

EDITORIAL - The fight for A123 Systems goes on even after the sale

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The U.S. Government is coming under pressure to block the deal that will see the bankrupt lithium-ion battery developer sold to a Chinese firm

Though the sale of A123 Systems may have been rubber stamped, the fight for the assets of the bankrupt lithium-ion battery supplier may not be over yet. Last week saw Chinese conglomerate Wanxing Group win the auction for A123 systems with a bid of USD256.6 million.



However, rival bidder Johnson Controls maintains its interest in A123's automotive assets — including plants in Livonia and Romulus, Michigan — as Wanxiang's bid could be nullified by the US government.

"We're still interested in this if the sale doesn't work out because of [the failure to get] regulatory approval," said Alex Molinaroli, president of Johnson Controls power solutions' business. "I don't believe this is done yet."

In a bankruptcy hearing last Tuesday where Wanxing received court approval for its purchase, the judge said he was “troubled” that a US rival might be working to kill the deal. However this hearing is not the final hurdle for Wanxing. It still faces approval from the Committee on Foreign Investment in the United States, a government body led by Treasury Secretary Timothy Geithner that reviews deals that could result in the control of a US business by a foreign person or company.

There are a number of issues being cited by politicians that they see as areas of concern for the deal. Firstly US Department of Energy, which funded USD132 million of a USD249.1 million federal grant A123, says it has liens on the property and equipment. According to a government official, though the remainder of the grant will not be awarded, there has been rancour over the fact that a company and its intellectual property funded by US taxpayers could slip away to an economic rival in China.

In addition to the government grants, A123 was also the recipient of several multi million-dollar contracts with the US military. In an attempt to alleviate these concerns, Wanxiang has excluded A123's government business from the new deal.

It's not by any chance a certainty that Wanxing will walk through the government approval process. A previous deal between A123 Systems and Wanxiang collapsed after it encountered opposition from lawmakers concerned about the transfer of US taxpayer dollars and technology to China. That allowed Johnson Controls, which bid about USD250 million for A123 before withdrawing, to step forward.

If the foreign investment committee does not approve the sale, this could see Wanxiang walk away, meaning it would forfeit a USD25 million deposit that would go toward repaying A123's creditors. If that were to happen, then A123 could again be up for sale. Johnson Controls and NEC Corp of Japan made a final runner-up bid of about USD251 million, according to Molinaroli.

Behind this though is the fact that Wanxiang's final bid for A123 Systems won't be enough to pay off the battery maker's lenders. Because the total purchase price for A123's assets would be less than the total amount owed to creditors, shareholders shouldn't expect any recoveries.



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