$ 5.52
Performance objectives	78	5.85	158	5.73
Market-condition	355	7.49	334	7.27
Total RSUs granted	1,534	6.14	1,414	5.96

The following table summarizes the amount of compensation expense recognized for RSUs for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
RSU Type	2018	2017	2018	2017
Service-based	$1,102	$669	$2,186	$1,337
Performance objectives	168	164	288	170
Market-condition	589	403	887	595
	$1,859	$1,236	$3,361	$2,102

Employee Stock Purchase Plan

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

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Compensation expense recognized for the ESPP for the three months ended June 30, 2018 and 2017 was $50,000 and $20,000, respectively. Compensation expense recognized for the ESPP for the six months ended June 30, 2018 and 2017 was $79,000 and $53,000, respectively. The fair value of the ESPP shares was estimated using the Black-Scholes valuation model for a call and a put option with the following weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Expected dividend yield	— %	— %	— %	— %
Expected volatility	40 %	29 %	42 %	29 %
Risk-free interest rate	1.74 %	0.62 %	1.57 %	0.62 %
Expected term (in years)	0.50	0.50	0.50	0.50
Fair value per share	$1.34	$1.19	$1.32	$1.19

Bonuses Settled in Stock

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

The Company recorded $0.7 million and $0.8 million of stock compensation expense related to the bonus plan during the three months ended June 30, 2018 and 2017, respectively. The Company recorded $1.5 million and $1.3 million of stock compensation expense related to the bonus plan during the six months ended June 30, 2018 and 2017, respectively.

Director Fees Settled in Stock

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

The Company recorded $65,000 and $72,000 of stock compensation expense related to director fees to be settled in stock during the three months ended June 30, 2018 and 2017, respectively. The Company recorded $174,000 and $72,000 of stock compensation expense related to director fees to be settled in stock during the six months ended June 30, 2018 and 2017, respectively. During the six months ended June 30, 2018, the Company granted 46,923 fully vested RSU in lieu of $268,000 of director fees.

Stock-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of revenue	$338	$257	$684	$450
Selling, general and administrative	1,996	1,596	3,830	2,665

Research and development	413	401	857	677
Total stock-based compensation expense	$2,747	$2,254	$5,371	$3,792

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Note 10—Shelf Registration Statement

On November 9, 2017, the Company filed a shelf registration statement on Form S-3 with the SEC to, from time to time, sell up to an aggregate of $125 million of any combination of its common stock, warrants, debt securities or units. On November 16, 2017, the registration statement was declared effective by the SEC, which will allow the Company to access the capital markets for the three-year period following this effective date. As of June 30, 2018, no securities have been issued under the Company’s shelf registration statement. Net proceeds, terms and pricing of each offering of securities issued under the shelf registration statement will be determined at the time of such offerings.

Note 11—Income Taxes

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

The Company recorded an income tax provision of $0.3 million and $1.4 million for the three months ended June 30, 2018 and 2017, respectively. The Company recorded an income tax benefit of $0.7 million and an income tax provision of $2.6 million for the six months ended June 30, 2018 and 2017, respectively. The Company’s income taxes are primarily related to taxes on income generated by the Company’s Swiss subsidiary. During the first quarter of 2018, the Company recognized the impact of a tax holiday granted by the Swiss government for taxes on income generated by the Company’s Swiss subsidiary, which was retroactive to the beginning of 2017. The provision in 2017 is primarily related to taxes on income generated by the Company’s Swiss subsidiary, for which the full statutory tax rate applied.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act. The legislation significantly changes U.S. tax law by, among other things, reducing the US federal corporate tax rate from 35% to 21%, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Pursuant to ASU No. 2018-05, given the amount and complexity of the changes in the tax law resulting from the tax legislation, the Company has not finalized the accounting for the income tax effects of the tax legislation. This includes the provisional amounts recorded related to the transition tax and the remeasurement of deferred taxes. The impact of the tax legislation may differ from this estimate, during the one-year measurement period due to, among other things, further refinement of the Company’s calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the tax legislation. The Company is still analyzing certain aspects of the Act and refining its calculations, which could potentially affect the analysis of the Company’s deferred tax assets and liabilities and its historical foreign earnings and profits as well as potential correlative adjustments. Any subsequent adjustment is expected to be offset by a change in valuation allowance and have no impact on the Company’s financial position or results of operations.

As of June 30, 2018, the Company has a cumulative valuation allowance recorded offsetting its worldwide net deferred tax assets of $61.4 million, of which the significant majority represents the valuation allowance on its U.S. net deferred tax asset. The Company has established a valuation allowance against its U.S. federal and state deferred tax assets due to the uncertainty surrounding the realization of such assets. Management periodically evaluates the recoverability of the deferred tax assets and at such time as it is determined that it is more likely than not that U.S. deferred tax assets are realizable, the valuation allowance will be reduced accordingly. Any such release would result in recording a tax benefit that would increase net income in the period the valuation is released.

During the six months ended June 30, 2018, the Company reduced its net deferred tax liabilities by $0.4 million to record the impact of the new tax holiday granted by the Swiss government.

The Company records taxes on the undistributed earnings of foreign subsidiaries unless the subsidiaries’ earnings are considered indefinitely reinvested outside of the U.S. As of June 30, 2018, the Company has recorded a $4.9 million deferred tax liability for Swiss withholding taxes associated with $97.6 million of undistributed earnings of its Swiss subsidiary that are no longer considered indefinitely reinvested. Pursuant to discussions with tax authorities, the Company intends to repatriate $10.0 million in Swiss accumulated earnings each year for approximately the next 8 years in order to reduce outstanding amounts owed to its Swiss subsidiary; the Company intends to declare each annual amount as a dividend and pay a 5% withholding tax at the time such dividends are declared.

Note 12 – Defined Benefit Plans

Maxwell SA Pension Plan

Maxwell SA has a retirement plan that is classified as a defined benefit pension plan. The employee pension benefit is based on compensation, length of service and credited investment earnings. The plan guarantees both a minimum rate of return as well as minimum annuity purchase rates. The Company's funding policy with respect to the pension plan is to contribute the amount required by Swiss law, using the required percentage applied to the employee's compensation. In addition, participating employees are required to contribute to the pension plan. This plan has a measurement date of December 31.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Service cost	$309	$245	$630	$486
Cost recognized as a component of compensation cost	309	245	630	486
Interest cost	58	57	118	114
Expected return on plan assets	(322)	(252)	(656)	(499)
Prior service cost amortization	24	39	48	75
Net cost recognized in other components of defined benefit plans, net	(240)	(156)	(490)	(310)
Net pension cost	$69	$89	$140	$176

Employer contributions of $149,000 and $150,000 were paid during the three months ended June 30, 2018 and 2017, respectively. Employer contributions of $308,000 and $305,000 were paid during the six months ended June 30, 2018 and 2017, respectively. Additional employer contributions of approximately $247,000 are expected to be paid during the remainder of fiscal 2018.

Korea Defined Benefit Plan

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Service cost	$150	$88	$301	$88
Cost recognized as a component of compensation cost	150	88	301	88
Interest cost	29	13	58	13
Cost recognized in other components of defined benefit plans, net	29	13	58	13
Net cost	$179	$101	$359	$101

Employer contributions of $2,000 and $1,000 were paid during the three months ended June 30, 2018 and 2017, respectively. Employer contributions of $4,000 and $1,000 were paid during the six months ended June 30, 2018 and 2017, respectively. Additional employer contributions of approximately $3,000 are expected to be paid during the remainder of fiscal 2018.

Note 13 – Legal Proceedings

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

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FCPA Matter

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

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

Swiss Bribery Matter

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

Government Investigations

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

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

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

FORWARD-LOOKING STATEMENTS

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

- our intentions, beliefs and expectations regarding our expenses, cost savings, sales, operations and future financial performance;
- our operating results;
- our ability to manage cash flows to enable the business to continue as a going concern;
- 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.

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

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

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Overview

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

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

Executive Overview

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

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

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

We also seek to maintain and expand market share and revenue for our high-voltage capacitors. Evolving market trends in the global high-voltage market, particularly in the United States, China, and India, where we believe projects to increase the availability of electrical energy as well as infrastructure modernization and renovation may continue to increase demand for our high-voltage products and solutions in the years to come. In the first half of 2018, we substantially completed an expansion of capacity at our existing high-voltage capacitor production facility in Rossens, Switzerland in order to meet projected demand and increase our revenue potential.

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 $1.2 million, primarily related to cash expenditures associated with employee severances. We expect to realize annual cost savings between $0.7 million and $1.0 million as a result of this additional restructuring plan.

In the second quarter of 2018, revenue was $29.5 million, representing an overall decrease of 21% compared with $37.1 million in the same period one year ago. This decrease was primarily related to significantly lower revenue for our high-voltage product line as well as slightly lower revenue for our energy storage product line. Revenue for our high-voltage capacitor product line was $6.8 million for the second quarter of 2018, representing a decrease of 44% compared with $12.0 million for the same period in the prior year. This decrease was due to delays in Chinese infrastructure projects as well as uncertainties related to tax reform legislation and potential increases in tariffs. Energy storage product line revenue decreased by $2.4 million, or 9%, to $22.7 million from $25.1 million. The decrease in energy storage product revenue was primarily related to a decrease in wind revenue due to competitive pressure in China as well as lower sales in Europe, and a decline in China hybrid transit bus revenue due to changes in government policies and subsidy programs. The decreases in energy storage revenue were partially offset by revenue increases in auto, grid and other markets.

Overall gross margin during the quarter decreased to 18% compared with 21% in the second quarter of 2017, primarily associated with a change in product mix as the second quarter of 2018 included lower sales of higher margin high-voltage products. Operating expenses in the second quarter of 2018 increased to 52% of revenue, compared with 44% of revenue in the same period one year ago, primarily attributable to lower revenue.

As of June 30, 2018, we had cash and cash equivalents of $21.5 million, and working capital of $52.5 million. In addition, the Company has a revolving line of credit providing for a maximum borrowing amount of $25.0 million, subject to a borrowing base limitation, under which borrowings of $15.0 million are outstanding as of the date of this report. This facility is scheduled to expire in May 2021. We are actively pursuing financing alternatives to fund our investment plans as well as forecasted negative cash flow from operations 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. Specifically, we will need to raise additional capital in order to fund key investments associated with our business plans and to cover near-term forecasted negative cash flows from operations. Obtaining such financing in an amount and on terms that are reasonable to us is critical to our success. Further, a significant challenge we face is our ability to manage dependence on a small number of vertical markets and geographic regions, including some that are driven by government policies and subsidy programs. The markets may decline or experience slower rates of growth when there are changes or delays in government policies and subsidy programs. Specifically, the Chinese hybrid transit bus and wind energy markets are heavily dependent on government regulation and subsidy programs. Demand for our ultracapacitors in the China hybrid bus market significantly decreased due to changes in the government subsidy program as well as a requirement to localize product manufacturing. To reduce our dependency on China government influences, we established a localized manufacturing partnership with CRRC-SRI, and we are positioned to support customer demand for any opportunities that may meet our return requirement.

Another significant challenge we face for our ultracapacitors relates to pricing expectations and competition in certain markets, such as auto and wind, which places significant pressure on our pricing and margins for our products, and we are continually 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. Accordingly, we performed a very thorough analysis of the current market landscape and decided to very selectively target opportunities in this market in the short-term.

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

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Current Year Highlights

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

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

Results of Operations

Comparison of Three and Six Months Ended June 30, 2018 and 2017

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	82 %	79 %	81 %	78 %
Gross profit	18 %	21 %	19 %	22 %
Operating expenses:				
Selling, general and administrative	33 %	32 %	33 %	34 %
Research and development	19 %	12 %	19 %	14 %
Restructuring and exit costs	— %	— %	— %	2 %
Total operating expenses	52 %	44 %	52 %	50 %
Loss from operations	(34)%	(23)%	(33)%	(28)%
Other components of defined benefit plans, net	(1)%	— %	(1)%	— %
Interest expense, net	3 %	— %	3 %	— %
Foreign currency exchange loss, net	1 %	— %	1 %	— %
Loss before income taxes	(37)%	(23)%	(36)%	(28)%
Income tax provision (benefit)	1 %	4 %	(1)%	4 %
Net loss	(38)%	(27)%	(35)%	(32)%

Net loss reported for the second quarter of 2018 was $11.3 million, or $0.30 per share, compared with net loss of $10.1 million, or $0.28 per share, in the same period one year ago. The $1.2 million increase in net loss was primarily composed of the following:

- a $2.3 million decline in gross profit primarily related to a change in product mix which included significantly lower sales of higher margin high voltage products in the first half of 2018;
- a $0.9 million increase in interest expense mainly related to our convertible senior notes issued in September and October 2017;
- a decrease of $1.5 million in expense due to acquisition related expenses in the second quarter of 2017;
-

a $1.1 million decrease in taxes due to a tax holiday rate for our Swiss subsidiary in 2018, which was not in effect for 2017, as well as lower taxable revenue for our Swiss subsidiary; and

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

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Net loss reported for the six months ended June 30, 2018 was $20.5 million, or $0.54 per share, compared with a net loss of $20.5 million, or $0.61 per share, in the same period one year ago. Significant components of net loss differing between the periods include the following:

- a $2.8 million decline in gross profit primarily associated with a change in product mix which included significantly lower sales of higher margin high voltage products in the first half of 2018, as well as higher amortization of intangibles related to the Nesscap Acquisition;
- a $1.9 million increase in interest expense mostly related to our convertible senior notes issued in September and October 2017;
- a $1.6 million increase in stock compensation expense due to differences in expected performance under our bonus plan, a change in award mix to include market-condition RSUs which have a higher expense, increased utilization of performance based awards, new executive hires and lower termination rates, and the payment of a portion of our board of director fees with fully vested RSUs in lieu of cash;
- a $3.3 million decrease in taxes due to the recognition of a tax holiday for our Swiss subsidiary in the first quarter of 2018, which was retroactively effective to the beginning of 2017, as well as lower taxable revenue for our Swiss subsidiary;
- a decrease of $1.8 million due to acquisition related expenses in the first half of 2017;
- a decrease of $1.0 million in restructuring expense primarily as a result of our February 2017 restructuring plan implemented in the first quarter of 2017; and
- decreases in operating expense associated with our restructuring and ongoing cost reduction efforts.

Revenue and Gross Profit

The following table presents a comparison of revenue, cost of revenue and gross profit for the three and six months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Revenue	$29,464	$37,103	$ (7,639)	(21)%	$57,880	$63,789	$ (5,909)	(9)%
Cost of revenue	24,036	29,350	(5,314)	(18)%	46,771	49,928	(3,157)	(6)%
% of Revenue	82 %	79 %			81 %	78 %		
Gross profit	$5,428	$7,753	$ (2,325)	(30)%	$11,109	$13,861	$ (2,752)	(20)%
% of Revenue	18 %	21 %			19 %	22 %		

Revenue. During the second quarter of 2018, revenue decreased 21% to $29.5 million, compared with $37.1 million in the same period one year ago. This decrease was primarily related to lower revenue for our high-voltage product line as well as slightly lower revenue for our energy storage product line. Revenue for our high-voltage products decreased by $5.3 million, or 44%, to $6.8 million for the second quarter of 2018, compared with $12.0 million for the same period one year ago. This decrease was due to delays in Chinese infrastructure projects as well as uncertainties related to tax reform legislation and tariffs. Energy storage product line revenue decreased by $2.4 million, or 9%, to $22.7 million from $25.1 million. The decrease in energy storage product revenue was primarily related to a decrease in wind product revenue due to competitive pressure in China as well as lower sales in Europe, and a decline in China hybrid transit bus revenue due to changes in government policies and subsidy programs. The decreases in energy storage revenue were partially offset by revenue increases in auto, grid and other markets. The decrease in energy storage product revenue for the second quarter of 2018 was composed of lower prices of $1.8 million and lower volume of $0.5 million.

During the six months ended June 30, 2018, revenue decreased 9% to $57.9 million, compared with $63.8 million in the same period one year ago. This decrease in revenue was primarily related to significantly lower revenue for our high-voltage products, partially offset by increased energy storage product line revenue. High-voltage product line revenue decreased by $12.3 million, or 50%, to $12.2 million for the six months ended June 30, 2018, compared with $24.5 million for the same period one year ago. This decrease was due to delays in Chinese infrastructure projects as well as uncertainties related to tax reform legislation and tariffs. Revenue for our energy storage product line increased by $6.4 million, or 16%, to $45.7 million from $39.3 million. The increase in energy storage product revenue was related to new customers and a ramp up of recent design wins, including a significant newly launched hybrid system in the non-china bus market. The increases were partially offset by a decrease in wind product revenue due to competitive pressure in China as well as lower sales in Europe. The increase in energy storage product revenue was composed of higher volume of $9.2 million offset by lower prices of $2.8 million.

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A substantial amount of our revenue is generated through our Swiss and Korean subsidiaries, which have functional currencies of the Swiss Franc and the Korean Won, respectively. As such, reported revenue can be materially impacted by changes in exchange rates between the subsidiaries' local currencies and the U.S. Dollar, our reporting currency. Due to the strengthening of the U.S. Dollar against the Swiss Franc during the three months ended June 30, 2018 compared with the same period one year ago, revenue was negatively impacted by $54,000. Due to the weakening of the U.S. Dollar against the Swiss Franc during the six months ended June 30, 2018 compared with the same period one year ago, revenue was positively impacted by $0.3 million. Due to the weakening of the U.S. Dollar against the Korean Won during the three and six months ended June 30, 2018 compared with the same periods one year ago, revenue was positively impacted by $0.2 and $0.3 million, respectively.

Gross Profit and Gross Margin. During the second quarter of 2018, gross profit decreased $2.3 million, or 30%, to $5.4 million compared with $7.8 million in the same period one year ago. As a percentage of revenue, gross margin decreased to 18% in the second quarter of 2018 compared with 21% in the same period one year ago. During the six months ended June 30, 2018, gross profit decreased $2.8 million, or 20%, to $11.1 million compared with $13.9 million in the same period one year ago. As a percentage of revenue, gross margin decreased to 19% in the six months ended June 30, 2018 compared with 22% in the same period one year ago. The decreases in gross profit and gross margin were primarily associated with a change in product mix as the three and six months ended June 30, 2018 included significantly lower sales of higher margin high-voltage products, as well as higher amortization of intangibles related to the Nesscap Acquisition.

Selling, General and Administrative Expense

The following table presents selling, general and administrative expense for the three and six months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	Decrease	% Change	2018	2017	Decrease	% Change
Selling, general and administrative	$9,787	$12,120	$(2,333)	(19)%	$19,359	$21,712	$(2,353)	(11)%
% of Revenue	33 %	32 %			33 %	34 %		

Selling, general and administrative expense for the second quarter of 2018 decreased by $2.3 million, or 19%, from the same period in 2017. Selling, general and administrative expense increased to 33% of revenue, up from 32% for the same period in 2017. Decreases for the second quarter of 2018 included a decrease of $1.5 million related to acquisition expenses in the second quarter of 2017, a decrease of $0.3 million related to shareholder proxy advisement fees in 2017 and other decreases related to our ongoing cost reduction efforts.

Selling, general and administrative expenses for the six months ended June 30, 2018 decreased by $2.4 million, or 11%, from the same period in 2017. Selling, general and administrative expenses decreased to 33% of revenue, down from 34% for the same period in 2017. Decreases for the six months ended June 30, 2018 included a decrease of $1.8 million related to acquisition expenses in the first half of 2017, a decrease of $0.4 million related to shareholder proxy advisement fees in 2017 and other decreases related to our ongoing cost reduction efforts. These decreases were partially offset by a $1.2 million increase in stock compensation expense due to differences in expected performance under our bonus plan, a change in award mix to include market-condition RSUs which have a higher expense, increased utilization of performance based awards, new executive hires and lower termination rates, and the payment of a portion of our board of director fees with fully vested RSUs in lieu of cash.

Research and Development Expense

The following table presents research and development expense for the three and six months ended June 30, 2018 and 2017 (in thousands, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	Decrease	% Change	2018	2017	Increase	% Change
Research and development	$5,549	4,449	$ 1,100	25 %	$11,081	$9,155	$ 1,926	21 %
% of Revenue	19 %	12 %			19 %	14 %		

Research and development expense for the second quarter of 2018 increased by $1.1 million, or 25%, from the same period in 2017. Research and development expense was 19% of revenue, up from 12% for the same period in 2017. The increase was primarily associated with a decrease of $0.7 million in third-party funding under cost-sharing arrangements and increased automotive market development project activity. These increases were partially offset by various decreases related to our restructuring and cost reduction efforts.

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Research and development expenses for the six months ended June 30, 2018 increased by $1.9 million, or 21%, from the same period in 2017. Research and development expenses were 19% of revenue, up from 14% for the same period in 2017. The increase was primarily associated with a decrease of $1.3 million in third-party funding under cost-sharing arrangements, 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 $1.2 million, and were primarily incurred in 2017. Total net charges for the six months ended June 30, 2018 for the September 2017 restructuring plan were $(65,000), which represented restructuring charges of $45,000 adjusted for reversals of expense of $110,000.

In February 2017, we implemented a comprehensive restructuring plan that included a wide range of organizational efficiency initiatives and other cost reduction opportunities. Total charges for the restructuring plan were approximately $0.9 million; the plan was completed in the third quarter of 2017. For the three and six months ended June 30, 2017, we recorded $0 and $1.0 million, respectively, of restructuring charges for the February 2017 restructuring plan. Cash payments for the three and six months ended June 30, 2017 for the February 2017 restructuring plan were $0.3 million and $0.6 million, respectively.

The charges related to the 2017 restructuring plans consist of employee severance costs and have been or will be paid in cash. The following table summarizes the changes in the liabilities for the September 2017 restructuring plan for the six months ended June 30, 2018 (in thousands):

	September 2017 Plan
Restructuring liability as of December 31, 2017	$ 817
Costs incurred	45
Amounts paid	(689)
Accruals released	(110)
Restructuring liability as of June 30, 2018	$ 63

Additionally, in the second quarter of 2018, we recognized facilities costs of $0.1 million as restructuring charges to record an adjustment 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 of 21% primarily due to foreign income tax and the valuation allowance against our domestic deferred tax assets.

We recorded an income tax provision of $0.3 million and an income tax benefit of $0.7 million for the three and six months ended June 30, 2018, respectively, compared with an income tax provision of $1.4 million and $2.6 million for the three and six months ended June 30, 2017, respectively. During the first quarter of 2018, we recognized a tax holiday granted by the Swiss government for taxes on income generated by our Swiss subsidiary, which was retroactive to the beginning of 2017. The provision for the three and six months ended June 30, 2017 is primarily related to taxes on income generated by our Swiss subsidiary, for which the full statutory tax rate applied. We record taxes on the undistributed earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside of the U.S. As of June 30, 2018, we have recorded a $4.9 million deferred tax liability for Swiss withholding taxes associated with $97.6 million of undistributed earnings of our Swiss subsidiary that are no longer considered indefinitely reinvested. Pursuant to discussions with tax authorities, we intend to repatriate $10.0 million in Swiss accumulated earnings each year for approximately the next 8 years in order to reduce outstanding amounts owed to our Swiss subsidiary; we intend to declare each annual amount as a dividend and pay a 5% withholding tax at the time such dividends are declared.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act. The tax legislation significantly changes U.S. tax law by, among other things, reducing the US federal corporate tax rate from

35% to 21%, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Due to the tax legislation, we have remeasured our U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%.

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At June 30, 2018, we have a cumulative valuation allowance recorded offsetting our worldwide net deferred tax assets of $61.4 million, of which the significant majority represents the valuation allowance on our U.S. net deferred tax assets. We have established a valuation allowance against our U.S. federal and state deferred tax assets due to the uncertainty surrounding the realization of such assets. Management periodically evaluates the recoverability of the deferred tax assets and at such time as it is determined that it is more likely than not that U.S. deferred tax assets are realizable, the valuation allowance will be reduced accordingly.
During the six months ended June 30, 2018, we reduced our deferred tax liabilities by $0.4 million to record the impact of the new tax holiday granted by the Swiss government.

Liquidity and Capital Resources
Changes in Cash Flow
The following table summarizes our cash flows from operating, investing and financing activities for the six months ended June 30, 2018 and 2017 (in thousands):

	Six Months Ended June 30,	
	2018	2017
Total cash provided by (used in):		
Operating activities	$(26,001)	$(6,502)
Investing activities	(7,839)	(657)
Financing activities	5,212	177
Effect of exchange rate changes on cash and cash equivalents	53	804
Decrease in cash and cash equivalents	$(28,575)	$(6,178)

Net cash used in operating activities was $26.0 million for the six months ended June 30, 2018 and related primarily to our net loss of $20.5 million, which included non-cash charges of $12.1 million, an increase in inventory of $10.9 million which is primarily related to increased inventory in conjunction with our contract manufacturer transition and lower high voltage product sales in 2018 primarily due to delays in Chinese infrastructure projects as well as uncertainties related to U.S. tax reform legislation and tariffs, and a decrease in accounts payable and accrued liabilities of $4.1 million primarily due to the April 2018 payment of our settlement with the SEC related to our 2011 and 2012 restatement.
Net cash used in operating activities was $6.5 million for the six months ended June 30, 2017 and related primarily to our net loss of $20.5 million, which included non-cash charges of $9.7 million, and an increase in accounts receivable of $6.8 million primarily related to timing of receipts and higher sales in the second quarter of 2017. These decreases in cash were partially offset by an increase in accounts payable and accrued liabilities of $4.7 million primarily related to the timing of payments and a decrease in inventory of $6.1 million mainly related to our efforts to reduce inventory levels.
Net cash used in operating activities increased $19.5 million to $26.0 million for the six months ended June 30, 2018 compared with $6.5 million for the six months ended June 30, 2017. Cash flows from operating activities were impacted by changes in operating assets and liabilities which had a negative effect on cash flow of $17.6 million for the six months ended June 30, 2018, compared with a positive effect of $4.3 million in the six months ended June 30, 2017. Changes in operating assets and liabilities included $16.9 million related to building up inventory in conjunction with our transition to a new contract manufacturer and lower high voltage product sales in 2018 due to delays in Chinese infrastructure projects as well as uncertainties related to U.S. tax reform legislation and tariffs. This negative effect of changes in operating assets and liabilities was partially offset by higher non-cash charges in 2018.
Net cash used in investing activities was $7.8 million for the six months ended June 30, 2018 compared with net cash used by investing activities of $0.7 million for the six months ended June 30, 2017. Cash used in investing activities during the six months ended June 30, 2018 was associated with capital expenditures related to the factory expansion and lab upgrades at our Swiss subsidiary, ultracapacitor new product testing and production equipment in San Diego, California and expansion at our Nesscap Korea facility. Net cash used by investing activities for the six months ended June 30, 2017 was related to $2.1 million of capital expenditures primarily related to improvements in manufacturing

processes and new product testing and production equipment. These capital expenditures were partially offset by $1.5 million of cash received in May 2017 related to the release of the escrow holdback in connection with the 2016 sale of our microelectronics product line.

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Net cash provided by financing activities was $5.2 million for the six months ended June 30, 2018 compared with net cash provided by financing activities of $177,000 for the same period in 2017. During the six months ended June 30, 2018, we received net proceeds of $5.0 million from borrowings on our line of credit. The remaining net cash provided by financing activities for both periods related to proceeds from our employee stock purchase plan.

Liquidity and Going Concern

As of June 30, 2018, we had approximately $21.5 million in cash and cash equivalents, and working capital of $52.5 million. On September 25, 2017 and October 11, 2017, we issued $40.0 million and $6.0 million, respectively, of 5.50% Convertible Senior Notes due 2022 (the “Notes”). We received net proceeds, after deducting the initial purchaser’s discount and our offering expenses, of approximately $43.0 million. The Notes bear interest at a rate of 5.50% per year, payable semi-annually in arrears on March 15 and September 15 of each year, with payments commencing on March 15, 2018.

As of June 30, 2018, the amount of cash and short-term investments held by foreign subsidiaries was $5.5 million. If these funds are needed for our operations in the U.S. in the future, we may be required to pay taxes to repatriate these funds at a rate of approximately 5%. We have accrued the tax expense associated with the potential future repatriation of these funds. Pursuant to discussions with tax authorities, we intend to repatriate $10.0 million in Swiss accumulated earnings each year for approximately the next 8 years in order to reduce outstanding amounts owed to our Swiss subsidiary; we intend to declare each annual amount as a dividend and pay a 5% withholding tax at the time such dividends are declared.

We have incurred significant operating losses for several years and expects to continue to incur losses and negative cash flows from operations for at least the next 12 months following the issuance of these financial statements. During the six months ended June 30, 2018, our use of cash from operations was $26.0 million. Cash resources inclusive of amounts borrowed under our revolving line of credit are not expected to be sufficient to fund forecasted future negative cash flows from operations and obligations as they become due through one year following the issuance of these financial statements, without additional debt or equity financing. Additionally, absent improvement in our operating results as well as additional debt or equity financing, even after giving effect to the amendment to our revolving line of credit with East West Bank dated August 7, 2018, we expect that within one year following the issuance of these financial statements, we may not be in compliance with the financial covenants that we are required to meet during the term of our revolving line of credit agreement, including a minimum two-quarter rolling EBITDA requirement and an ongoing minimum liquidity requirement.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern; however, the above conditions raise substantial doubt about our ability to do so. The financial statements do not include any adjustments to reflect the possible future effects that may result should the Company be unable to continue as a going concern.

Management has assessed our ability to continue as a going concern as of the balance sheet date, and for at least one year following the financial statement issuance date. The assessment of our ability to meet our obligations is inherently judgmental. However, we have historically been able to successfully secure funding and execute alternative cash management plans to meet our obligations as they become due. The following conditions were considered in the evaluation of our ability to continue as a going concern:

- Our operating plan for the next 12 months from the date of issuance of these financial statements contemplates a significant reduction in our net operating cash outflows as compared to the six months ended June 30, 2018, resulting from (a) a return to normal inventory levels as working capital is converted to cash after the completion of our contract manufacturer transition in the second quarter of 2018 and (b) revenue recovery in our high-voltage product line as delayed infrastructure projects are resumed and uncertainties related to tax reform legislation and tariffs are resolved. However, it is uncertain when and to what degree these recoveries in the business will occur.
- We may delay otherwise planned spending on capital investments, research and development and other various activities as necessary to help curb cash outflow until if and when necessary funding is obtained to pursue such activities.
- We have 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 June 30, 2018, no securities have been issued under our shelf registration statement.

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- We are actively pursuing financing alternatives, including additional equity, debt or other fundraising transactions. No assurance can be given that any future financing or funding transaction will be available or, if available, that it will be on terms that are satisfactory to us or that the resources will be received in a timely manner. If we are unable to obtain additional financing on commercially reasonable terms, or at all, our business, financial condition and results of operations will be materially adversely affected, and we may be unable to continue as a going concern. Even we are able to obtain additional financing, it may result in significant debt service costs and restrictions on operations, in the case of debt financing, or cause substantial dilution for stockholders, in the case of equity financing. We have engaged a third-party financial advisor to assist management in pursuing financing transactions.

Debt and Credit Facilities

Convertible Senior Notes

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

Revolving Line of Credit

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

As of June 30, 2018, the amount available under the Revolving Line of Credit, net of borrowings, was $11.6 million. In general, amounts borrowed under the Revolving Line of Credit are secured by a lien on all of our assets, including our intellectual property, as well as a pledge of 100% of our equity interests in our Swiss subsidiary and a pledge of 65% of our equity interests in our Korean subsidiary. The obligations under the Loan Agreement are also guaranteed directly by our Swiss and Korean subsidiaries. In the event that we are in violation of the representations, warranties and covenants made in the Loan Agreement, including certain financial covenants set forth therein, we may not be able to utilize the Revolving Line of Credit or repayment of amounts owed pursuant to the Loan Agreement could be accelerated. As of June 30, 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. Borrowings under the Revolving Line of Credit were $5.0 million as of June 30, 2018. In July 2018, we borrowed an additional $10.0 million under the Revolving Line of Credit. On August 7, 2018, we entered into an amendment to the Loan Agreement to amend certain financial covenants.

Other long-term borrowings

We have various financing agreements for vehicles. These agreements are for up to an original three-year repayment period with interest rates ranging from 0.9% to 1.9%. At June 30, 2018 and December 31, 2017, $97,000 and $115,000 respectively, was outstanding under these financing agreements.

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Critical Accounting Estimates

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

Recent Accounting Pronouncements

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

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

In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the statement of operations. The new guidance requires entities to report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the statement of operations separately from the service cost component and outside the subtotal of loss from operations. ASU 2017-07 also provides that only the service cost component is eligible for capitalization. This standard will have an impact our loss from operations but will have no material impact on our net loss or net loss per share. The standard is effective for us in the first quarter of 2018, with adoption to be applied on a retrospective basis. We adopted ASU 2017-07 on January 1, 2018, with adoption applied on a retrospective basis. We used the practical expedient that permits us to use the amounts previously disclosed in our defined benefit plans note for the prior comparative periods as the basis for applying the retrospective presentation requirements. In connection with this adoption, for the three months ended June 30, 2017, we reclassified $74,000, $50,000 and $19,000 of net non-service costs and income from cost of revenue, selling, general and administrative expense and research and development expense, respectively, to "other components of defined benefit plans, net"; for the six months ended June 30, 2017, we reclassified $157,000, $102,000 and $39,000 of net non-service costs and income from cost of revenue, selling, general and administrative expense and research and development expense, respectively, to "other components of defined benefit plans, net".

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

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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.

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.

There have been no other recent accounting standards, or changes in accounting standards, during the six months ended June 30, 2018, as compared with the recent accounting standards described in our Annual Report on Form 10-K, that are of material significance, or have potential material significance, to us.

Off Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time and could have a material adverse impact on our financial results. We have not entered into or invested in any instruments that are subject to market risk, except as follows:

Foreign Currency Risk

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

We have certain monetary assets and liabilities, primarily cash, receivables and payables, denominated in foreign currencies. The fair value of these assets and liabilities are affected by movements in currency exchange rates. As of June 30, 2018, the impact of a theoretical detrimental change in foreign currency exchange rates of 10% would result in a hypothetical loss of less than $0.1 million. As local currency debt carried by our Swiss subsidiary is minor, changes in foreign currency rates would not significantly impact our financial results.

Interest Rate Risk

At June 30, 2018, we had a balance of $5.0 million outstanding under our Revolving Line of Credit. The impact on earnings and cash flow during the next fiscal year from a change of 100 basis points (or 1%) in the interest rate would have a $50,000 effect. We have various financing agreements for vehicles. These agreements are for up to a three-year repayment period with interest rates ranging from 0.9% to 1.9%. At June 30, 2018, $97,000 was outstanding under these financing agreements, $64,000 of which is classified as long-term debt. As these borrowings are minor, changes in interest rates would not significantly impact our financial results.

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

Fair Value Risk

We had a net pension asset of $11.8 million and $11.7 million as of June 30, 2018 and December 31, 2017, respectively. As of the last fair value measurement date of December 31, 2017, the net pension asset included plan assets with a fair value of $43.4 million. The plan assets consisted of 54% debt and equity securities, 39% real estate investment funds and 7% of other assets. The fair values of debt and equity securities are determined based on quoted prices in active markets for identical assets and are subject to interest rate risk. The fair value measurement of the real estate investment funds is subject to the real estate market forces in Switzerland. We manage our risk by having a diversified portfolio.

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Item 4. Controls and Procedures

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

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2018, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

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

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

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings
The information set forth under Note 13 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, is incorporated herein by reference.
Item 1A. Risk Factors
There have been no material changes from the risk factors disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which are incorporated herein by reference, except for the risk factors listed below.
There may be changes in, and uncertainty with respect to, legislation, regulation and governmental policy due to recent elections in the United States.
The recent presidential and congressional elections in the United States have resulted and may continue to result in significant changes in, and uncertainty with respect to, legislation, regulation and government policy. While it is not possible to predict whether and when any such additional changes will occur, changes at the local, state or federal level could impact fuel cell market adoption in the U.S. and the alternative energy technologies sector in the U.S., generally. Specific legislative and regulatory proposals that could have a material impact on us include, but are not limited to, infrastructure renewal programs; and modifications to international trade policy, such as approvals by the Committee on Foreign Investment in the United States; public company reporting requirements; environmental regulation and antitrust enforcement. For example, 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.

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We may not be able to obtain sufficient capital to allow us to continue as a going concern or to meet our operating or other needs.

Our management has determined that unless we raise sufficient capital, there is substantial doubt as to whether we will have sufficient funds to continue as a going concern. In particular, the geopolitical environment relating to trade tariffs, extended collections cycles for our receivables and other factors affecting our business, have significantly contributed to a reduction in our cash position. Excluding additional borrowings under our revolving line of credit in July 2018 of $10.0 million, we had approximately $15.0 million in cash and cash equivalents as of July 31, 2018, compared with $21.5 million as of June 30, 2018. During the transition of our primary contract manufacturing partner in 2018, we purchased buffer inventory to satisfy future forecasted demand in order to help ensure uninterrupted supply to our customers during the transition period. Accordingly, we have atypically higher working capital invested in inventory, which we expect will continue to significantly reduce our cash balance as we pay down our liabilities associated with the purchase of this buffer inventory.

We believe that we will need a substantial amount of additional capital, and expect to seek equity or debt financing, to fund our ongoing operations and for a number of potential purposes in furtherance of our 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 we will be successful in securing additional financing on a timeframe that coincides with our cash needs, on acceptable terms, or at all. Additionally, even after giving effect to the amendment to the Amended and Restated Loan Agreement with East West Bank dated August 7, 2018, if we are unable to secure additional financing before September 30, 2018, or if we fail to sufficiently and timely improve our operating results, 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 accelerate repayment of the outstanding principal amount of $15.0 million as of the date of these financial statements plus accrued interest. 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 may 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 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.

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

Item 5. Other Information

Amendment to Loan and Security Agreement

On August 7, 2018, the Company entered into an amendment to its Amended and Restated Loan and Security Agreement with East West Bank (the “Amendment”). The Amendment amends the covenant that the Company’s minimum EBITDA for the two quarters ending September 30, 2018 (the “Minimum Third Quarter EBITDA”) will be not less than ($10,000,000), provided that the Company has completed an equity offering pursuant to which it receives aggregate cash consideration of at least $15,000,000 prior to September 30, 2018 (the “Minimum Cash Consideration”). In the event the Company has not received the Minimum Cash Consideration, the Minimum Third Quarter EBITDA will be not less than ($6,000,000). The remaining financial covenants and terms remain unchanged. The foregoing description of the terms of the Amendment is qualified in its entirety by reference to the Amendment, which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

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Item 6. Exhibits
Exhibit Index

Exhibit Number	Description of Document	Filed Herewith	Form	File No.	Date Filed
3.1	Composite Certificate of Incorporation of Registrant.		10-K	001-15477	02/16/18
3.2	Amended and Restated Bylaws of Maxwell Technologies, Inc.		8-K	001-15477	02/27/17
4.1	Indenture dated as of September 25, 2017 between Maxwell Technologies, Inc. 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	First Amendment to Amended and Restated Loan and Security Agreement, dated August 7, 2018, by and between Maxwell Technologies, Inc. and East West Bank.	X			
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) (Section 302 Certification) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) (Section 302 Certification) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 Certification), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101	The following financial statements and footnotes from the Maxwell Technologies, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) (iv) Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements.	X			

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		MAXWELL TECHNOLOGIES, INC.
Date: August 7, 2018	By:	/s/ Franz Fink
		Franz Fink
		President and Chief Executive Officer
Date: August 7, 2018	By:	/s/ David Lyle
		David Lyle
		Senior Vice President, Chief Financial Officer, Treasurer and Secretary