

CORPORATE GOVERNANCE REFORMS

- Defendants agree that the provisions detailed herein shall remain in effect for no less than four (4) years.
- Maxwell agrees that the filing and prosecution of the derivative actions were a substantial cause of the following reforms.

I. REVISIONS TO MAXWELL’S INTERNAL CONTROLS

On August 1, 2013, Maxwell disclosed that as of December 31, 2012:

- 1) “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
- 2) “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.”

After the filing of the Actions, during the quarter ended December 31, 2013, Maxwell implemented the following remediation measures to address the material weaknesses listed above:

- 3) “We implemented a formal revenue recognition policy and provided training on the 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. Further, we implemented a formal order deviation approval process whereby deviations from established customer sales terms are approved by the finance and accounting department, in order to ensure that such deviations are accurately reflected in our financial statements”; and
- 4) “We implemented a more robust fraud risk assessment process considering specific ways in which asset misappropriation or fraudulent financial reporting might occur and ensured controls were identified to address the risk of fraud.”

Maxwell agrees that its Audit Committee shall monitor these internal controls, implement any changes that require further implementation or augmentation, and assess the internal controls on an annual basis to determine if further improvements are necessary.

II. BOARD OF DIRECTORS

A. Board Independence

Two-thirds (2/3) of the members of the Board shall be independent within the meaning of the NASDAQ Global Market (“NASDAQ”) listing standards, as well as the following additional requirements for independence, for a period of four (4) years:

1. has not been employed by the Company or its subsidiaries or affiliates (defined for purposes of this demand as any individual or business entity that owns at least five percent (5%) of the securities of the Company having ordinary voting power) within the last five (5) calendar years;

2. does not own or control, directly or indirectly, five percent (5%) or more of the voting power of the Company;

3. has not received, during the current calendar year or any of the three (3) immediately preceding calendar years, remuneration, directly or indirectly, other than *de minimus* remuneration, as a result of service as, or compensation paid to, an entity affiliated in which the individual serves as (i) an advisor, consultant or legal counsel to the Company or to a member of the Company’s senior management; or (ii) a significant customer or supplier of the Company;

4. has no personal services contract(s) with the Company or any member of the Company’s senior management;

5. is not a director, officer, or employee of a not-for-profit entity that receives significant contributions from the Company;

6. during the current calendar year or any of the three (3) immediately preceding calendar years, has not had any business relationship with the Company for which the Company has been required to make disclosure under Regulation S-K of the SEC, other than for service as a director or for which relationship no more than *de minimus* remuneration was received in any one such year; provided, however, that the need to disclose any relationship that existed prior to a director joining the Board shall not in and of itself render the director non-independent;

7. is not employed by a public company at which an executive officer of the Company serves as a director;

8. has not had any of the relationships described above with any affiliate of the Company for at least the three (3) preceding years; and

9. is not a member of the immediate family of any person who fails to satisfy the qualifications described above.

B. Meetings in Executive Session

The Board shall hold an executive session at least quarterly at which employee directors are not present.

C. Director Education

Each member of the Board shall attend one training course provided by a nationally-recognized corporate director education provider within one year of court approval of the settlement, at Maxwell's expense. Each director will share with the full board the substance of each training session.

D. Committee Chairs

No individual member of the Board shall chair more than one standing committee of the Board.

E. Governance Committee

The Chair of the Governance Committee will communicate with the Chief Compliance Officer on a quarterly basis to discuss the governance checklist and assist the Chair of the Governance Committee for preparation of the agenda and compilation of applicable governance concepts and materials to be reviewed. The governance checklist will be circulated to the governance committee in advance and reviewed at each meeting. All directors will be invited to join the governance committee meetings for education topics and periodically for topics to be highlighted to the full board.

III. AUDIT COMMITTEE

A. Audit Committee Charter

Maxwell's Audit Committee Charter shall be amended as necessary to reflect the following policies and procedures:

The Audit Committee shall continue to consist of at least three members who meet the NASDAQ independence requirements, as well as the independence standards. One member of the Audit Committee shall have a financial background that would qualify them as financial experts under section 407 of Sarbanes-Oxley of 2002 and rules promulgated thereunder, 15 U.S.C.A. §7265.

B. Audit Committee Chair

The Chairman of the Audit Committee shall be elected by the Independent directors of the Board taking into due consideration the recommendation of the Governance & Nominating Committee.

C. Audit Committee

The Audit Committee shall meet with the Company's legal, internal audit, and regulatory operations departments on an ad hoc basis to exercise meaningful oversight over financial risks arising out of significant new capital expenditures, including the Board's authorization of Company stock repurchases. The Audit Committee shall meet at least four times during each calendar year.

1. The Audit Committee shall keep the Board apprised of its activities and shall directly advise the Board in detail of its material findings on a periodic basis.

2. The Audit Committee shall meet separately with and receive reports from the Company's independent auditors, and the Chief Compliance Officer at least once per quarter, and more often as may be necessary, regarding significant internal controls issues and material enterprise, operational, financial, legal/regulatory, and reputational risks. The risk review must include identification and evaluation of risks arising from new business initiatives, assessments of significant developments affecting recognized risks arising out of established business segments and strategies, and evaluation of the Company's disclosure obligations arising from these risks.

3. The Audit Committee shall ensure that the Company maintains an internal audit department, which is adequately staffed, trained, and supervised, and is independent of the accounting department.

4. The Audit Committee shall review and discuss with the appropriate members of management, the independent auditors, and internal auditors:

i. Management's assessment of internal control over financial reporting and the related report and attestation on internal control over financial reporting.

5. The Audit Committee will report to the full board at each regularly scheduled board meeting. The Audit Committee report will be a standing item on the board agenda and will be reflected in the board minutes.

IV. DUTIES OF AUDIT AND GOVERNANCE COMMITTEES

The Company will review its audit and governance committee charters to ensure that these committee charters include in substance the suggested responsibilities of Plaintiffs' Proposed RCGA Committee at V.A. Nos. 1-12.

V. EMPLOYEE COMPLIANCE TRAINING

The Company shall mandate a Compliance Management Program to be headed by the Chief Compliance Officer. The training program shall be comprehensive and shall cover all matters of compliance with Company policies and United States as well as international laws. Specifically, the Company shall mandate that the training program include:

1. Training concerning compliance with GAAP, revenue recognition, and other financial reporting regulations and policies shall be annual for all appropriate Maxwell employees, Board members, and independent contractors. In the event that a person is appointed or hired after the annual training for a particular year, a special training session shall be held for such individual as soon as reasonably practicable after his or her appointment or hiring;

2. Training shall include coverage of the Company's Code of Conduct and shall also discuss recent developments regarding GAAP, revenue recognition and other financial reporting regulations and policies including changes in the law and convictions/settlements;

3. Training shall be in person where practicable;

4. Upon completion of training, the person receiving the training shall provide a written certification as to his or her receipt and understanding of the obligations under the Company's policies and the law; and

5. Training to teach employees about the Company's Non-Retaliation (Whistleblower) Policy and encourage employees to report any wrongdoing as soon as it is detected. The Company will amend its current Whistleblower policy to provide that all complaints will be routed to persons not employed by the company.

6. The company will maintain in substance its current anti-corruption training manual and related training program for new employees, including employee certification that they have completed the program and agree to abide by the company's anti-corruption policies.

VI. INTERNAL AUDIT FUNCTION

After the restatement, the Company implemented an internal audit function . This internal audit function shall remain in place for four (4) years after implementation. After the expiration of this four-year period, the Board shall evaluate the strengths and weaknesses of the implemented internal audit function and make appropriate changes in the best interest of the Company.

The Internal Auditor has been appointed by the Board and reports to the Audit Committee quarterly. The responsibilities of the Internal Auditor include:

1. Devising an Internal Audit Plan for each fiscal year which will be presented to the Audit Committee. The Internal Audit Plan shall include an annual or on-going assessment of the system of internal control in order to ensure that (i) appropriate financial reporting procedures are in place and being followed by the Company's employees to minimize the risk of non-compliance with financial reporting rules and regulations, and (ii) the risk of overstatement of asset value is minimized. Appropriate Company operations as dictated by the Internal Audit Plan shall be subject to an internal audit review each year; and

2. Preparing a written report for each internal audit performed describing the internal audit's findings, opinions and recommendations, if any. As appropriate, after review and comment from potentially impacted operational departments, these written reports (together with any response from potentially affected departments) shall be directed to the CEO, CFO, Chief Compliance Officer, General Counsel, and the Audit Committee for their review and, if necessary, remedial action.

VII. EXECUTIVE REPORTS

Absent extraordinary circumstances, at each regularly scheduled Board meeting, the Company's CFO (or his or her designee) shall provide a report as to the Company's financial condition and prospects.