

A123 Systems Falls On News Of Defect, New Costs

The Associated Press

WALTHAM, Mass. (AP) — Shares of A123 Systems tumbled by double digits to an all-time low Monday after the maker of batteries for electric cars estimated that it would spend about \$55 million to replace battery modules and packs that might be defective.

Because of the problem, customers' battery equipment could fail early. But the defective equipment does not pose a safety threat, A123 said. Five auto customers received parts that could have had defective cells, CEO David Vieau said Monday during a conference call.

A123 Systems expects to start shipping replacement packs and modules to affected customers this week. It will pay to replace the equipment over the next several quarters.

The extra costs come as A123 Systems has been spending beyond its revenue. It went public in September 2009 and has never reported a quarterly profit.

The company has sufficient liquidity to pay for the replacements, but said the company will likely adjust its fund-raising strategy because of the additional cost, Vieau said.

A123 said the affected equipment was limited to products made in its Livonia, Mich., factory. It said is taking steps to improve its manufacturing process, including the hiring in January of Chief Operating Officer Ed Kopkowski. He was previously a vice president at auto supplier Dana Holding Corp.

One of A123's customers, carmaker Fisker Automotive, said Monday that it will upgrade customer warranties because of the battery replacement. The new warranty will apply to existing and future 2012 models of the luxury Karma model. Fisker said A123 will replace all affected battery modules and packs for the Karma.

The company lowered its full-year revenue outlook late in 2011 after Fisker cut orders for A123's battery packs.

Shares of A123 Systems Inc. slid 24 cents, or 14 percent, to \$1.46 in afternoon trading, and fell as low as \$1.45. The Waltham, Mass., company went public 2.5 years ago at \$13.50 per share.

The stock on Monday gave up all its gains from earlier this month, when the company announced that it would supply Indian automaker Tata Motors with lithium ion battery packs for use in commercial vehicle hybrid electric systems.

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General Motors Co. in August chose A123 to product batteries for use in future electric vehicles.

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