

# Battery maker A123 files for bankruptcy protection (Update)

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In this Feb. 23, 2007, file photo, President Bush, center, listens to Dave Vieau, President and CEO of A123 Systems, right, as he is shown a Toyota Prius plug-in hybrid car utilizing a lithium power battery during a demonstration of alternative fuel automobiles on the South Lawn of the White House. Short of cash and hurting from slow sales of electric cars, battery maker A123 Systems Inc. sent its U.S. operations into bankruptcy protection on Tuesday, Oct. 16, 2012, and quickly sold its automotive assets. The filing is likely to stoke the debate in Washington over the Obama administration's funding of alternative energy companies. In 2009, A123 got a \$249 million Department of Energy grant to help it build U.S. factories. Republicans have accused Obama of wasting stimulus money on the companies after the failure of politically connected and now-bankrupt solar power company Solyndra LLC, which left taxpayers on the hook for \$528 million. (AP Photo/Charles Dharapak, File)

(AP)—After years of struggling in the nascent market for electric cars, battery maker A123 Systems Inc. filed for bankruptcy protection Tuesday.

The filing drew criticism from Republicans who claim the Obama administration has wasted millions of taxpayer dollars on alternative energy companies like A123.

The company received a \$249 million Department of Energy grant three years ago with high hopes that it would help foster a U.S. battery industry. At the time, the country was far behind the world leaders, Korea and China.

But the technology offered by the Waltham, Massachusetts-based A123 Systems turned out to be ahead of its time. Americans continue to shun costly electric cars in favor of gas-powered ones.

"Sometimes when you push the edge of technology, you fall over that edge," said Aaron Bragman, an automotive industry analyst at IHS Automotive near Detroit.

The filing doesn't necessarily mean the end for A123 System's operations. The company sold its automotive unit to parts maker Johnson Controls Inc., which plans to keep A123 plants open and sell the company's lithium-ion battery technology.

But the bankruptcy filing stoked Republican criticism of Obama's support for "green" energy companies, which have received millions in grants and loans. Almost instantly, A123 became an issue in the presidential campaign.

The bankruptcy is "yet another failure for the president's disastrous strategy of gambling away billions of taxpayer dollars on a strategy of

government-led growth that simply does not work," Andrea Saul, spokeswoman for Republican challenger Mitt Romney, wrote in an e-mail.

Obama's campaign countered, saying the investments have more than doubled renewable energy production from wind and solar sources, creating jobs and bringing manufacturing back to the country. The administration has said the "vast majority" of companies that received loans are still expected to pay them back in full, with interest.

A123 joins solar panel maker Solyndra LLC as another example of companies that got government money but failed. The politically connected and now bankrupt Solyndra left taxpayers on the hook for \$528 million after it failed to repay a government loan.



This Thursday, Aug. 6, 2009, file photo, shows A123 Systems Inc.'s high power Nanophosphate Lithium Ion Cell for Hybrid Electric Vehicles batteries in Livonia, Mich. Short of cash and hurting from slow sales of electric cars, battery maker A123 Systems Inc. sent its U.S. operations into bankruptcy protection on Tuesday, Oct. 16, 2012, and quickly sold its automotive assets. The Chapter 11 filing in Delaware came one day after A123 warned that it likely would miss

some debt payments and could be headed for court-supervised restructuring. (AP Photo/Paul Sancya, File)

The government also made millions in loans to electric car makers Tesla Motors and Fisker Automotive, both of which are struggling. Tesla has never made a profit but is starting to repay its loans, while Fisker is trying to raise money so it can build a car that's less expensive than its \$100,000 Karma.

Bragman said that although the government will lose cash, its seed money was needed to foster the electric car and battery industries. Other governments such as Japan and China, he said, play similar roles in growing new industries.

"You run the risk of losing some, but you run an even bigger risk of falling behind globally if you're not ready when the technology suddenly blossoms, which it will," he said.

A123's demise as an independent business reflects the problems of the electric-car industry. Americans have been slow to buy the vehicles because they're expensive, and many models have limited range and can run out of power on longer trips. Lackluster sales of EVs and batteries left A123 with huge losses and a plunging market value.

Martin Zimmerman, a former Ford executive and now a professor at the University of Michigan, said electrics still cost too much and don't make financial sense when compared with efficient gas-powered cars.

"This is one in a series of news stories recently that says the commercialization of this technology is not as imminent as might have been thought," he said.

After the news hit, A123's already depressed stock price fell even further. The shares closed at 6 cents Tuesday. They traded for more than \$20 on the day of its initial public offering in 2009.

Unlike a loan, A123's government grant was never supposed to be repaid. The company had to match the money as it was used. It received \$132 million of the grant.

The government stimulus grant was used to help build plants in the Detroit suburbs of Livonia and Romulus.

The company also got a \$6 million research grant in 2007 under the Bush administration, the Energy Department said.

Under Tuesday's deal, Johnson Controls will pay \$125 million for A123's lithium-ion battery technology, other products and customer contacts. It will also take over A123's two Michigan factories, cathode ray factories in China and an equity interest in a Chinese battery company.

Johnson Controls planned to keep the factories running but said it was too early to give details about A123 employees or customers.

A123 said it expects to continue operations as it moves toward the sale to Johnson Controls. The company said it is in talks to sell its grid, commercial, government and other operations that weren't purchased by Johnson Controls.

The company was to supply batteries for the new all-electric Chevrolet Spark subcompact from General Motors Co. It also has a contract with BMW AG.

A123 has struggled for several years, and ran into serious trouble this

spring after a costly recall of its batteries. Bragman said it wasn't able to recover from the expense.

The company warned that it might not be able to stay in business unless it got more financing, and just two months ago, it announced a \$450 million lifeline from Chinese auto parts maker Wanxiang Group Corp. But A123 said Tuesday that the deal has been scrapped.

A123 subsidiaries outside the U.S. were not included in the bankruptcy filing.

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