

MAXWELL TECHNOLOGIES INC  
Form 10-Q  
August 01, 2013  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarter ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-15477

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

Delaware 95-2390133  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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   
NO

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the registrant's Common Stock outstanding as of July 24, 2013 is 29,535,041 shares.

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PART I – Financial Information

Item 1. Financial Statements

The following condensed consolidated balance sheet as of December 31, 2012, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements, consisting of the condensed consolidated balance sheet as of March 31, 2013, the condensed consolidated statements of operations and statements of comprehensive income (loss) for the three months ended March 31, 2013 and 2012, and the condensed consolidated statements of cash flows for the three months ended March 31, 2013 and 2012, 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, 2012, 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, 2012. 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, 2012.

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 presentation for the periods presented as required by Regulation S-X, Rule 10-01.

In addition, operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for any subsequent period or for the year ending December 31, 2013.

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

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$34,124	\$28,739
Trade and other accounts receivable, net of allowance for doubtful accounts of \$167 and \$157 at March 31, 2013 and December 31, 2012, respectively	32,819	33,420
Inventories	42,336	41,620
Prepaid expenses and other current assets	3,090	3,228
Total current assets	112,369	107,007
Property and equipment, net	36,165	36,235
Intangible assets, net	575	669
Goodwill	24,603	25,416
Pension asset	6,918	6,939
Other non-current assets	212	206
Total assets	\$180,842	\$176,472
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$31,206	\$27,181
Accrued warranty	267	269
Accrued employee compensation	5,889	4,743
Deferred revenue	7,994	6,408
Short-term borrowings and current portion of long-term debt	8,973	9,452
Deferred tax liability	980	980
Total current liabilities	55,309	49,033
Deferred tax liability, long-term	1,376	1,384
Long-term debt, excluding current portion	85	83
Other long-term liabilities	979	1,039
Total liabilities	57,749	51,539
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, \$0.10 par value per share, 40,000 shares authorized; 29,562 and 29,162 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	2,953	2,913
Additional paid-in capital	268,801	267,623
Accumulated deficit	(158,412	) (158,134
Accumulated other comprehensive income	9,751	12,531
Total stockholders' equity	123,093	124,933
Total liabilities and stockholders' equity	\$180,842	\$176,472
See accompanying notes to condensed consolidated financial statements.		

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

	Three Months Ended March 31,	
	2013	2012 (Restated)
Revenue	\$47,748	\$35,804
Cost of revenue	29,518	20,647
Gross profit	18,230	15,157
Operating expenses:		
Selling, general and administrative	11,502	9,788
Research and development	6,023	5,570
Total operating expenses	17,525	15,358
Income (loss) from operations	705	(201 )
Interest expense, net	(44 )	(26 )
Amortization of debt discount and prepaid debt costs	(15 )	(11 )
Income from operations before income taxes	646	(238 )
Income tax provision	924	714
Net loss	\$(278 )	\$(952 )
Net loss per share:		
Basic	(0.01 )	(0.03 )
Diluted	(0.01 )	(0.03 )
Weighted average common shares outstanding:		
Basic	28,825	28,122
Diluted	28,825	28,122

See accompanying notes to condensed consolidated financial statements.

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## MAXWELL TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012 (Restated)
Net loss	\$(278	) \$(952
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(2,844	) 2,453
Defined benefit pension plan, net of tax:		
Amortization of deferred loss, net of tax benefit of \$7 and \$8 for the three months ended March 31, 2013 and 2012, respectively	55	46
Amortization of prior service cost, net of tax benefit of \$2 for each of the three months ended March 31, 2013 and 2012, respectively	9	9
Other comprehensive income (loss), net of tax	(2,780	) 2,508
Comprehensive income (loss)	\$(3,058	) \$1,556
See accompanying notes to condensed consolidated financial statements.		

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

	Three Months Ended March 31,	
	2013	2012 (Restated)
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$(278	) \$(952
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	2,118	1,768
Amortization of intangible assets	91	134
Amortization of debt discount and prepaid debt costs	15	11
Pension cost	5	46
Stock-based compensation expense	957	1,286
Provision for (recovery of) losses on accounts receivable	10	(172
Changes in operating assets and liabilities:		
Trade and other accounts receivable	152	(4,033
Inventories	(880	) (5,782
Prepaid expenses and other assets	77	116
Accounts payable and accrued liabilities and deferred revenue	5,624	(1,444
Accrued employee compensation	1,116	(533
Deferred income taxes	(8	) 11
Other long-term liabilities	(33	) (2,263
Net cash provided by (used in) operating activities	8,966	(11,807
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,026	) (4,057
Net cash used in investing activities	(2,026	) (4,057
<b>FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt and short-term borrowings	(3,608	) (3,183
Proceeds from long-term and short-term borrowings	3,318	8,161
Proceeds from sale of common stock, net of offering costs	—	10,283
Repurchase of shares	(20	) (286
Proceeds from issuance of common stock under equity compensation plans	281	1,319
Net cash (used in) provided by financing activities	(29	) 16,294
Increase in cash and cash equivalents from operations	6,911	430
Effect of exchange rate changes on cash and cash equivalents	(1,526	) 909
Increase in cash and cash equivalents	5,385	1,339
Cash and cash equivalents, beginning of period	28,739	29,289
Cash and cash equivalents, end of period	\$34,124	\$30,628
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.

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 two manufacturing locations, in San Diego, California and Rossens, Switzerland. The Company is also in the process of opening a manufacturing facility in Peoria, Arizona. In addition, the Company has two contract manufacturers located in China. Maxwell operates as one operating segment called High Reliability, which is comprised of three product lines: Ultracapacitors: The Company’s primary focus, ultracapacitors, 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 and multi-cell packs and modules provide highly reliable energy storage and power delivery solutions for applications in multiple industries, including transportation, automotive, information technology, renewable energy and consumer and industrial electronics.

High-Voltage Capacitors: The Company’s CONDIS<sup>®</sup> high-voltage capacitors are extremely robust devices that are designed and manufactured to perform reliably for decades. These products include grading and coupling capacitors and capacitive voltage dividers 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.

Radiation-Hardened Microelectronic Products: The Company’s radiation-hardened microelectronic products include high-performance, high-density power modules, memory modules and single board computers that incorporate our proprietary RADPAK<sup>®</sup> packaging and shielding technology and novel architectures that enable them to withstand environmental radiation effects and perform reliably in space.

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

Financial Statement Presentation

The accompanying condensed consolidated financial statements include the accounts of Maxwell Technologies, Inc. and its subsidiaries. All significant 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 present fairly the financial position, results of operations, and cash flows of Maxwell Technologies, Inc. for all periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for any subsequent period or for the entire year. These 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 accounting principles generally accepted in the United States (“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.

Use of Estimates

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 reported amounts and related disclosures.

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These estimates include, but are not limited to, assessing the collectability of accounts receivable, applied and unapplied production costs, production capacities, the usage and recoverability of inventories and long-lived assets, including deferred income taxes, the incurrence of warranty obligations, impairment of goodwill and other intangible assets, estimation of the cost to complete certain projects, accruals for estimated losses from legal matters, and estimation of the value of stock-based compensation awards, including the probability that the performance criteria of restricted stock awards will be met.

#### Warranty Obligation

The Company provides warranties on all product sales. The majority of the Company's warranties are for one to two years in the normal course of business. 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.

#### Net Income (Loss) per Share

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

	Three Months Ended March 31,	
	2013	2012
Numerator		
Net loss	\$(278 )	\$(952 )
Denominator		
Weighted-average common shares outstanding	28,825	28,122
Effect of potentially dilutive securities:		
Options to purchase common stock	—	—
Restricted stock awards	—	—
Restricted stock unit awards	—	—
Employee stock purchase plan	—	—
Weighted-average common shares outstanding, assuming dilution	28,825	28,122
Net loss per share		
Basic	\$(0.01 )	\$(0.03 )
Diluted	\$(0.01 )	\$(0.03 )

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

	Three Months Ended March 31,	
	2013	2012
Outstanding options to purchase common stock	544	178
Restricted stock awards	442	230
Restricted stock unit awards	57	—
Employee stock purchase plan awards	—	—
Change in Additional Paid in Capital		

For the three months ended March 31, 2013, additional paid in capital increased \$1.2 million. This increase includes \$1.2 million associated with the Company's stock-based compensation plans, offset by \$20,000 for the repurchase of shares that were withheld by the Company to satisfy employee tax liabilities upon the vesting of restricted stock awards.



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Note 2 – Restatement of Previously issued Financial Statements

Background on the Restatement

Audit Committee's Investigation

In January 2013, following receipt of information concerning potential revenue recognition issues, the Audit Committee of the Board of Directors engaged independent legal counsel and forensic accountants to conduct an investigation concerning the potential issues and to work with management to determine the potential impact on accounting for revenue. In February 2013, as a result of the findings of the Audit Committee's investigation to date, the Company determined that certain of its employees had engaged in conduct which resulted in revenue being recorded in periods prior to the criteria for revenue recognition under U.S. generally accepted accounting principles being satisfied.

The investigation revealed arrangements with three of the Company's distributors regarding extended payment terms, which allowed these distributors to pay the Company after they received payment from their customer, and with one of the Company's distributors regarding return rights and profit margin protection, for sales to such distributors with respect to certain transactions. In addition, arrangements were revealed with one non-distributor customer to honor transfer of title at a date later than the customer's purchase orders indicated. Based on the results of its investigation, the Audit Committee determined that these arrangements had not been communicated to the Company's finance and accounting department, or to the Company's CEO, and therefore, had not been considered when revenue was originally recorded. Based on the terms of the agreements with these customers as they were known to the Company's finance and accounting department, it had been the Company's policy to record revenue related to shipments as title passed at either shipment from the Company's facilities or receipt at the customer's facility, assuming all other revenue recognition criteria had been achieved. In addition to the arrangements noted above, the investigation uncovered an error on an individual transaction where a customer was given extended payment terms, which allowed them to pay the Company after they received payment from their customer, but those terms were not considered when revenue was originally recognized.

As a result of the arrangements discovered during the investigation, the Company does not believe that a fixed or determinable sales price existed at the time of shipment, nor was collection reasonably assured, at least with respect to certain transactions. In addition, revenue related to certain shipments to the one non-distributor customer was recorded before the actual transfer of title and the satisfaction of the Company's obligation to deliver the products. Therefore, revenue from these sales should not have been recognized at the time of shipment.

Based on the arrangements with customers revealed in the investigation that were not considered when revenue was originally recognized, the Company determined the following:

Beginning in the period in which the investigation revealed arrangements regarding extended payment terms for certain sales to three distributors, the Company determined it is appropriate to defer revenue recognition on all sales to these distributors from the period of shipment to the period in which payment is received. For these distributors, revenue recognition in the period in which payment is received was determined to be appropriate beginning in the fourth quarter of 2011.

Beginning in the period in which the investigation revealed return rights and profit margin protection for one distributor, the Company determined it appropriate to defer revenue recognition on all sales to this distributor until the distributor confirms with the Company that they are not entitled to any further returns or credits. For this distributor, the deferral of revenue on this basis was determined to be appropriate beginning in the fourth quarter of 2011. At such time as the distributor confirms with the Company that they are not entitled to any further returns or credits, which is currently anticipated to occur in the second half of the fiscal year 2013, previous sales for which revenue has been deferred, net of any credits or returns that may be made by the distributor, will be recognized as revenue.

For the arrangements with the non-distributor customer to honor transfer of title at a date later than the customer's purchase order indicated, the Company determined it appropriate to defer revenue recognition to the period in which the Company agreed to honor transfer of title.

For the individual transaction where a customer was given extended payment terms which were not considered when revenue was originally recognized in the first quarter of 2011, revenue recognition in the period in which payment was received, which was in the second quarter of 2011, was determined to be appropriate.

Management's Subsequent Internal Review

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Once the audit committee investigation was complete, management of the Company conducted a review beginning with the first quarter of 2009 through the first quarter of 2013 to ensure that all sales arrangements had been detected and accounted for appropriately. During this review, the Company noted that there were a number of quarter end revenue cut-off errors wherein revenue was recorded prior to the transfer of title to the customer and the satisfaction of the Company's obligation to deliver the products. The Company has corrected these errors occurring in the first quarter of 2011 through the third quarter of 2012 by moving the revenue recognition for these items to the period in which delivery actually occurred.

Results of the Audit Committee's Investigation and Management's Internal Review

Based on the findings of the investigation, as previously reported in the Company's current report on Form 8-K dated March 7, 2013, the Audit Committee, in consultation with management and the Board of Directors, concluded that the Company's previously issued financial statements contained in its annual report on Form 10-K for the year ended December 31, 2011, and the quarterly reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011, September 30, 2011, March 31, 2012, June 30, 2012 and September 30, 2012, should no longer be relied upon. Accordingly, the consolidated financial statements for the first three quarters of the fiscal year ended December 31, 2012, for the fiscal year ended December 31, 2011, and for each of the interim periods within the fiscal year ended December 31, 2011, have been restated in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. See Note 15, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, for the effects of the restatement adjustments on our 2012 and 2011 unaudited quarterly financial information.

As a result of the Audit Committee's investigation, certain employees were terminated and the Company's Sr. Vice President of Sales and Marketing resigned as reported in the Company's current report on Form 8-K dated March 7, 2013.

In connection with the errors identified during the investigation resulting in the restatement of previously reported financial statements, the Company identified control deficiencies in its internal control over financial reporting that constitute material weaknesses. For a discussion of our disclosure controls and procedures and the material weaknesses identified, see Part I, Item 4, Controls and Procedures, of this Quarterly Report on Form 10-Q.

The Company's previously filed annual report on Form 10-K for the fiscal year ended December 31, 2011, and its quarterly reports on Form 10-Q for the periods affected by the restatements, have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for any quarterly or annual periods after and including March 31, 2011, and any earnings releases or other communications relating to these periods. See Note 2, Restatement of Previously Issued Financial Statements and Financial Information, and Note 15, Unaudited Quarterly Financial Information, of the Notes to the Consolidated Financial Statements, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, for the impact of these adjustments for the full fiscal year ended December 31, 2011, and the first three quarters of the fiscal year ended December 31, 2012 and each of the quarterly periods in the fiscal year ended December 31, 2011, respectively.

Restatement Adjustments

Restatement Adjustments Related to Sales Arrangements

Several adjustments were made to the Company's previously filed consolidated financial statements as a result of the restatement in order to reflect revenue recognition in the appropriate periods as discussed above. Accordingly, for the subject sales transactions, revenue and accounts receivable balances were reduced by an equivalent amount in the period that the sale was originally recorded as revenue, and revenue was increased in the subsequent period in which the criteria for revenue recognition were met. Further, for the subject sales transactions, cost of revenue was reduced, and inventory was increased, in the period that the sale was originally recorded as revenue, and cost of revenue was increased, and inventory was reduced, in the period the sale was ultimately recorded as revenue. However, for sales to one distributor in which revenue is being deferred until the Company determines that the distributor is not entitled to any further returns or credits, as discussed above, the increase to revenue, and the related reduction to inventory and increase to cost of revenue, will be recorded in a future period when this determination is made.

The adjustments also reflect the impacts of adjusting the Company's returns reserves for certain stock rotation rights of the distributors, and adjusting the Company's reserves for allowances for doubtful accounts, as well as commissions

expense, although these changes were not material.

In addition to the adjustments to revenue, accounts receivable, inventory and cost of revenue, inventory reserves balances and cost of revenue were adjusted in relation to the adjustments to inventory discussed above, in order to reflect inventory ultimately recorded on our balance sheets at its lower of cost or market value.



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## Other Restatement Adjustments

Since the Company's determination to restate its previously issued financial statements constituted an event of default under the terms of its credit facility, the bank had the right to require immediate payment of the outstanding borrowings. As a result restatement adjustments were recorded to reclassify the amounts outstanding under the credit facility from long-term debt to current liabilities as of each respective balance sheet date. In addition, an insignificant amount of debt issuance costs were reclassified from a long-term asset to a short-term asset, consistent with the classification of the related debt. In June 2013, the Company entered into a forbearance agreement with the bank wherein the bank agreed to forbear from further exercise of its rights and remedies to call our outstanding debt under the credit facility in connection with the events of default for a period terminating on the earlier of September 30, 2013 or the occurrence of any additional events of default.

Further, a restatement adjustment was made to reclassify a legal settlement with a customer from selling, general and administrative expense to contra-revenue in the second quarter of 2011 in the amount of for \$2.6 million. Certain other immaterial adjustments were made in connection with the restatement.

The restatement adjustments did not impact the Company's previously reported tax provision or benefit in any of the affected periods, other than a \$54,000 decrease in the income tax provision for the quarter ended September 30, 2012, as all of the restatement adjustments were related to our U.S. operations, for which the Company has significant net operating loss carryforwards and has not recorded an income tax expense or benefit in any period to date. However, the restatement adjustments did impact the composition of the Company's deferred tax assets and liabilities as of December 31, 2011 as presented in Note 10, Income Taxes, of the Notes to the Consolidated Financial Statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

The restated quarterly condensed consolidated statement of operations for the first quarter of fiscal year 2012 is presented below (in thousands, except per share data):

	Three Months Ended March 31, 2012		
	As previously reported	Restatement Adjustments	Restated
Revenue	\$39,230	\$(3,426 )	\$35,804
Cost of revenue	23,093	(2,446 )	20,647
Gross profit	16,137	(980 )	15,157
Operating expenses:			
Selling, general and administrative	9,286	502	9,788
Research and development	5,596	(26 )	5,570
Total operating expenses	14,882	476	15,358
Income (loss) from operations	1,255	(1,456 )	(201 )
Interest expense, net	(26 )	—	(26 )
Amortization of debt discount and prepaid debt costs	(11 )	—	(11 )
Income (loss) from operations before income taxes	1,218	(1,456 )	(238 )
Income tax provision	714	—	714
Net income (loss)	\$504	\$(1,456 )	\$(952 )
Net income (loss) per share:			
Basic	\$0.02	\$(0.05 )	\$(0.03 )
Diluted	\$0.02	\$(0.05 )	\$(0.03 )
Weighted average common shares outstanding:			
Basic	28,122		28,122
Diluted	28,559		28,122

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The restated quarterly condensed consolidated statement of cash flows for the first quarter of fiscal year 2012 is presented below (in thousands):

	Three Months Ended March 31, 2012		
	As previously reported	Restatement Adjustments	Restated
<b>OPERATING ACTIVITIES:</b>			
Net income (loss)	\$504	(1,456 )	\$(952 )
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	1,768	—	1,768
Amortization of intangible assets	134	—	134
Amortization of debt discount and prepaid debt costs	11	—	11
Pension cost	46	—	46
Stock-based compensation expense	1,286	—	1,286
Recovery of losses on accounts receivable	(103 )	(69 )	(172 )
Changes in operating assets and liabilities:			
Trade and other accounts receivable	(6,568 )	2,535	(4,033 )
Inventories	(3,211 )	(2,571 )	(5,782 )
Prepaid expenses and other assets	229	(113 )	116
Accounts payable and accrued liabilities and deferred revenue	(3,217 )	1,773	(1,444 )
Accrued employee compensation	(434 )	(99 )	(533 )
Deferred income taxes	11	—	11
Other long-term liabilities	(2,263 )	—	(2,263 )
Net cash used in operating activities	(11,807 )	—	(11,807 )
<b>INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(4,057 )	—	(4,057 )
Net cash used in investing activities	(4,057 )	—	(4,057 )
<b>FINANCING ACTIVITIES:</b>			
Principal payments on long-term debt and short-term borrowings	(3,183 )	—	(3,183 )
Proceeds from long-term and short-term borrowings	8,161	—	8,161
Proceeds from sale of common stock, net of offering costs	10,283	—	10,283
Repurchase of shares	(286 )	—	(286 )
Proceeds from issuance of common stock under equity compensation plans	1,319	—	1,319
Net cash provided by financing activities	16,294	—	16,294
Increase in cash and cash equivalents from operations	430	—	430
Effect of exchange rate changes on cash and cash equivalents	909	—	909
Increase in cash and cash equivalents	1,339	—	1,339
Cash and cash equivalents, beginning of period	29,289	—	29,289
Cash and cash equivalents, end of period	\$30,628	—	\$30,628

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

## Inventories

	March 31, 2013	December 31, 2012 (Restated)
Raw material and purchased parts	\$14,525	\$13,114
Work-in-process	2,864	1,753
Finished goods	16,085	17,511
Consigned finished goods	8,862	9,242
Total inventories	\$42,336	\$41,620

## Intangible Assets

Intangible assets consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Foreign Currency Adjustment	Net Carrying Value
As of March 31, 2013				
Patents	\$2,476	\$(1,954 )	\$—	\$522
Developed core technology	1,100	(1,100 )	—	—
Patent license agreement	741	(640 )	(48 )	53
Total intangible assets at March 31, 2013	\$4,317	\$(3,694 )	\$(48 )	\$575
As of December 31, 2012				
Patents	\$2,476	\$(1,903 )	\$—	\$573
Developed core technology	1,100	(1,100 )	—	—
Patent license agreement	741	(606 )	(39 )	96
Total intangible assets at December 31, 2012	\$4,317	\$(3,609 )	\$(39 )	\$669

## Goodwill

The change in the carrying amount of goodwill from December 31, 2012 to March 31, 2013 is as follows:

Balance at December 31, 2012	\$25,416
Foreign currency translation adjustments	(813 )
Balance at March 31, 2013	\$24,603

## Accrued Warranty

	Three Months Ended March 31,	
	2013	2012
Beginning balance	\$269	\$258
Product warranties issued	86	63
Settlement of warranties	(4 )	(13 )
Change related to preexisting warranties	(80 )	(27 )
Foreign currency translation adjustments	(4 )	6
Ending balance	\$267	\$287

## 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, 2012	\$16,376	\$ (3,845 )	\$ 12,531	
Other comprehensive loss before reclassifications	(2,844 )	—	(2,844 )	
Amounts reclassified from accumulated other comprehensive income (loss)	—	64	64	Selling, General and Administrative Expense
Net other comprehensive income (loss) for three months ended March 31, 2013	(2,844 )	64	(2,780 )	
Balance as of March 31, 2013	\$13,532	\$ (3,781 )	\$ 9,751	

## Note 4 – Credit Facility

In December 2011, the Company obtained a secured credit facility in the form of a revolving line of credit up to a maximum of \$15.0 million (the “Revolving Line of Credit”) and an equipment term loan (the “Equipment Term Loan”) (together, the “Credit Facility”). In general, amounts borrowed under the Credit Facility are secured by a lien on all of the Company’s assets other than its intellectual property. In addition, under the credit agreement, the Company is required to pledge 65.0% of its equity interests in its Swiss subsidiary. The Company has also agreed not to encumber any of its intellectual property. The agreement contains certain restrictive covenants that limit the Company’s ability to, amongst other things; (i) incur additional indebtedness or guarantees; (ii) create liens or other encumbrances on its property; (iii) enter into a merger or similar transaction; (iv) invest in another entity; (v) declare or pay dividends; and (vi) invest in fixed assets in excess of a defined dollar amount. Repayment of amounts owed pursuant to the Credit Facility may be accelerated in the event that the Company is in violation of the representations, warranties and covenants made in the credit agreement, including certain financial covenants. The financial covenants that the Company must meet during the term of the credit agreement include quarterly minimum liquidity ratios, minimum quick ratios and EBITDA targets and an annual net income target. Borrowings under the Credit Facility bear interest, payable monthly, at either (i) the bank's prime rate or (ii) LIBOR plus 2.25%, at the Company's option subject to certain limitations. Further, the Company incurs an unused commitment fee, payable quarterly, equal to 0.25% per annum of the average daily unused amount of the Revolving Line of Credit.

As a result of the restatement of prior period financial statements, as such financial information was previously submitted to the bank has since proven to be materially incorrect, the Company was in default with respect to the terms of the credit agreement beginning in the fourth quarter of 2011. In addition, as a result of the restatement of prior period financial statements, the Company was not in compliance with the financial covenant pertaining to the annual minimum net income target for the fiscal year ended December 31, 2011. Although, the Company did meet the financial covenants of the credit agreement in all other periods since the Credit Facility was entered into, including as of December 31, 2012, these violations represent events of default under the terms of the Credit Facility. As a result of this noncompliance, the bank's obligation to extend any further credit has ceased and terminated.

In June 2013, the Company entered into a forbearance agreement with the bank (“the Forbearance Agreement”). Pursuant to the terms of the Forbearance Agreement, the bank agreed to forbear from further exercise of its rights and remedies under the credit agreement to call the Company's outstanding debt obligation in connection with the events of default for a period terminating on the earlier of September 30, 2013 or the occurrence of any additional events of default. In connection with the execution of the Forbearance Agreement, in June 2013, the Company posted a cash deposit of \$1.8 million with the bank and granted the bank a security interest therein, which will remain restricted until the bank may determine to waive the existing events of defaults discussed above, or the loan is satisfied.

As borrowings outstanding under the Credit Facility were immediately callable by the bank for each of the quarterly and annual periods since and including the fourth quarter of 2011, borrowings outstanding under the Credit Facility have been classified as a current obligation in the each of the accompanying condensed consolidated balance sheets.

As of March 31, 2013, \$3.6 million was outstanding under the Equipment Term Loan and the applicable interest rate was LIBOR plus 2.25% (2.5% as of March 31, 2013). If the bank does not exercise its right to accelerate repayment, under the original terms of the Credit Facility, principal and interest under the Equipment Term Loan are payable in 36 equal monthly installments such that the Equipment Term Loan is fully repaid by the maturity date of April 30, 2015, but may be prepaid in whole or in part at any time. As of March 31, 2013, no amounts were outstanding under the Revolving Line of Credit. Further, as of December 31, 2012, the Company was not eligible to borrow any additional amounts under the Credit Facility, as a result of the events of default discussed above.

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#### Note 5 – Fair Value Measurements

The Company records certain financial instruments at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC. As of March 31, 2013, the financial instruments to which this topic applied were foreign currency forward contracts. As of March 31, 2013, the fair value of these foreign currency forward contracts was a liability of \$568,000 which is recorded in “accounts payable and accrued liabilities” in the consolidated balance sheet. The fair value of these derivative instruments is measured using models following quoted market prices in active markets for identical instruments, which is a Level 2 input under the fair value hierarchy of the Fair Value Measurements and Disclosures Topic of the FASB ASC.

The carrying value of 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 6 – Foreign Currency Derivative Instruments

Maxwell uses forward contracts to hedge certain monetary assets and liabilities, primarily receivables and payables, denominated in a foreign currency. The change in fair value of these instruments represents a natural hedge as gains and losses offset the changes in the underlying fair value of the monetary assets and liabilities due to movements in currency exchange rates. These contracts generally expire in one month. These contracts are considered economic hedges and are not designated as hedges under the Derivatives and Hedging Topic of the FASB ASC, therefore, the change in the fair value of the instrument is recognized currently in the consolidated statement of operations.

The net gains and losses on foreign currency forward contracts included in cost of revenue and selling, general and administrative expense are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Cost of revenue	\$12	\$(2 )
Selling, general and administrative	(1,387 )	395
Total gain (loss)	\$(1,375 )	\$393

The net gains and losses on foreign currency forward contracts were partially offset by net gains and losses on the underlying monetary assets and liabilities. Foreign currency gains and losses on those underlying monetary assets and liabilities included in cost of revenue and selling, general and administrative expense are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Cost of revenue	\$(8 )	\$13
Selling, general and administrative	1,246	(997 )
Total gain (loss)	\$1,238	\$(984 )

As of March 31, 2013, the total notional amount of foreign currency forward contracts not designated as hedges was \$31.9 million.

The following table presents gross amounts, amounts offset and net amounts presented in the condensed consolidated balance sheets for the Company's derivative instruments measured at fair value (in thousands):

	March 31,	
	2013	2012
Gross amounts of recognized assets (liabilities)	\$(483 )	\$(41 )
Gross amounts offset in the condensed consolidated balance sheets	85	5
Net amount of recognized asset (liability) presented in condensed consolidated balance sheets	\$(568 )	\$(46 )

The Company has the legal right to offset these recognized assets and liabilities upon settlement of the derivative instruments. For additional information, refer to Note 5 – Fair Value Measurements.

#### Note 7 – Stock Plans

The Company has two active stock-based compensation plans as of March 31, 2013: the 2004 Employee Stock Purchase Plan and the 2005 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.

##### Stock Options

Compensation expense recognized from employee stock options for the three months ended March 31, 2013 and 2012 was \$177,000 and \$544,000, respectively. Beginning in 2011, the Company ceased granting stock options and began granting restricted stock awards to employees as part of its annual equity incentive award program. The Company may determine to grant stock options in the future under the Incentive Plan.

##### Restricted Stock Awards

During the three months ended March 31, 2013 and 2012, the Company issued 305,143 and 249,366 shares, respectively, upon granting of restricted stock awards, which had an average grant date fair value per share of \$10.58 and \$20.89, respectively. The following table summarizes the amount of compensation expense recognized for restricted stock awards for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Service-based restricted stock	\$648	\$479
Performance-based restricted stock	18	63
Total compensation expense recognized for restricted stock awards	\$666	\$542

##### Restricted Stock Units

Beginning in 2011, non-employee directors receive an annual restricted stock unit award as part of their annual retainer compensation, which vests one year from the date of grant. During the three months ended March 31, 2013 and 2012, non-employee directors were granted a total of 56,616 and 20,342 restricted stock units, respectively, with an average grant date fair value per share of \$10.51 and \$20.65, respectively.

Total compensation expense recognized for service-based restricted stock unit awards was \$114,000 and \$106,000 during the three months ended March 31, 2013 and 2012, respectively.

##### Employee Stock Purchase Plan

The 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 commencing on January 1 and July 1. The number of shares purchased is based on participants’ contributions made during the offering period. In 2013, the Company suspended its ESPP Plan because the registration statement on Form S-8 became ineffective as a result of the restatement of the Company’s previously issued financial statements (as discussed in Note 2, Restatement of Previously Issued Financial Statements).

Compensation expense recognized for the ESPP for the three months ended March 31, 2013 and 2012 was zero and \$94,000, respectively. During the three months ended March 31, 2013, no shares were issued under the Company’s ESPP. 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:

	For the offering period beginning January 1 and ending June 30 2012	
Expected dividends	\$—	
Exercise price	16.24	
Expected volatility	63	%
Average risk-free interest rate	0.06	%
Expected life/term (in years)	0.5	
Fair value per share	\$5.26	

#### Stock-based Compensation Expense

Compensation cost for restricted stock, restricted stock units, employee stock options and the ESPP included in cost of revenue; selling, general and administrative expense; and research and development expense is as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Cost of revenue	\$273	\$142
Selling, general and administrative	497	962
Research and development	187	182
Total stock-based compensation expense	\$957	\$1,286

#### Note 8 – Stock Offering

In April 2011, 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 its common stock, warrants or debt securities. During the quarter ended March 31, 2012, the Company sold a total of 572,510 shares of its common stock for net proceeds of \$10.3 million pursuant an At-the-Market Equity Offering Sales Agreement (“Sales Agreement”) with Citadel Securities LLC (“Citadel”) dated February 2012. No shares have been sold subsequent to the quarter ended March 31, 2012.

As a result of the restatement of our previously issued financial statements as discussed in Note 2, the Company is no longer in compliance with the ongoing eligibility requirements of this shelf registration statement on Form S-3, the shelf registration statement is therefore no longer effective.

#### Note 9 – Defined Benefit Plan

Maxwell SA, a subsidiary of the Company, 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 periodic pension cost are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Service cost	\$207	\$171
Interest cost	125	166
Expected return on plan assets	(383	) (357
Prior service cost amortization	11	11
Deferred loss amortization	45	55
Net periodic pension cost	\$5	\$46





Employer contributions of \$183,000 and \$189,000 were paid during the three months ended March 31, 2013 and 2012, respectively. Additional employer contributions of approximately \$483,000 are expected to be paid during the remainder of fiscal 2013.

#### Note 10 – Legal Proceedings

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

##### FCPA Matter

As a result of being a publicly traded company in the U.S., we are subject to the U.S. Foreign Corrupt Practices Act (“FCPA”), which prohibits companies from making improper payments to foreign officials for the purpose of obtaining or retaining business. Beginning in 2009, we conducted an internal review into payments made to our former independent sales agent in China with respect to sales of our high voltage capacitor products produced by our Swiss subsidiary. In January 2011, we reached settlements with the SEC and the U.S. Department of Justice (“DOJ”) with respect to charges asserted by the SEC and DOJ relating to the anti-bribery, books and records, internal controls, and disclosure provisions of the FCPA and other securities laws violations. We settled civil charges with the SEC, agreeing to an injunction against further violations of the FCPA. Under the terms of the settlement with the SEC, we agreed to pay a total of approximately \$6.4 million in profit disgorgement and prejudgment interest, in two installments, with almost \$3.2 million paid in each of the first quarters of 2011 and 2012. Under the terms of the settlement with the DOJ, we agreed to pay a total of \$8.0 million in penalties in three installments, with \$3.5 million paid in the first quarter of 2011 and \$2.3 million paid in each of the first quarters of 2012 and 2013. As part of the settlement, we entered into a three-year deferred prosecution agreement (“DPA”) with the DOJ. If we remain in compliance with the terms of the DPA, at the conclusion of the term, the charges against us asserted by the DOJ will be dismissed with prejudice. Further, under the terms of each agreement, we will periodically report to the SEC and DOJ on our internal compliance program concerning anti-bribery. The final payment of \$2.3 million was paid in full as of January 25, 2013.

##### Customer Bankruptcy Matter

In January 2011, we attended a bankruptcy proceeding for a previous customer in order to bid on certain intellectual property and physical assets that were being auctioned. During this proceeding, an offer for sale was presented for any and all potential claims held by the previous customer against us. While the nature of these potential claims was not specified, the offer was construed as including potential claims related to payments made to us by the customer prior to the previous customer filing bankruptcy, as well as a potential intellectual property dispute between us and the previous customer. At the January 2011 bankruptcy proceeding, we bid \$250,000 to purchase from the bankruptcy estate the right to any and all claims against us stemming from rights held by the previous customer. The bankruptcy estate later declined that offer and in the interest of a more expedient resolution, we had recently increased our settlement offer to \$750,000. In December 2012, the parties reached a final agreement for total consideration of \$525,000 due from us to the bankruptcy estate for full and final release from any claims related only to the potential preference payment claim. The settlement amount was paid in full in February 2013. Concerning the potential intellectual property dispute, we believe this claim is meritless and that the chance of a significant loss with respect to this potential claim is remote. As of the quarter ended September 30, 2012, we had accrued a liability of \$750,000 for the anticipated settlement of these potential claims. After consideration of the settlement of the preference claim matter in the amount of \$525,000, the remaining balance of the accrual of \$225,000 was reversed and credited to the statement of operations during the fourth quarter of 2012.

##### Securities Matter

In early 2013, we voluntarily provided information to the United States Attorney's Office for the Southern District of California and the U.S. Securities and Exchange Commission related to our announcement that we intend to file restated financial statements for fiscal years 2011 and 2012. We are cooperating with these investigations. At this preliminary stage, we cannot predict the ultimate outcome of this action, nor can we estimate the range of potential loss, and we therefore have not accrued an amount for any potential costs associated with this action, but an adverse result could have a material adverse impact on our financial condition and results of operation.

##### Securities Class Action Matter

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From March 13, 2013 through April 19, 2013, four purported shareholder class actions were filed in the United States District Court for the Southern District of California against us and three of our current and former officers. These actions are entitled Foster v. Maxwell Technologies, Inc., et al., Case No. 13-cv-0580 (S.D. Cal. filed March 13, 2013), Weinstein v. Maxwell Technologies, Inc., et al., No. 13-cv-0686 (S.D. Cal. filed March 21, 2013), Abanades v. Maxwell Technologies, Inc.,

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et al., No. 13-cv-0867 (S.D. Cal. filed April 11, 2013), and Mebarak v. Maxwell Technologies, Inc., et al., No. 13-cv-0942 (S.D. Cal. filed April 19, 2013). The complaints allege that the defendants made false and misleading statements regarding our financial performance and business prospects and overstated our reported revenue. The complaints purport to assert claims for violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 on behalf of all persons who purchased our common stock between April 28, 2011 and March 7, 2013, inclusive. The complaints seek unspecified monetary damages and attorneys' fees and costs. On May 13, 2013, four prospective lead plaintiffs filed motions to consolidate the four actions and to be appointed lead plaintiff. On June 11, 2013, the Court vacated the hearing on those motions and indicated that it would issue a written order in the near future. At this preliminary stage, we cannot determine whether there is a reasonable possibility that a loss has been incurred nor can we estimate the range of potential loss. Accordingly, we have not accrued an amount for any potential loss associated with this action, but an adverse result could have a material adverse impact on our financial condition and results of operation.

#### State Shareholder Derivative Matter

On April 11, 2013 and April 18, 2013, two shareholder derivative actions were filed in California Superior Court for the County of San Diego, entitled Warsh v. Schramm, et al., Case No. 37-2013-00043884 (San Diego Sup. Ct. filed April 11, 2013) and Neville v. Cortes, et al., Case No. 37-2013-00044911-CU-BT-CTL (San Diego Sup. Ct. filed April 18, 2013). The complaints name as defendants certain of our current and former officers and directors as well as our former auditor McGladrey LLP. We are named as a nominal defendant. The complaints allege that the individual defendants made or caused us to make false and/or misleading statements regarding our financial condition, and failed to disclose material adverse facts about our business, operations and prospects. The complaints assert causes of action for breaches of fiduciary duty for disseminating false and misleading information, failing to maintain internal controls, and failing to properly oversee and manage the company, as well as for unjust enrichment, abuse of control, gross mismanagement, professional negligence and accounting malpractice, and aiding and abetting breaches of fiduciary duty. The lawsuits seek unspecified damages, an order directing us to take all necessary actions to reform and improve its corporate governance and internal procedures, restitution and disgorgement of profits, benefits and other compensation, attorneys' and experts' fees, and costs and expenses. On May 7, 2013, the Court consolidated the two actions. We filed a motion to stay the consolidated action on July 2, 2013. Because this action is derivative in nature, it does not seek monetary damages from us. However, we may be required throughout the term of the action to advance the legal fees and costs incurred by the individual defendants and to incur other financial obligations. At this preliminary stage, we cannot predict the ultimate outcome of this action, nor can we estimate the range of potential loss, and we therefore have not accrued an amount for any potential costs associated with this action, but an adverse result could have a material adverse impact on our financial condition and results of operation.

#### Federal Shareholder Derivative Matter

On April 23, 2013 and May 7, 2013, two shareholder derivative actions were filed in the United States District Court for the Southern District of California, entitled Kienzle v. Schramm, et al., Case No. 13-cv-0966 (S.D. Cal. filed April 23, 2013) and Agrawal v. Cortes, et al., Case No. 13-cv-1084 (S.D. Cal. filed May 7, 2013). The complaints name as defendants certain of our current and former officers and directors and name us as a nominal defendant. The complaints allege that the individual defendants caused or allowed us to issue false and misleading statements about our financial condition, operations, management, and internal controls and falsely represented that we maintained adequate controls. The complaints assert causes of action for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. The lawsuits seek unspecified damages, an order directing us to take all necessary actions to reform and improve its corporate governance and internal procedures, restitution and disgorgement of profits, benefits, and other compensation, attorneys' and experts' fees, and costs and expenses. On June 10, 2013, the parties filed a joint motion to consolidate the two actions. The Court has not yet ruled on that motion. Because this action is derivative in nature, it does not seek monetary damages from us. However, we may be required throughout the term of the action to advance the legal fees and costs incurred by the individual defendants and to incur other financial obligations. At this preliminary stage, we cannot predict the ultimate outcome of this action, nor can we estimate the range of potential loss, and we therefore have not accrued an amount for any potential costs associated with this action, but an adverse result could have a material adverse impact on our financial condition and results of operation.

Shareholder Demand Letter Matter

On April 9, 2013, Stephen Neville, a purported shareholder of the Company, sent a demand letter to us to inspect our books and records pursuant to California Corporations Code Section 1601. The demand sought inspection of documents related to our March 7, 2013 announcement that we would be restating our previously-issued financial statements for 2011 and 2012, board minutes and committee materials, and other documents related to our board or management discussions regarding revenue recognition from January 1, 2011 to the present. We responded by letter dated April 19, 2013, explaining why we believed that the demand did not appear to be proper. Following receipt of a second letter from Mr. Neville dated April 23,

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2013, we explained by letter dated April 29, 2013 why we continue to believe that the inspection demand appears improper. We have not received a further response from Mr. Neville regarding the inspection demand. At this preliminary stage, we cannot predict the ultimate outcome of this action, nor can we estimate the range of potential loss, and we therefore have not accrued an amount for any potential costs associated with this action, but an adverse result could have a material adverse impact on our financial condition and results of operation.

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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 in this Quarterly Report on Form 10-Q (this "Quarterly Report") to "Maxwell," "the Company," "we," "us," and "our" refer to Maxwell Technologies, Inc. and its subsidiaries; all references to "Maxwell SA" refer to our Swiss subsidiary, Maxwell Technologies, SA.

#### 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 ability to remain competitive and stimulate customer demand through successful introduction of new products, and to educate our prospective customers on the products we offer;
- dependence upon the sale of products to a small number of customers and vertical markets, some of which are heavily dependent on government funding or government subsidies which may or may not continue in the future;
- dependence upon the sale of products into China and Europe, where macroeconomic factors outside our control may adversely affect our sales;
- risks related to our international operations including, but not limited to, our ability to adequately comply with the changing rules and regulations in countries where our business is conducted, our ability to oversee and control our foreign subsidiaries and their operations, our ability to effectively manage foreign currency exchange rate fluctuations arising from our international operations, and our ability to continue to comply with the U.S. Foreign Corrupt Practices Act as well as the anti-bribery laws of foreign jurisdictions and the terms and conditions of our settlement agreements with the Securities and Exchange Commission and the Department of Justice;
- successful acquisition, development and retention of key personnel;
- our ability to effectively manage our reliance upon certain suppliers of key component parts and specialty equipment and logistical services;
- our ability to match production volume to actual customer demand;
- our ability to manage product quality problems;
- our ability to protect our intellectual property rights and to defend claims against us;
- our ability to effectively identify, enter into, manage and benefit from strategic alliances;
- occurrence of a catastrophic event at any of our facilities;
- occurrence of a technology systems failure, network disruptions, or breach in data security;
- our ability to obtain sufficient capital to meet our operating or other needs; and
- our ability to manage and minimize the impact of unfavorable legal proceedings.

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, 2012. We do not have any obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Background on the Restatement  
Audit Committee's Investigation





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In January 2013, following receipt of information concerning potential revenue recognition issues, the Audit Committee of the Board of Directors engaged independent legal counsel and forensic accountants to conduct an investigation concerning the potential issues and to work with management to determine the potential impact on accounting for revenue. In February 2013, as a result of the findings of the Audit Committee's investigation to date, we determined that certain of our employees had engaged in conduct which resulted in revenue being recorded in periods prior to the criteria for revenue recognition under U.S. generally accepted accounting principles being satisfied.

The investigation revealed arrangements with three of our distributors regarding extended payment terms, which allowed these distributors to pay us after they received payment from their customer, and with one of our distributors regarding return rights and profit margin protection, for sales to such distributors with respect to certain transactions. In addition, arrangements were revealed with one non-distributor customer to honor transfer of title at a date later than the customer's purchase orders indicated. Based on the results of its investigation, the Audit Committee determined that these arrangements had not been communicated to our finance and accounting department, or to our CEO, and therefore, had not been considered when revenue was originally recorded. Based on the terms of the agreements with these four customers as they were known to our finance and accounting department, it had been our policy to record revenue related to shipments as title passed at either shipment from our facilities or receipt at the customer's facility, assuming all other revenue recognition criteria had been achieved. In addition to the arrangements noted above, the investigation uncovered an error on an individual transaction where a customer was given extended payment terms, which allowed them to pay us after they received payment from their customer, but those terms were not considered when revenue was originally recognized. As a result of the arrangements discovered during the investigation, we do not believe that a fixed or determinable sales price existed at the time of shipment, nor was collection reasonably assured, at least with respect to certain transactions. In addition, revenue related to certain shipments to the one non-distributor customer was recorded before the actual transfer of title and the satisfaction of our obligation to deliver the products. Therefore, revenue from these sales should not have been recognized at the time of shipment. Based on the arrangements with customers revealed in the investigation that were not considered when revenue was originally recognized, we determined the following:

Beginning in the period in which the investigation revealed arrangements regarding extended payment terms for certain sales to three distributors, we determined it appropriate to defer revenue recognition on all sales to these distributors from the period of shipment to the period in which payment is received. For these distributors, revenue recognition in the period in which payment is received was determined to be appropriate beginning in the fourth quarter of 2011.

Beginning in the period in which the investigation revealed return rights and profit margin protection for one distributor, we determined it appropriate to defer revenue recognition on all sales to this distributor until the distributor confirms with us that they are not entitled to any further returns or credits. For this distributor, the deferral of revenue on this basis was determined to be appropriate beginning in the fourth quarter of 2011. At such time as the distributor confirms with us that they are not entitled to any further returns or credits, which is currently anticipated to occur in the second half of the fiscal year 2013, previous sales for which revenue has been deferred, net of any credits or returns that may be made by the distributor, will be recognized as revenue.

For the arrangements with the non-distributor customer to honor transfer of title at a date later than the customer's purchase order indicated, we determined it appropriate to defer revenue recognition to the period in which we agreed to honor transfer of title.

For the individual transaction where a customer was given extended payment terms which were not considered when revenue was originally recognized in the first quarter of 2011, revenue recognition in the period in which payment was received, which was in the second quarter of 2011, was determined to be appropriate.

**Management's Subsequent Internal Review**

Once the audit committee investigation was complete, management of the Company conducted a review beginning with the first quarter of 2009 through the first quarter of 2013 to ensure that all sales arrangements had been detected and accounted for appropriately. During this review, we noted that there were a number of quarter end revenue cut-off errors wherein revenue was recorded prior to the transfer of title to the customer and the satisfaction of our obligation

to deliver the products. We have corrected these errors occurring in the first quarter of 2011 through the third quarter of 2012 by moving the revenue recognition for these items to the period in which delivery actually occurred.

Results of the Audit Committee's Investigation and Management's Internal Review

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Based on the findings of the investigation, as previously reported in our current report on Form 8-K dated March 7, 2013, the Audit Committee, in consultation with management and the Board of Directors, concluded that our previously issued financial statements contained in our annual report on Form 10-K for the year ended December 31, 2011, and the quarterly reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011, September 30, 2011, March 31, 2012, June 30, 2012 and September 30, 2012, should no longer be relied upon. Accordingly, the consolidated financial statements for the first three quarters of the fiscal year ended December 31, 2012, for the fiscal year ended December 31, 2011, and for each of the interim periods within the fiscal year ended December 31, 2011, have been restated in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. See Note 15, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, for the effects of the restatement adjustments on our 2012 and 2011 unaudited quarterly financial information.

As a result of the Audit Committee's investigation, certain employees were terminated and our Sr. Vice President of Sales and Marketing resigned as reported in our current report on Form 8-K dated March 7, 2013.

In connection with the errors identified during the investigation resulting in the restatement of previously reported financial statements, we identified control deficiencies in our internal control over financial reporting that constitute material weaknesses. For a discussion of our disclosure controls and procedures and the material weaknesses identified, see Part I, Item 4, Controls and Procedures, of this Quarterly Report on Form 10-Q.

Our previously filed annual report on Form 10-K for the fiscal year ended December 31, 2011, and our quarterly reports on Form 10-Q for the periods affected by the restatements, have not been amended. Accordingly, investors should no longer rely upon our previously released financial statements for any quarterly or annual periods after and including March 31, 2011, and any earnings releases or other communications relating to these periods. See Note 2, Restatement of Previously Issued Financial Statements and Financial Information, and Note 15, Unaudited Quarterly Financial Information, of the Notes to the Consolidated Financial Statements, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, for the impact of these adjustments for the full fiscal year ended December 31, 2011, and the first three quarters of the fiscal year ended December 31, 2012 and each of the quarterly periods in the fiscal year ended December 31, 2011, respectively.

Restatement Adjustments

Restatement Adjustments Related to Sales Arrangements

Several adjustments were made to our previously filed consolidated financial statements as a result of the restatement in order to reflect revenue recognition in the appropriate periods as discussed above. Accordingly, for the subject sales transactions, revenue and accounts receivable balances were reduced by an equivalent amount in the period that the sale was originally recorded as revenue, and revenue was increased in the subsequent period in which the criteria for revenue recognition were met. Further, for the subject sales transactions, cost of revenue was reduced, and inventory was increased, in the period that the sale was originally recorded as revenue, and cost of revenue was increased, and inventory was reduced, in the period the sale was ultimately recorded as revenue. However, for sales to one distributor in which revenue is being deferred until we determine that the distributor is not entitled to any further returns or credits, as discussed above, the increase to revenue, and the related reduction to inventory and increase to cost of revenue, will be recorded in a future period when this determination is made.

The adjustments also reflect the impacts of adjusting our returns reserves for certain stock rotation rights of the distributors, and adjusting our reserves for allowances for doubtful accounts, as well as commissions expense, although these changes were not material.

In addition to the adjustments to revenue, accounts receivable, inventory and cost of revenue, inventory reserves balances and cost of revenue were adjusted in relation to the adjustments to inventory discussed above, in order to reflect inventory ultimately recorded on our balance sheets at its lower of cost or market value.

Other Restatement Adjustments

Since our determination to restate previously issued financial statements constituted an event of default under the terms of our credit facility, the bank had the right to require immediate payment of the outstanding borrowings. As a result restatement adjustments were recorded to reclassify the amounts outstanding under the credit facility from long-term debt to current liabilities as of each respective balance sheet date. In addition, an insignificant amount of debt issuance costs were reclassified from a long-term asset to a short-term asset, consistent with the classification of

the related debt. In June 2013, we entered into a forbearance agreement with the bank wherein the bank agreed to forbear from further exercise of its rights and remedies to call our outstanding debt under the credit facility in connection with the events of default for a period terminating on the earlier of September 30, 2013 or the occurrence of any additional events of default.

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Further, a restatement adjustment was made to reclassify a legal settlement with a customer from selling, general and administrative expense to contra-revenue in the second quarter of 2011 in the amount of for \$2.6 million. Certain other immaterial adjustments were made in connection with the restatement, which increased our net loss by \$153,000 for the year ended December 31, 2011, and decreased our net income by \$170,000 for the nine-months ended September 30, 2012.

The restatement adjustments did not impact our previously reported tax provision or benefit in any of the affected periods, other than a \$54,000 decrease in the income tax provision for the quarter ended September 30, 2012, as all of the restatement adjustments were related to our U.S. operations, for which we have significant net operating loss carryforwards and have not recorded an income tax expense or benefit in any period to date. However, the restatement adjustments did impact the composition of our deferred tax assets and liabilities as of December 31, 2011 as presented in Note 10, Income Taxes, of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

Highlights of the Three Months Ended March 31, 2013

Results of Operations

Liquidity and Capital Resources

Critical Accounting Policies and Estimates

Off Balance Sheet Arrangements

Executive Overview

Maxwell is a global leader in developing, manufacturing and marketing advanced energy storage and power delivery products for transportation, industrial, information technology and other applications, and microelectronic products for space and satellite applications. Our strategy is to establish a compelling value proposition for our products by designing and manufacturing them to perform reliably with minimal maintenance over long operational lifetimes. We have three product lines: ultracapacitors with applications in multiple industries, including transportation, automotive, information technology, renewable energy and consumer and industrial electronics; high-voltage capacitors applied mainly in electrical utility infrastructure; and radiation-hardened microelectronic products for space and satellite applications.

Our primary objective is to grow revenue and profit margins by creating and satisfying demand for ultracapacitor-based energy storage and power delivery solutions. We are focusing on establishing and expanding market opportunities for ultracapacitors and being the preferred supplier for ultracapacitor products worldwide. We believe that the transportation industry represents the largest market opportunity for ultracapacitors, primarily for applications related to engine starting, electrical system augmentation, and braking energy recuperation and hybrid electric drive systems for transit buses, trucks and autos, and electric rail vehicles. Backup power and power quality applications, including instantly available power for uninterruptible power supply systems and stabilizing the output of renewable energy generation systems may also represent significant market opportunities.

We also seek to expand market opportunities for our high-voltage capacitor and radiation-hardened microelectronic products. The market for high-voltage capacitors consists mainly of expansion, upgrading and maintenance of existing electrical utility infrastructure and new infrastructure installations in developing countries. Such installations are capital-intensive and frequently are subject to regulation, availability of government funding and general economic conditions. Although the market for microelectronics products for space and satellite applications is relatively small, the specialized nature of these products and the requirement for failure-free reliability allows us to generate profit margins significantly higher than those for commodity electronic components.

In the first quarter of 2013, revenues were \$47.7 million, representing an increase of 33% compared with the same period one year ago. This revenue growth is primarily attributable to growth in sales of our ultracapacitor products, for

which revenue increased by 82% to \$33.8 million in the first quarter of 2013 compared with \$18.6 million in the first quarter of 2012. This increase in the growth rate for sales of our ultracapacitor products is primarily attributable to increased demand in the two primary markets into which we currently sell our products, the hybrid transit vehicle and wind energy markets.

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Revenues for our high voltage products were relatively stable in the first quarter of 2013 compared with the same period in the prior year at \$11.8 million, while revenues for our microelectronics products, which often vary widely, quarter to quarter, were \$2.1 million for the first quarter of 2013 compared with \$5.5 million for the same period in 2012. Overall gross profit margin during the quarter decreased to 38% compared with 42% in the first quarter of 2012, primarily due to significantly higher sales of lower margin ultracapacitor products and lower sales of high-margin microelectronic products in the current first quarter. Operating expenses in the first quarter of 2013 were 37% of revenue, compared with 43% of revenue in the same period one year ago.

As of March 31, 2013, we had cash and cash equivalents of \$34.1 million. Management believes that this available cash balance, combined with cash we expect to generate from operations, will be sufficient to fund our operations, obligations as they become due, and capital investments for at least the next twelve months.

Going forward, we will continue to focus on growing our business and strengthening our market leadership and brand recognition through further penetration of existing markets, entry into new markets and development of new products. Our primary focus will be to grow our ultracapacitor business through continued market penetration in primary applications, including automotive, transportation, renewable energy and backup power. In order to achieve our growth objectives, we will need to overcome risks and challenges facing our business. A significant challenge we face is our ability to manage dependence on a small number of vertical markets, including some that are driven by government regulation or are highly dependent on government subsidy programs. For example, a large portion of our current ultracapacitor business is concentrated in the Chinese hybrid transit bus and wind energy markets, which are heavily dependent on government regulation and subsidy. These markets may experience slower rates of growth compared with the past couple of years if there are changes or delays in government policies and subsidy programs that have historically supported our sales into these markets. Although we believe the long-term prospects for these markets remain positive, we are pursuing growth opportunities for our products in other vertical markets, including applications for back-up power, power quality and heavy vehicle engine starting, in order to further diversify our market presence and augment our long-term growth prospects.

Other significant risks and challenges we face include the ability to maintain profitability; the ability to develop our management team, product development infrastructure and manufacturing capacity to facilitate growth; competing technologies that may capture market share and interfere with our planned growth; and hiring, developing and retaining key personnel critical to the execution of our strategy. We will be attentive to these risks and will focus on growing our revenues and profits, and on developing new products and promoting the value proposition of our products versus competing technologies. In addition, we are in the process of augmenting current manufacturing capacity and infrastructure, which we believe will be sufficient to accommodate anticipated growth in demand for our products.

Highlights of Three Months Ended March 31, 2013

During the three months ended March 31, 2013, we continued to focus on introducing new products, increasing production capacity to meet anticipated future demand, reducing product costs, making capital investments to facilitate growth, and improving production processes. One of these efforts is described below:

In March, we demonstrated our ultracapacitor-based Engine Start Module for class 4 to 8 trucks, at the Mid-America Trucking Show at the Kentucky Expo Center, which delivers the quick-burst power big engines need to crank in extreme weather, down to minus 104 degrees Fahrenheit. The ultracapacitor module, which is being evaluated by more than 20 truck fleets, delivers power for hundreds of thousands reliable starts, and in most cases, will outlast the vehicle itself.

Results of OperationsThe First Quarter of 2013 Compared with the First Quarter of 2012

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

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	Quarter Ended			
	March 31,		2012	
	2013	%	100	%
Revenue	100	%	100	%
Cost of revenue	62	%	58	%
Gross profit	38	%	42	%
Operating expenses:				
Selling, general and administrative	24	%	27	%
Research and development	13	%	16	%
Total operating expenses	37	%	43	%
Income from operations	1	%	(1)	)%
Interest expense, net	—	%	—	%
Income from operations before income taxes	1	%	(1)	)%
Income tax provision	2	%	2	%
Net income	(1)	)%	(3)	)%

Net loss reported for the three months ended March 31, 2013 was \$278,000, or \$0.01 per diluted share, compared with a net loss of \$952,000, or \$0.03 per diluted share, in the same quarter one year ago. Revenue for the three months ended March 31, 2013 compared with the same period of the prior year increased by 33%. We were able to reduce operating expenses as a percentage of revenue, which were 37% of revenue in the current quarter, down from 43% in the same quarter of the prior year.

**Revenue and Gross Profit**

The following table presents a comparison of revenue, cost of revenue and gross profit for the quarters ended March 31, 2013 and 2012 (in thousands, except percentages):

	Quarter Ended		Quarter Ended		Increase	% Change	
	March 31, 2013		March 31, 2012 (Restated)				
	Amount	% of Revenue	Amount	% of Revenue			
Revenue	\$47,748	100	% \$35,804	100	% \$11,944	33	%
Cost of revenue	29,518	62	% 20,647	58	% 8,871	43	%
Gross profit	\$18,230	38	% \$15,157	42	% \$3,073	20	%

Revenue. In the first quarter of 2013, revenue increased 33% to \$47.7 million, compared with \$35.8 million in the same quarter one year ago. The increase in revenue was influenced primarily by higher revenues for our ultracapacitor product line which increased by 82% compared with the same period in the prior year, mainly due to sales growth in the hybrid transit bus market.

Revenues for our high voltage products were relatively stable for the first quarter of 2013 compared with the same period in the prior year at \$11.8 million, while revenues for our microelectronics products, which tend to be volatile, decreased by \$3.4 million for the first quarter of 2013 with total revenues of \$2.1 million.

Beginning in the fourth quarter of the year ended December 31, 2011, for sales to three distributors, we began recognizing revenue upon collection of the sales price, rather than upon shipment, due to certain arrangements with these distributors related to payment terms on sales. In addition, for one distributor, also beginning in the fourth quarter of the year ended December 31, 2011, due to return rights and profit margin protection given to the distributor, we began deferring revenue on all sales until such time as the the distributor confirms with us that they are not entitled to any further returns or credits. As a result of these arrangements and other less significant arrangements requiring the deferral of revenue, for the quarter ended March 31, 2013, we deferred revenue recognition on \$4.0 million in sales, and recognized \$4.7 million of previously deferred revenue as revenue during the year. For the quarter ended ended March 31, 2012, we deferred revenue recognition on \$5.2 million in sales, and recognized \$2.6 million of previously deferred revenue as revenue during the year.





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Related to the one distributor that was given return rights and profit margin protection for which we have deferred revenue on all sales beginning in the fourth quarter of the year ended December 31, 2011, this revenue will remain deferred until such time as the distributor confirms with us that they are not entitled to any further returns or credits. At such time as this determination is made, which is currently anticipated to occur in the second half of the fiscal year 2013, previous sales for which revenue has been deferred, net of any credits or returns that may be made by the distributor, will be recognized as revenue. As of March 31, 2013, cumulative sales to this distributor for which revenue has not yet been recognized is \$6.7 million.

A substantial amount of our revenue is generated through our Swiss subsidiary which has a functional currency of the Swiss Franc. As such, reported revenue can be materially impacted by the changes in exchange rates between the Swiss Franc and the U.S. Dollar, our reporting currency. Due to the strengthening of the U.S. Dollar against the Swiss Franc during the quarter ended March 31, 2013 compared with the same period one year ago, revenue was negatively impacted by \$235,000.

**Gross Profit.** In the first quarter of 2013, gross profit increased \$3.1 million or 20% compared with the first quarter of 2012. As a percentage of revenue, gross profit margin decreased to 38% compared with 42% in the same quarter one year ago. The decline in gross profit in absolute dollars was due to sales mix, where a higher proportion of our overall sales volume was related to our ultracapacitor products, which earn lower margins than our other product lines. Of the increase in gross profit in absolute dollars, \$2.7 million related to an increase in the volume of sales and \$650,000 was due to a gain related to the partial recovery of a past legal settlement with a customer, which was recorded as revenue. Offsetting these increases was a decrease in gross profit in absolute dollars of \$116,000 due to net increases in product costs for our microelectronics product line associated with lower utilization of production capacity, and \$134,000 related to the impact of changes in foreign currency exchange rates, primarily changes between the Swiss Franc and the U.S. Dollar.

**Selling, General and Administrative Expense**

The following table presents selling, general and administrative expense for the first quarter of 2013 and 2012 (in thousands, except percentages):

	Quarter Ended March 31, 2013		Quarter Ended March 31, 2012 (Restated)		Increase	% Change	
	Amount	% of Revenue	Amount	% of Revenue			
Selling, general and administrative	\$11,502	24	% \$9,788	27	% \$1,714	18	%

Selling, general and administrative expenses were 24% of revenue for the first quarter of 2013, down from 27% in the same quarter one year ago, while total expenses increased by \$1.7 million, or 18%. The increase in absolute dollars was driven by increases in legal fees of \$1.1 million and audit and tax fees of \$667,000, primarily as a result of the audit committee's investigation, our internal review and the restatement of previously issued financial statements (see Note 2, Restatement of Previously Issued Financial Statements, of the Notes to the Financial Statements). Offsetting these increases, stock-based compensation expense decreased by \$430,000, primarily due to expense incurred in 2012 related to the termination of our previous chief operating officer.

**Research and Development Expense**

The following table presents research and development expense for the first quarter of 2013 and 2012 (in thousands, except percentages):

	Quarter Ended March 31, 2013		Quarter Ended March 31, 2012		Increase	% Change	
	Amount	% of Revenue	Amount	% of Revenue			
Research and development	\$6,023	13	% \$5,570	16	% \$453	8	%

Research and development expenses were 13% of revenue for the first quarter of 2012, down from 16% in the same quarter one year ago, while total expenses increased by \$453,000, or 8%. The increase in absolute dollars was

primarily driven by a \$217,000 increase in facilities costs due to continued expansion of our research and development facilities. In addition, costs for supplies and tools increased by \$184,000 related to development projects partially funded by the government.

Provision for Income Taxes

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The effective tax rate differs from the statutory U.S. federal income tax rate of 34% primarily due to foreign income tax and the valuation allowance against the Company's domestic deferred tax assets.

We recorded an income tax provision of \$924,000 for the first quarter of 2013 compared with \$714,000 for the same quarter in 2012. This provision is primarily related to taxes on income generated by our Swiss subsidiary. Unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable as it is not anticipated such earnings will be remitted to the United States. The Company has established a valuation allowance against its U.S. federal and state deferred tax assets, as well as the deferred tax asset of a foreign subsidiary, due to the uncertainty surrounding the realization of such assets as evidenced by the cumulative losses from operations through March 31, 2013. 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 deferred assets are realizable, the valuation allowance will be reduced accordingly.

## Liquidity and Capital Resources

## Changes in Cash Flow

The following table summarizes our cash flows from operating, investing and financing activities for the three months ended March 31, 2013 and 2012 (in thousands):

	Three months ended March 31,	
	2013	2012
Total cash provided by (used in):		
Operating activities	\$8,966	\$(11,807 )
Investing activities	(2,026 )	(4,057 )
Financing activities	(29 )	16,294
Effect of exchange rate changes on cash and cash equivalents	(1,526 )	909
Increase in cash and cash equivalents	\$5,385	\$1,339

Net cash provided by operating activities was \$9.0 million for the three months ended March 31, 2013. Net cash provided by operating activities primarily resulted from an increase in accounts payable and accrued liabilities and other long-term liabilities of \$5.6 million. The increase in accounts payable and accrued liabilities and other long-term liabilities was primarily due to \$7.9 million of payments from customers on net sales for which revenue has been deferred and is included in "accounts payable and accrued liabilities", offset by \$2.3 million in a settlement payment to the DOJ in the first quarter of 2013 related to the Foreign Corrupt Practices Act matter. Net cash used in operating activities was \$11.8 million for the three months ended March 31, 2012, which related primarily to increases in inventories and accounts receivable associated with growth in our business, and a decrease in accounts payable and accrued liabilities primarily associated with \$5.5 million in settlement payments to the SEC and DOJ during the three months ended March 31, 2012 related to the Foreign Corrupt Practices Act matter.

Net cash used in investing activities was \$2.0 million and \$4.1 million for the three months ended March 31, 2013 and 2012, respectively, and related to capital expenditures. Capital expenditures in the three months ended March 31, 2013 and 2012 were primarily focused on investments in increased production capacity, including equipment for our new manufacturing facility in Peoria, Arizona, and our corporate research and development facility in San Diego, California.

Net cash used in financing activities was \$29,000 for the three months ended March 31, 2013, and net cash provided by financing activities was \$16.3 million for the three months ended March 31, 2012, respectively. Net cash provided by financing activities in the three months ended March 31, 2012 primarily resulted from net proceeds from the sale of common stock of \$10.3 million, net borrowings of \$5.0 million and proceeds from the issuance of common stock under our stock-based compensation plans of \$1.3 million.

## Liquidity

As of March 31, 2013, we had approximately \$34.1 million in cash and cash equivalents, and working capital of \$57.1 million. Although we have a credit facility providing for a \$15.0 million line of credit which has not been drawn upon to date, based on the events of default discussed below as a result of our restatement of previously issued financial

statements, the bank's obligation to extend any further credit has ceased and terminated. As of March 31, 2013, we owed \$3.6 million under the equipment term loan provided by the same credit facility. In June 2013, we entered into a forbearance agreement with the

bank wherein the bank agreed to forbear from further exercise of its rights and remedies to call our outstanding debt under the credit agreement in connection with the events of default for a specified period of time.

In April 2011, we filed a shelf registration statement on Form S-3 with the SEC to, from time to time, sell up to an aggregate of \$125 million of our common stock, warrants or debt securities. During the quarter ended March 31, 2012, we sold a total of 572,510 shares of our common stock for net proceeds of \$10.3 million pursuant an At-the-Market Equity Offering Sales Agreement (“Sales Agreement”) with Citadel Securities LLC (“Citadel”) dated February 2012. Since then we have not sold any further shares under this program. As a result of the restatement of previously issued financial statements as discussed in Note 2 to our consolidated financial statements in this report, we are no longer in compliance with the ongoing eligibility requirements of this shelf registration statement on Form S-3. Therefore, the shelf registration statement is no longer effective and no further securities may be issued pursuant to this registration statement.

Management believes that the cash we expect to generate from operations, combined with available cash balances, will be sufficient to fund our operations, obligations as they become due, and capital equipment expenditures for at least the next twelve months. In addition, we may choose to issue additional debt or equity to supplement our existing cash balances and cash from operating activities.

As of March 31, 2013, we have an accrual of 561,000 Euro (\$719,000 as of March 31, 2013) for the remaining consideration due as a result of settlement of a past customer dispute, which is available to the customer as a discount on purchases of our products through December 31, 2014. Any balance of this original, non-cash settlement value of 1.3 million Euro not used as product discount by December 31, 2014 will be payable in cash at that time.

As of March 31, 2013, the amount of cash and short-term investments held by foreign subsidiaries was \$10.6 million. If these funds are needed for our operations in the U.S. in the future, we may be required to in the future, we may be required to accrue and pay taxes to repatriate these funds at a rate of approximately 5%.

#### Credit Facility

In December 2011, we entered into a credit agreement whereby we obtained a secured credit facility in the form of a revolving line of credit up to a maximum of \$15.0 million (the “Revolving Line of Credit”) and an equipment term loan (the “Equipment Term Loan”) (together, the “Credit Facility”). In general, amounts borrowed under the Credit Facility are secured by a lien on all of our assets other than our intellectual property. In addition, under the credit agreement, we are required to pledge 65% of our equity interests in our Swiss subsidiary. We have also agreed not to encumber any of our intellectual property. The agreement contains certain restrictive covenants that limit our ability to, amongst other things; (i) incur additional indebtedness or guarantees; (ii) create liens or other encumbrances on our property; (iii) enter into a merger or similar transaction; (iv) invest in another entity; (v) declare or pay dividends; and (vi) invest in fixed assets in excess of a defined dollar amount. Repayment of amounts owed pursuant to the Credit Facility may be accelerated in the event that we are in violation of the representations, warranties and covenants made in the credit agreement, including certain financial covenants. The financial covenants that we must meet during the term of the credit agreement include quarterly minimum liquidity ratios, minimum quick ratios and EBITDA targets and an annual net income target. Borrowings under the Credit Facility bear interest, payable monthly, at either (i) the bank's prime rate or (ii) LIBOR plus 2.25%, at our option subject to certain limitations. Further, we incur an unused commitment fee, payable quarterly, equal to 0.25% per annum of the average daily unused amount of the Revolving Line of Credit.

The Equipment Term Loan was available to finance 80% of eligible equipment purchases made between April 1, 2011 and April 30, 2012. During this period, we borrowed \$5.0 million under the Equipment Term Loan.

As a result of the restatement of prior period financial statements, as such financial information was previously submitted to the bank has since proven to be materially incorrect, we were in default with respect to the terms of the credit agreement beginning in the fourth quarter of 2011. In addition, as a result of the restatement of these prior period financial statements, we were not in compliance with the financial covenant pertaining to the annual minimum net income target for the fiscal year ended December 31, 2011. Although, we did meet the financial covenants of the credit agreement in all other periods since the Credit Facility was entered into, including as of December 31, 2012, these violations represent events of default under the terms of the Credit Facility, and as a result of this noncompliance, the bank's obligation to extend any further credit has ceased and terminated.

In June 2013, we entered into a forbearance agreement with the bank (“the Forbearance Agreement”). Pursuant to the terms of the Forbearance Agreement, the bank agreed to forbear from further exercise of its rights and remedies under the credit agreement to call our outstanding debt obligation in connection with the events of default for a period terminating on the earlier of September 30, 2013 or the occurrence of any additional events of default. In connection with the execution of the Forbearance Agreement, in June 2013, we posted a cash deposit of \$1.8 million with the bank and granted the bank a security

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interest therein, which will remain restricted until the bank may determine to waive the existing events of defaults discussed above, or the loan is satisfied.

As of March 31, 2013, \$3.6 million was outstanding under the Equipment Term Loan and the applicable interest rate was LIBOR plus 2.25% (2.5% as of March 31, 2013). If the bank does not exercise its right to accelerate repayment, under the original terms of the Credit Facility, principal and interest under the Equipment Term Loan are payable in 36 equal monthly installments such that the Equipment Term Loan is fully repaid by the maturity date of April 30, 2015, but may be prepaid in whole or in part at any time. As of March 31, 2013, no amounts were outstanding under the Revolving Line of Credit. Further, as of March 31, 2013, we were not eligible to borrow any additional amounts under the Credit Facility, as a result of the events of default discussed above.

#### Short-term and Long-term Borrowings

##### Short-term borrowings

Maxwell's Swiss subsidiary, Maxwell SA, has a 3.0 million Swiss Franc-denominated (approximately \$3.2 million as of March 31, 2013) credit agreement with a Swiss bank, which renews semi-annually and bears interest at 2.1%. Borrowings under the short-term loan agreement are unsecured and as of March 31, 2013 and December 31, 2012, the full amount of the loan was drawn.

Maxwell SA also has a 2.0 million Swiss Franc-denominated (approximately \$2.1 million as of March 31, 2013) credit agreement with a Swiss bank, which renews annually and bears interest at 2.4%. Borrowings under the credit agreement are unsecured and as of March 31, 2013 and December 31, 2012, the full amount available under the credit line was drawn.

Maxwell SA also has a 1.0 million Swiss Franc-denominated (approximately \$1.1 million as of March 31, 2013) credit agreement with another Swiss bank, and the available balance of the line can be withdrawn or reduced by the bank at any time. As of March 31, 2013 and December 31, 2012, no amounts were drawn under the credit line.

Interest rates applicable to any draws on the line will be determined at the time of draw.

##### Long-term borrowings

The Company has various financing agreements for vehicles. These agreements are for up to a five year repayment period with interest rates ranging from 2.0% to 5.1%. At March 31, 2013 and December 31, 2012, \$158,000 and \$159,000, respectively, was outstanding under these financing agreements.

#### Critical Accounting Policies and 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, 2012. 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, 2012. There have been no significant changes in our significant accounting policies or critical accounting estimates since the end of fiscal 2012.

#### 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 primary foreign currency exposure is related to our subsidiary in Switzerland. Maxwell SA has Euro and local currency (Swiss Franc) 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. As part of our risk management strategy, we use forward contracts to hedge certain foreign currency exposures. Our objective is to offset gains and losses resulting from these exposures with gains and losses on the forward contracts, thereby reducing volatility of earnings. We use the forward contracts to hedge certain monetary assets and liabilities, primarily receivables and payables, denominated in a foreign currency. The





change in fair value of these instruments represents a natural hedge as their gains and losses offset the changes in the underlying fair value of the monetary assets and liabilities due to movements in currency exchange rates. We enter into these foreign currency forward contracts on the last business day of each calendar quarter, therefore, as of March 31, 2013, the impact of any theoretical change in foreign currency exchange rates on the hedged monetary assets and liabilities would be equally offset by the theoretical gains and losses on the foreign currency forward contracts. In addition, our Swiss pension plan maintains certain plan investments in the Euro currency and changes in currency rates impact the reported amount of our net pension asset.

#### Fair Value Risk

We had a net pension asset of \$6.9 million and \$6.9 million at March 31, 2013 and December 31, 2012, respectively. As of the last fair value measurement date of December 31, 2012, the net pension asset included plan assets with a fair value of \$36.9 million. The plan assets consisted of 35% equity securities, 21% debt securities, 39% real estate and 5% of other investments. The fair value measurement of the real estate is subject to the real estate market forces in Switzerland. 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. We manage our risk by having a diversified portfolio.

#### Item 4. Controls and Procedures

##### Background

As discussed in Note 2, Restatement of Previously Issued Financial Statements, of the Notes to Consolidated Financial Statements included in Part I—Item 1, Financial Statements, the Audit Committee in consultation with management and the Board of Directors, in March 2013, concluded that the Company's previously issued financial statements for the fiscal year ended December 31, 2011 and the first three quarters of fiscal year 2012 should no longer be relied upon. Accordingly, the Company restated its previously issued financial statements for those periods within its annual report on Form 10-K for the year ended December 31, 2012. See Note 2, Restatement of Previously Issued Financial Statements, of the Notes to Consolidated Financial Statements included in Part I—Item 1, Financial Statements, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations—Background on the Restatement, and and Supplementary Data.

##### Evaluation of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Securities and Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2012, 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 not effective as of the end of the period covered by this Quarterly Report on Form 10-Q, because of the material weaknesses in internal control over financial reporting discussed below.

##### Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

For certain sales transactions, sales and other personnel have entered into side arrangements with customers for return rights, extended payment terms, profit margin protection and transfer of title terms that were not communicated to the finance and accounting department, or to our CEO. As such, we did not maintain effective controls over our revenues and accounts receivable balances as the sales price was not fixed or determinable nor was collectability reasonably assured at the time revenue was originally recognized. As a result, we recognized revenue prematurely. These errors resulted in the restatement of our consolidated financial statements for each of the previously reported interim and

annual periods within the fiscal years ended December 31, 2012 and 2011. These control deficiencies could result in misstatements of revenue and accounts

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receivable balances and related disclosures that would result in material misstatement of the consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that each of these control deficiencies constitutes a material weakness. The specific material weaknesses are:

we did not maintain adequately designed controls to ensure accurate recognition of revenue in accordance with GAAP. Specifically, controls were not effective to ensure that deviations from contractually established sales terms were authorized, communicated, identified and evaluated for their potential effect on revenue recognition. Further, we did not adequately train and supervise sales personnel to ensure that such personnel were appropriately conscious of the requirement to communicate deviations from contractually established sales terms to finance and accounting personnel in order for revenue recognition in our financial statements to be accurately recorded; and, We did not perform a robust fraud risk assessment taking into consideration the various ways that fraud may be perpetrated to misappropriate assets or facilitate fraudulent financial reporting. We failed to identify controls specifically designed to prevent and detect fraud risks relating to revenue recognition.

#### Remediation Plan

We are in the process of developing a plan for remediation of the above material weaknesses and plan to undertake the following initiatives:

improve procedures to ensure the proper communication, approval and accounting review of deviations from sales contracts, and provide periodic training and a formal revenue recognition policy to sales personnel and others involved in negotiating contractual sales terms, in order to improve awareness and understanding of revenue recognition principles under GAAP; and,

implement an improved fraud risk assessment process to consider specific ways in which asset misappropriation or fraudulent financial reporting might occur and ensure controls are identified to address the risk of fraud.

Management is committed to a strong internal control environment and believes that, when fully implemented and tested, the measures described above will improve our internal control over financial reporting. We will continue to assess the effectiveness of our remediation efforts in connection with our future assessments of the effectiveness of internal control over financial reporting.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under Note 10 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, 2012, which are incorporated herein by reference. Item 2, 3, 4 and 5 are not applicable and have been omitted

Item 6. Exhibits

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. \*

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. \*

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. \*

101 The following financial statements and footnotes from the Maxwell Technologies, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 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. \*\*

\* Filed herewith.

\*\* Furnished herewith.

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 1, 2013

By: /s/ David J. Schramm  
David J. Schramm  
President and Chief Executive Officer

Date: August 1, 2013

By: /s/ Kevin S. Royal  
Kevin S. Royal  
Senior Vice President, Chief Financial  
Officer, Treasurer and Secretary