

Chinese Rescue of Battery Maker Saves U.S. Jobs, CEO Says: Cars

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By Alan Ohnsman and Hasan Dudar

Aug. 10 (Bloomberg) -- A123 Systems Inc.'s chief executive officer said the company's financial rescue by China's largest auto-parts maker will preserve U.S. jobs, after the agreement drew criticism from congressional Republicans.

A123, a maker of lithium-ion batteries for electric cars, may get financing worth as much as \$450 million from Wanxiang Group Corp. The deal that may give Wanxiang an 80 percent stake in Waltham, Massachusetts-based A123, recipient of a \$249 million federal grant for U.S. factory construction, is opposed by Representative Cliff Stearns, a Florida Republican.

The federal funds "can only be used for building factories in North America and the creation of jobs, and that's what's been done," David Vieau, A123's president and CEO, said in a telephone interview yesterday. "This is a step toward financing the company so we can continue on that mission."

The possibility of A123 being bought by a Chinese company fuels further political debate over government financing of alternative-energy and transportation businesses. Federal grants and loans to companies including A123, Fisker Automotive Inc. and Tesla Motors Inc. have drawn scrutiny from congressional Republicans following the September 2011 bankruptcy filing of solar-panel maker Solyndra LLC two years after getting a \$535

million loan guarantee from the U.S. Energy Department.

Stearns, author of a pending bill intended to prevent more situations like Solyndra's, said this week that A123's financing arrangement with Wanxiang raises possible security concerns.

"It appears the Department of Energy and the Obama administration have failed to secure sensitive taxpayer-funded intellectual property from being transferred to a foreign adversary," Stearns said in a statement e-mailed Aug. 8.

'Growing Concern'

"There is definitely a growing concern about foreign-controlled or -owned companies attempting to gain a foothold into our supply chain in the United States," Stearns said. "We need to make sure the federal government isn't an unwitting accomplice to the theft of our own national secrets by providing them with multimillion-dollar government grants and loans."

A123, which has posted at least 12 straight quarterly losses, needed a financial lifeline after struggling with costs from a recall of batteries for plug-in hybrid luxury carmaker Fisker. A political debate over the Wanxiang agreement is inevitable, according to Michael Lew, an analyst at Needham & Co. in New York.

"If you already have lawmakers talking, you can pretty much assume how it's going to play out," said Lew, who recommends holding A123 shares.

An acquisition of A123 "raises more troubling questions

about the direction of this government-led effort,” Becca Watkins, spokeswoman for Representative Darrell Issa of California, the House Oversight and Government Reform Committee chairman, said in an e-mail message.

Michigan Factory

“This acquisition appears to have been made possible by taxpayer funds made available through the stimulus,” she said.

More important than the ownership is where the work gets done, said Lew.

A123 has a factory in Livonia, Michigan. The company also has a contract to supply batteries for General Motors Co.’s Spark electric car; Bayerische Motoren Werke AG’s BMW 5 Series hybrid sedan; and rechargeable and hybrid cars from China’s SAIC Motor Corp.

“What’s important is, even if it’s owned by the Chinese, that the jobs are here and the manufacturing is performed in the United States,” Lew said. “That’s ultimately the goal -- job creation or at least an industry fostering and helping the economic climate here in the states.”

Stock Rises

A123 rose 23 percent to 61 cents at the close in New York yesterday, after gaining 6.4 percent on Aug. 8 following the deal with Hangzhou, China-based Wanxiang. The stock has fallen

62 percent this year as the costs from the Fisker recall prompted A123 to pursue additional fundraising.

Stearns's and Issa's opposition highlights the challenges Chinese companies face when expanding in the U.S. Last month, two Democrats said Cnooc Ltd.'s \$15.1 billion offer to buy Nexen Inc., which holds U.S. oil leases in the Gulf of Mexico, should be held up until the U.S. negotiates concessions from China.

A123, which calls itself the U.S. leader in advanced batteries, used the Energy Department's funds to build the Michigan factory that made the flawed Fisker packs.

"I'd be less than honest if I said I didn't expect some of that," Vieau said of criticism of the Wanxiang agreement.

"The optics on it allow you to look at it and say, 'A Chinese company is buying into an American company that has received support for developing factories in North America,'" he said. The accord strengthens A123's balance sheet, which is "a good thing for our company, for our investors and for our stakeholders."

Energy Grant

The funds A123 received from the Energy Department can only be used for its U.S. operations, said Amy Brundage, a White House spokeswoman.

"Under the terms of the grant agreement, the company can only use funding to support U.S. manufacturing facilities," Brundage said in an Aug. 8 e-mail. "Any changes to the scope of

the grant would have to be approved by DOE, and DOE would not approve any changes that allowed the grant money to be used for anything other than investment in the manufacturing facilities here in the U.S. or U.S. jobs.”

A123 had “engagement” with the Energy Department before concluding the Wanxiang deal and that continues, Vieau said.

Financing Arrangement

Wanxiang would give A123 as much as \$75 million in debt financing under the terms of the nonbinding agreement, A123 said in an Aug. 8 statement. Wanxiang may also buy \$200 million of senior secured convertible notes and invest \$175 million by exercising warrants, which could be converted for shares representing a stake of about 80 percent.

“It does imply that they could become the majority owner at the end of this deal,” Vieau said. “The implication is that they would have access to how we make batteries. But we’re a commercial maker of batteries, and frankly 98 percent of the battery industry today is owned, operated and controlled by companies that are operating out of Korea, Japan or Taiwan and China.”

Wanxiang has been expanding in the U.S. It said in February that it would invest \$25 million in Kansas City, Missouri-based Smith Electric Vehicles Corp., an A123 customer.

Three calls to Wanxiang’s public-relations office yesterday were unanswered.

A123, with investors including General Electric Co., Qualcomm Inc. and Japan's IHI Corp., said in March it needed to adjust fundraising plans because of the \$55 million cost of recalling Fisker Karma battery packs with misaligned hose clamps and other flaws.

The Wanxiang funding provides financial stability to A123 in the near term and improves A123's prospects for boosting business in China and other global markets, Vieau said.

"This is a global industry that we're involved in," he said. "If we're going to be a player at large scale, we need a stronger balance sheet and a partner to do it."

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--With assistance from Brian Wingfield in Washington, Margaret Talev in Colorado Springs and Tian Ying in Beijing. Editors: Jamie Butters, Stephen West.

To contact the reporters on this story:

Alan Ohnsman in Los Angeles at +1-323-782-4236 or aohnsman@bloomberg.net;

Hasan Dudar in New York at +1-248-827-2960 or hdudar@bloomberg.net

To contact the editor responsible for this story:

Jamie Butters at +1-248-827-2944 or jbutters@bloomberg.net