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# A Buy or "Bye-Bye" for A123 Systems?

By [Tamara Rutter, The Motley Fool](#)

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Shares of **A123 Systems** (NAS: [AONE](#)), a maker of lithium-ion batteries used in electric vehicles, soared to a new high on Tuesday, only to make a partial retreat from those gains later in the week. The stock surged after the company announced a "breakthrough" in battery technology that will enhance the performance of its cells in extreme temperatures. But is this truly a "Hurrah" moment for the struggling company or a desperate attempt to restore its damaged image?

## Playing catch-up

A123 Systems hit the public market in 2009 when it debuted on the Nasdaq at \$13.50 a share in what was the largest stock offering of that year. Today, shares trade around \$1.30. But wishful investors are still hoping to find growth in this depressed name, despite its many setbacks. True, the battery maker has a handful of notable partners in the auto industry, including **General Motors** (NYS: [GM](#)), **BMW**, and electric carmaker **Fisker**. However, these contracts didn't come easily for A123. In fact, GM turned down the company's battery technology for its Chevy Volt vehicle in 2010 and only recently cut a deal with the battery maker for GM's new Spark electric car. But what about the companies that are starting to gain traction in the electric vehicle space - names like **Ford** (NYS: [F](#)) and **Tesla Motors** (NAS: [TSLA](#)) ?

Automotive giant Ford brushed off [bids from A123 Systems](#), instead awarding its battery contracts to Korean-based **LG Chem**. Many foreign battery-producers have a competitive advantage due to economies of scale, which means they can offer cells to major automakers at more affordable prices. This means A123 needs to ramp up production if it hopes to gain an edge in the industry. Unfortunately, I don't see this happening anytime soon.

## A stalled start

Tesla also gave A123 the cold shoulder when it paired with **Panasonic** for next-generation cell technology. In retrospect, this was a smart decision for Tesla. That's because A123 went on to pen a deal with Tesla's largest competitor, Fisker, which ultimately ended in a \$55 million recall of faulty lithium-ion batteries made for the automotive maker's Karma plug-in car.

More concerning is the fact that A123's defective batteries were produced at a time when the company had plenty of resources, including substantial capital from its stock offering a year earlier and \$249 million in federal stimulus grants. If the company can't keep its head above water under those circumstances, how can investors expect it to thrive now?

Tesla, which also took loans from the U.S. Department of Energy, is showing the green tech sector how it's done. The all-electric sports car-maker will become the first start-up to complete requirements of the Advanced Technology Vehicle Manufacturing program when it begins repaying the loans later this year -- a milestone A123 can only dream of one day achieving.

A123 has yet to post a profit since going public more than three years ago and carries more than \$162 million in debt on its balance sheet. To be clear, I'd love to see A123

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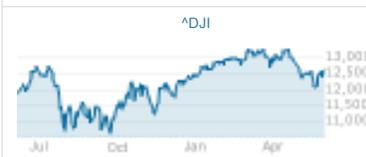


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and others like it succeed. A happy ending for the company could only improve the adoption rate of electric vehicles. Regrettably, I don't think that's in the stars for A123.

**Game-changer? Who, you?**

The company's new [Nanophosphate EXT](#) cells promise superior performance in extreme high and low temperatures versus competing batteries. This sounds promising. But how reliable is the news, considering that not even two weeks ago A123 alerted shareholders of a possible bankruptcy at the company?

Bloomberg quoted Wunderlich Securities analyst Theodore O'Neill *on the subject as saying, "New battery technologies are a dime a dozen, do nothing to solve the company's current problems and can take years to develop and get into production." And even an industry insider like Tesla CEO Elon Musk doesn't have a lot of faith in so-called "advancements" in battery technology.*

*At the company's shareholder meeting earlier this month, Musk said: "There are few industries with more BS than the battery industry. It's quite remarkable." Given these insights, I'm not convinced that A123 has stumbled upon the technology of cheaper electric cars, nor do I believe the company is headed for a turnaround on the news. Instead of investing on false hope, I invite you to discover [three stocks that are disruptive to manufacturing](#) in this free report from The Motley Fool. [Click here to get your free copy of the report titled: "The Future is Made in America."](#)*

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*At the time [this](#) article was published Foolish contributor Tamara Rutter owns shares of Tesla Motors. Follow her on [Twitter](#), where she uses the handle [@TamaraRutter](#), for more Foolish insights and investing advice. The Motley Fool owns shares of Tesla Motors and Ford Motor. [Motley Fool newsletter services](#) have recommended buying shares of Ford Motor, General Motors Company, and Tesla Motors. [Motley Fool newsletter services](#) have recommended creating a synthetic long position in Ford Motor. The Motley Fool has a [disclosure policy](#). We Fools may not all hold the same opinions, but we all believe that [considering a diverse range of insights](#) makes us better investors. Try any of our Foolish newsletter services [free for 30 days](#).*

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