

SCHEDULE 1

BIDDING PROCEDURES

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By a motion dated October 16, 2012 (the "Motion"), A123 Systems, Inc. and certain of its subsidiaries, as debtors and debtors in possession (collectively, the "Debtors") sought, among other things, approval of the procedures related to the proposed sale of substantially all of the Debtors' assets, including, but not limited to, the Purchased Assets (as defined in the Stalking Horse APA (as defined below)). On November [*], 2012, the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") entered an order (the "Sale Procedures Order") authorizing the Debtors to market substantially all of the Debtors' assets, including the Purchased Assets, through, among other means, the bidding procedures described below (the "Bidding Procedures"). As part of the Bidding Procedures, the Bankruptcy Court has scheduled a hearing to consider approval of the sale of the Applicable Assets and/or the Remaining Assets (each as defined below) to the Successful Bidder(s) (as defined below), to be conducted on [Dec. 11], 2012, at [2:00 p.m.] (prevailing Eastern Time) at the Bankruptcy Court before the Honorable Judge Kevin Carey (the "Sale Hearing"). Please note that all capitalized terms used but not otherwise defined herein shall have the meanings set forth in the Stalking Horse APA.

I. Stalking Horse Bid

The Debtors have executed an Asset Purchase Agreement (collectively with all ancillary documents and agreements, the "Stalking Horse APA") with Johnson Controls, Inc., as purchaser (the "Stalking Horse Bidder"), dated as of October 16, 2012, which contemplates a set of related transactions (collectively, the "Sale Transaction") for the sale of the Purchased Assets to the Stalking Horse Bidder in consideration for the Purchase Price (as defined in the Stalking Horse APA), all subject to the terms and conditions set forth in the Stalking Horse APA.

II. Important Dates for Potential Competing Bidders

These Bidding Procedures provide for an opportunity for interested parties to qualify and participate in the Auction (as defined below) and submit competing bids for (i) all or a portion of the Purchased Assets, together with such other assets of the Debtors as Qualified Bidders (as defined below) may seek to purchase (such assets collectively, as to any Qualified Bidder, the "Applicable Assets"); or (ii) all or a portion of the Debtors' remaining assets not constituting the Purchased Assets (including, without limitation, the Debtors GRID, Governmental and/or Commercial lines of business (hereafter the "Remaining Assets"). The Debtors shall, in consultation with the Committee (as defined below) and counsel to the United States Department of Energy:

- (a) accept bids until the Bid Deadline (as defined below); and
- (b) assist Potential Bidders (as defined below) in conducting their respective due diligence investigations until the day of the Auction (as defined below) (in the case of Potential Bidders who become Qualified Bidders (as defined below)) or the Bid Deadline (in the case of Potential Bidders do not become Qualified Bidders) and conduct an auction (the "Auction") among Qualified Bidders (as defined below) on [Dec. 6], 2012] to identify the Successful Bid(s) (as defined below).

III. Assets to Be Sold

The Debtors seek to sell (i) the Applicable Assets, which includes the “Purchased Assets” as set forth in Section 2.1 of the Stalking Horse APA; and/or (ii) all or a portion of the Remaining Assets to the maximum extent permitted by Section 363 of the Bankruptcy Code, including the Assumed Contracts and Assumed Leases (as such terms are defined in the Sale Procedures Order) as any Qualified Bidder may seek to purchase at the Auction, free and clear of any and all Claims (as defined below) subject to certain conditions.

IV. The Bidding Process

The Debtors shall (in consultation with the Committee and counsel to the United States Department of Energy): (a) coordinate the efforts of Potential Bidders in conducting their respective due diligence investigations regarding the Purchased Assets, Applicable Assets and/or the Remaining Assets; (b) determine whether any person or entity is a Qualified Bidder; (c) receive and evaluate bids from Qualified Bidders; and (d) administer the Auction. The foregoing activities are referred to, collectively, as the “**Bidding Process**.” Neither the Debtors nor their representatives shall be obligated to furnish information of any kind whatsoever to any person or entity that is not a Potential Bidder (or their legal counsel and financial advisors) and the Debtors and their representatives shall use good faith efforts to provide all Potential Bidders with substantially similar access and information.

Any person or entity who wishes to participate in the Bidding Process must meet the participation requirements for Potential Bidders below and must thereafter submit a Qualified Bid to become a Qualified Bidder.

V. Participation Requirements

To participate in the Bidding Process, each interested person or entity must deliver the following documents to the parties set forth below (the “**Participation Materials**”) at least seven (7) days before the Bid Deadline (or such later date to which the Debtors consent, but in no event prior to the commencement of the Auction):

(a) An executed confidentiality agreement in form and substance satisfactory to the Debtors (to the extent such entity is not already party to an acceptable confidentiality agreement with the Debtors);

(b) A statement demonstrating to the Debtors’ satisfaction after consultation with the Committee a *bona fide* interest in purchasing all or a portion of the Applicable Assets from the Debtors and/or all or a portion of the Remaining Assets from the Debtors;

(c) Current audited financial statements of (i) the Potential Bidder, or (ii) if the Potential Bidder is an entity formed for the purpose of acquiring all or a portion of the Applicable Assets or all or a portion of the Remaining Assets, current audited financial statements of the equity holder(s) of the Potential Bidder who shall either guarantee the obligations of the Potential Bidder or provide such other form of financial disclosure and credit-

quality support information or enhancement reasonably acceptable to the Debtors (in consultation with the Committee and counsel to the United States Department of Energy);

(d) Written evidence of the Potential Bidder's commitment for debt or equity funding that is needed to close the contemplated transaction acceptable to the Debtors after consultation with the Committee demonstrating that such Potential Bidder has the ability to close the contemplated transaction; provided however that the Debtors shall determine in their discretion and in consultation with their advisors and the counsel to the Committee whether the written evidence of such financial wherewithal is acceptable; and

(e) Information that can be publicly filed and/or disseminated representing that the Potential Bidder has the financial wherewithal to satisfy adequate assurance requirements with respect to the Assumed Contracts and Assumed Leases under the Bankruptcy Code, which information may be required to be supplemented at the request of the Debtors in consultation with the Committee or other parties in interest.

The Participation Materials must be transmitted to each of the following parties (collectively, the "**Notice Parties**"): (i) the Debtors, c/o A123 Systems, Inc., 200 West Street, Waltham, MA 02451 (Attn: David Vieau); (ii) co-counsel to the Debtors, (a) Latham & Watkins LLP, 233 South Wacker Drive, Suite 5800, Chicago, IL 60606 (Attn: Caroline Reckler, Esq.) and (b) Richards, Layton & Finger, P.A., One Rodney Square, P.O. Box 551, Wilmington, DE 19899 (Attn: Mark D. Collins, Esq.); (iii) financial advisors to the Debtors, Lazard Freres & Co. LLC, 190 S. LaSalle St., 31st Floor, Chicago, IL 60603 (Attn: Tim Pohl) ("**Lazard**"); (iv) co-counsel to the official committee of unsecured creditors (the "**Committee**"), (a) Brown Rudnick LLP, Seven Times Square, New York, NY 10036 (Attn: William R. Baldiga, Esq.) and (b) Saul Ewing LLP, 222 Delaware Avenue, Suite 1200, P.O. Box 1266, Wilmington, DE 19899 (Attn: Mark Minuti, Esq.); and (v) counsel to the Stalking Horse Bidder, Wachtell, Lipton, Rosen & Katz, 51 West 52nd Street, New York, NY 10019 (Attn: Josh Feltman, Esq.).

Any party that delivers the Participation Materials to the Notice Parties shall be a "**Potential Bidder**," and by delivering the Participation Materials each Potential Bidder acknowledges that its identity will be made public, including in court filings. If the Debtors determine (in consultation with the Committee and counsel to the United States Department of Energy) that a Potential Bidder has a *bona fide* interest in all or a portion of the Applicable Assets or all or a portion of the Remaining Assets, then promptly after such determination, the Debtors will deliver to the Potential Bidder: (a) an electronic copy of the Stalking Horse APA; and (b) access information for a confidential electronic data room concerning the Applicable Assets and such other assets of the Debtors as the Debtors may determine in consultation with the Committee (the "**Data Room**").

No Potential Bidder shall consult with any other Potential Bidder following delivery of the Participation Materials and prior to the conclusion of the Auction, or submit at any time a "joint bid" with any other Potential Bidder, without the express consent of the Debtors (in consultation with the Committee and counsel to the United States Department of Energy).

VI. Due Diligence

Until the day of the Auction, or the Bid Deadline if a Potential Bidder shall not have submitted a Qualified Bid by the Bid Deadline, the Debtors will afford any Potential Bidder such due diligence access or additional information as may be reasonably requested by the Potential Bidder that the Debtors determine in their discretion after consultation with the Committee to be reasonable and appropriate under the circumstances. All due diligence requests shall be directed to Lazard, as indicated above. The Debtors shall coordinate all reasonable requests for additional information and due diligence access from Potential Bidders. If the Debtors determine after consultation with the Committee that due diligence material requested by a Potential Bidder is reasonable and appropriate under the circumstances, but such material has not previously been provided to any other Potential Bidder or the Stalking Horse Bidder, the Debtors shall post such materials in the Data Room and provide email notice of such posting to all Potential Bidders and the Stalking Horse Bidder, as well as to the Notice Parties.

Unless otherwise determined by the Debtors, in consultation with the Committee and counsel to the United States Department of Energy, the availability of additional due diligence to a Qualified Bidder will cease on the Auction date; provided, however, that the "Successful Bidder(s)" and the Back-Up Bidder(s) shall be permitted to continue to conduct due diligence until the closing of the Sale Transaction (subject to the terms of the Stalking Horse APA); provided, further, however, that a Qualified Bid shall not be subject to further due diligence after the Bid Deadline. Except as provided above with respect to the copy of the Stalking Horse APA provided by the Debtors to the Potential Bidders, and information in the Data Room, neither the Debtors nor their representatives will be obligated to furnish any information of any kind whatsoever relating to the Applicable Assets or the Remaining Assets to any party.

VII. Bid Deadline

A Potential Bidder that desires to make a bid shall deliver written and electronic copies of its bid to the Notice Parties so as to be received not later than 5:00 p.m. (prevailing Eastern Time), on [Dec. 4, 2012], or such later date to which the Debtors consent after consultation with the Committee, but in no event after commencement of the Auction (the "**Bid Deadline**").

VIII. Bid Requirements

To participate in the Auction, if any, a Potential Bidder must deliver to the Notice Parties a written offer, which must provide or otherwise comply with, at a minimum, the items noted below to be deemed a "Qualified Bid:"

(a) If the Potential Bidder offers to purchase all or a portion of the Applicable Assets from the Debtors, at the purchase price and upon the terms and conditions set forth in an executed purchase agreement, then a clean copy of such executed purchase agreement shall be submitted, together with a marked copies showing (i) any proposed changes to the Stalking Horse APA and, (ii) if the Potential Bidder offers to purchase any of the Remaining Assets, any proposed changes to the form APA provided by the Debtors (which form APA will be filed on

the docket of the Bankruptcy Court no later than two days following entry of the Sale Procedures Order);

(b) If the Potential Bidder offers to purchase all or a portion of the Remaining Assets from the Debtors at a purchase price and upon the terms and conditions set forth in an executed purchase agreement, then a clean copy of such executed purchase agreement shall be submitted, together with a marked copy showing any proposed changes to the form APA provided by the Debtors;

(c) The bid is not subject to any due diligence or financing contingency, is not conditioned on bid protections or any expense reimbursement, is not subject to any corporate (board, shareholder, or similar) consent or approval, or any regulatory contingencies (other than a condition that any applicable waiting period required for any regulatory approval shall have expired or have been terminated and required authorization of any other governmental entity whose approval is identified by the Potential Bidder as required for the transaction as set forth in such Potential Bidder's bid shall have been obtained). Any required governmental approvals identified by the Potential Bidder may impact the Debtors' evaluation of a Qualified Bid.

(d) For any bid for the Purchased Assets, or any portion of the Purchased Assets, the purchase price in such bid is a higher and/or better offer for the Purchased Assets or the applicable portion thereof (as compared to the offer of the Stalking Horse Bidder, and such offer shall not be considered a higher and/or better offer unless such bid provides for net consideration to the Debtors' estates of at least \$6,000,000¹ more than that provided by the Stalking Horse Bidder, such amount to be deemed to include the amount of the Break-Up Fee and the Expense Reimbursement;

(e) For any bid regarding only all or a portion of the Remaining Assets and no portion of the Purchase Assets, the purchase price in such bid shall be in an amount determined by the Potential Bidder.

(f) The bid is received by the Debtors by the Bid Deadline;

(g) The bid does not entitle a bidder to any break-up fee, termination fee or similar type of payment or reimbursement and, by submitting a bid, the bidder waives the right to pursue a substantial contribution claim under 11 U.S.C. § 503 related in any way to the submission of its bid or the Bidding Process;

(h) The bid is accompanied by a cash deposit in the amount of 10% of the purchase price of the bid (the "**Deposit**");

(i) The bid includes a comprehensive list of all executory contracts and leases that the Qualified Bidder proposes to assume and the corresponding cure amounts associated with the assumption and assignment of such leases and contracts;

¹ Consists of \$2.5 million Break-Up Fee (2% of \$125 million), \$3.0 million of Expense Reimbursement and \$500,000 minimum bid increment.

(j) The bid demonstrates the Qualified Bidder's ability to provide adequate assurance of future performance under any executory contracts or unexpired leases to be assumed and/or assigned pursuant to such bid; and

(k) The bid complies with all requirements of paragraphs 23 through 27 of the Sale Procedures Order.

A Potential Bidder shall accompany its bid with: (a) written evidence of available cash, a commitment for financing or ability to obtain a satisfactory commitment if selected as a Successful Bidder and such other evidence of ability to consummate the sale transaction as the Debtors, in consultation with the Committee and counsel to the United States Department of Energy, may request; (b) a copy of a board resolution or similar document demonstrating the authority of the Potential Bidder to make a binding and irrevocable bid on the terms proposed; and (c) any pertinent factual information regarding the Potential Bidder's operations that would assist the Debtors in their analysis of issues arising with respect to any applicable antitrust laws, governmental regulatory approvals, national security laws, foreign investment laws or other aspects of the bid and with respect to any conditions contained in the bid.

A bid received from a Potential Bidder will only be considered if it meets the above requirements (with such immaterial variations as the Debtors in consultation with the Committee shall permit in their discretion), and shall constitute a "Qualified Bid" only if the Debtors believe in their discretion (after consultation with the Committee) that such bid would be consummated if selected as a Successful Bid. Each Potential Bidder that is determined to have submitted a Qualified Bid will be considered a "**Qualified Bidder**." For purposes hereof, the Stalking Horse Bidder constitutes a Qualified Bidder and the Stalking Horse APA executed by the Stalking Horse Bidder is a Qualified Bid. A Qualified Bid will be valued based upon factors such as: (a) the purported amount of the Qualified Bid, including any benefit to the Debtors' bankruptcy estates from any assumption of liabilities of the Debtors; (b) the fair value to be provided to the Debtors under the Qualified Bid; (c) the length of time expected to close the proposed sale transaction including the necessary time to obtain any necessary approval; (d) the ability to obtain all necessary antitrust, governmental, national security, foreign investment or other regulatory approvals for the proposed transaction; and (e) any other factors the Debtors may deem relevant. Within one day after the Debtors, in consultation with the Committee and counsel to the United States Department of Energy, determine that a bid is a Qualified Bid, the Debtors shall distribute a copy of such bid to counsel to the Stalking Horse Bidder by e-mail, hand delivery or overnight courier. The Debtors, in consultation with the Committee and counsel to the United States Department of Energy, may reject any bid if, among other things, the Debtors determine such bid:

(i) is on terms that are in their totality materially more burdensome or conditional than the terms of the Stalking Horse APA; or

(ii) includes a non-cash instrument or similar consideration; provided, however, that if a Qualified Bid provides cash consideration in excess of the Debtors' secured indebtedness, such Qualified Bid shall not be rejected due to its inclusion of non-cash consideration.

Any bid rejected pursuant to this paragraph shall not be deemed to be a Qualified Bid.

IX. Expense Reimbursement for Remaining Assets

The Debtors may, in the Debtors' business judgment (after consultation with the Committee), pay the incurred reasonable fees and expenses of bidders, Potential Bidders or Qualified Bidders arising in connection with the due diligence investigation of such party or parties relating to a potential bid for the Remaining Assets or any portion of the Remaining Assets in an aggregate amount not to exceed \$2,000,000.

X. The Auction

In the event that the Debtors receive one or more Qualified Bids (other than the bid of the Stalking Horse Bidder) for the Applicable Assets or one or more Qualified Bids for all or a portion of the Remaining Assets, the Debtors will hold the Auction on [Dec. 6, 2012], commencing at 10:00 a.m. (prevailing Central Time) at the offices of Latham & Watkins LLP, co-counsel to the Debtors, at 233 South Wacker Drive, Suite 5800, Chicago, IL 60606, for consideration of the Qualified Bids, each as may be increased at such Auction. Bidding for the Applicable Assets will start at the highest Qualified Bid and will continue with minimum bid increments of \$500,000, subject to the right of the Stalking Horse Bidder to credit the Break-Up Fee and Expense Reimbursement (as defined in the Stalking Horse APA) to its bid at each round of bidding. Bidding for the Remaining Assets will start at the highest Qualified Bid and will continue with minimum bid increments of \$250,000. The Auction shall run in accordance with the following procedures:

(a) Only the Debtors and their representatives, proper representatives of statutorily appointed committees, the Stalking Horse Bidder, the United States and its representatives and any other Qualified Bidder that has timely submitted a Qualified Bid, shall attend the Auction in person, and only the Stalking Horse Bidder and such other Qualified Bidders will be entitled to make any subsequent bids at the Auction.

(b) Each Qualified Bidder shall be required to confirm that it has not engaged in any impermissible collusion, including as set forth in Section V above and Section X(g) below, with respect to the bidding or the sale by the Debtors of the Applicable Assets and/or the Remaining Assets.

(c) At least one (1) Business Day prior to the Auction, each Qualified Bidder who has timely submitted a Qualified Bid must inform the Debtors whether it intends to attend the Auction; provided that in the event a Qualified Bidder elects not to attend the Auction, such Qualified Bidder's Qualified Bid shall nevertheless remain fully enforceable against such Qualified Bidder until the date of the selection of the Successful Bidder and the Back-Up Bidder (as defined below). Prior to the commencement of the Auction, the Debtors will provide notice of the Qualified Bid which the Debtors believe, in their reasonable business judgment (in consultation with the Committee and counsel to the United States Department of Energy), is the highest or otherwise best offer(s) (the "**Starting Bid(s)**") to the Stalking Horse Bidder and all other Qualified Bidders which have informed the Debtors of their intent to participate in the Auction.

(d) All Qualified Bidders who have timely submitted Qualified Bids will be entitled to be present for all Subsequent Bids (as defined below) at the Auction with the understanding that the true identity of each Qualified Bidder at the Auction will be fully disclosed to all other Qualified Bidders at the Auction and that all material terms of each Subsequent Bid will be fully disclosed to all other bidders throughout the entire Auction; provided that all Qualified Bidders wishing to attend the Auction must have at least one individual representative with authority to bind such Qualified Bidder attending the Auction in person. All proceedings at the Auction shall be conducted before and transcribed by a court stenographer.

(e) The Debtors (in consultation with the Committee and counsel to the United States Department of Energy) may employ and announce at the Auction additional procedural rules that are reasonable under the circumstances for conducting the Auction, provided that such rules are (i) not inconsistent with these Bidding Procedures, the Bankruptcy Code, or any order of the Bankruptcy Court or any other applicable court entered in connection herewith, and (ii) disclosed to each Qualified Bidder at the Auction.

(f) The Debtors reserve their right, in their reasonable business judgment (after consultation with the Committee) to make one or more adjournments of the Auction to, among other things: (A) facilitate discussions between the Debtors and the Qualified Bidders, (B) allow individual Qualified Bidders to determine how they wish to proceed, (C) consider and determine the current highest and best Subsequent Bid(s) at any given time during the Auction, (D) give Qualified Bidders the opportunity to provide the Debtors with such additional evidence as the Debtors, in their reasonable business judgment, may require that the Qualified Bidder (other than the Stalking Horse Bidder) has sufficient internal resources, or has received sufficient non-contingent debt and/or equity funding commitments to consummate the proposed transaction at the prevailing Subsequent Bid amount.

(g) No Qualified Bidder shall consult with any other Qualified Bidder prior to the conclusion of the Auction, or submit at any time a "joint bid" with any other Qualified Bidder, without the express consent of the Debtors (in consultation with the Committee and counsel to the United States Department of Energy).

(h) Bidding at the Auction will begin with the Starting Bid(s) and continue, in one or more rounds of bidding, so long as during each round at least one Subsequent Bid is submitted by a Qualified Bidder that (i) improves upon such Qualified Bidder's immediately prior Qualified Bid (a "**Subsequent Bid**") and (ii) the Debtors determine, in consultation with the Committee and counsel to the United States Department of Energy, that such Subsequent Bid is (A) for the first round, a higher or otherwise better offer than the Starting Bid(s), and (B) for subsequent rounds, a higher or otherwise better offer than the Leading Bid(s) (as defined below). Each Subsequent Bid at the Auction shall provide net value to the estate of at least U.S. \$500,000 over the Starting Bid(s) or the Leading Bid(s), as the case may be, with respect to the Applicable Assets and \$250,000 with respect to the Remaining Assets which net value may be in the form of cash or non-cash consideration (any such non-cash consideration to be valued in the discretion of the Debtors, in consultation with the Committee and counsel to the United States Department of Energy). After the first round of bidding and between each subsequent round of bidding, the Debtors (after consultation with the Committee and counsel to the United States

Department of Energy) shall announce the bid or bids that it believes to be the highest or otherwise better offer (the "**Leading Bid(s)**"). A round of bidding will conclude after each participating Qualified Bidder has had the opportunity to submit a Subsequent Bid(s) with full knowledge of the Leading Bid. Except as specifically set forth herein, for the purpose of evaluating the value of the consideration provided by Subsequent Bids (including any Subsequent Bid by the Stalking Horse Bidder), the Debtors will, after consultation with the Committee, at each round of bidding, give effect to the Break-Up Fee and Expense Reimbursement that may be payable to the Stalking Horse Bidder under the Stalking Horse APA, and take into account any additional liabilities to be assumed by a Qualified Bidder and any additional costs which may be imposed on the Debtors by such Qualified Bid.

XI. Credit Bidding

Only holders of allowed valid secured claims are permitted to submit a credit bid at the Auction. To that end, unless expressly consented to in writing by the Debtors (after consultation with the Committee) in advance of the Bid Deadline, no party, including, without limitation, Wanxiang America Corporation or any affiliates or subsidiaries, shall be permitted or entitled to credit bid, or attempt to credit bid, any alleged obligation of the Debtors, or any affiliate or subsidiary of the Debtors, relating to (i) any alleged fees and/or penalties, (ii) alleged damages, including damages relating to or arising in connection with any prepetition activity of the Debtors, or (iii) any other claim (as that term is defined in the Bankruptcy Code) that the Debtors assert constitutes, or will constitute at some point, a contingent, unliquidated or disputed claim against the Debtors or any subsidiaries or affiliates of the Debtors.

Any credit bid, other than a credit bid by the Massachusetts Clean Energy Technology Center, must provide for (w) the payment in cash at the closing of the Break-Up Fee and Expense Reimbursement to the extent the Break-Up Fee and/or Expense Reimbursement is required to be paid as a result of such credit bid, (x) the payment in cash at closing, and/or the assumption of, the unpaid administrative expense claims of the Debtors incurred from the Petition Date through and including the date on which the closing of the sale occurs, (y) the payment in cash at the closing of the amount required to be paid by the Debtors, if any, on account of cure amounts that the Debtors believe must be paid to cure all defaults under the leases and contracts proposed to be assumed and assigned to the party that submitted the credit bid and (z) the payment in cash at closing of all claims that are senior to the claims of the party that submitted the credit bid. In addition to the foregoing, the Debtors reserve all rights to contest the propriety of any credit bid pursuant to section 363(k) and 105 of the Bankruptcy Code.

XII. The Successful Bid(s)

Immediately at the conclusion of the Auction, the Debtors shall, in consultation with the Committee and counsel to the United States Department of Energy, (a) determine, consistent with the Bidding Procedures, which bid or bids collectively constitute the highest and best bid (such bid(s), the "**Successful Bid(s)**") and (b) communicate to the Stalking Horse Bidder and the other Qualified Bidders the identity of the Successful Bidder(s) and the details of the Successful Bid(s). At such time, the Debtors shall, in consultation with the Committee and counsel to the

United States Department of Energy, also determine which bid or bids collectively constitute the second highest and best bid or bids collectively, and may, in their discretion, deem such second highest and best bid or bids collectively a back up bid (such bid or bids, the “**Back Up Bid(s)**” and the party(ies) submitting the Back-Up Bid(s), the “**Back-Up Bidder(s)**”) and communicate to the Stalking Horse Bidder and other Qualified Bidders the identity of the Back Up Bidder(s) and the details of the Back Up Bid(s). In no circumstances shall the Stalking Horse Bidder be required to be a Back Up Bidder. If no Qualified Bids are received for the Applicable Assets other than the Stalking Horse APA, the Stalking Horse APA shall be designated as the Successful Bid and there shall be no Auction for the Applicable Assets. If only one Qualified Bid is received for all or a portion of the Remaining Assets (or more than one Qualified Bid is received but for different Remaining Assets) then such Qualified Bid(s) shall, in the discretion of the Debtors (upon consultation with the Committee and counsel to the United States Department of Energy) be designated as the Successful Bid(s) and there shall be no Auction for the Remaining Assets. The bidder or bidders collectively making the Successful Bid(s) is referred to as the “**Successful Bidder(s)**.” The determination of the Successful Bid(s) and the Back Up Bid(s) by the Debtors at the conclusion of the Auction, in consultation with the Committee and counsel to the United States Department of Energy, shall be final subject to approval by the Bankruptcy Court. If the Successful Bid(s) is terminated or fails to close within the time period specified in the Successful Bid(s), the Debtors shall, in consultation with the Committee and counsel to the United States Department of Energy, be authorized, but are not required, to consummate the sale transaction with the Back Up Bidder(s) without further order of this Court. The Back Up Bid(s) shall remain open until the earlier of (x) the first business day following the consummation of the sale of the Applicable Assets and/or Remaining Assets to the Successful Bidder(s) and (y) the twentieth (20th) day after entry of the Sale Order. The Debtors shall be deemed to have accepted a Qualified Bid only when (i) such bid is declared the Successful Bid(s) at the Auction; (ii) definitive documentation has been executed in respect thereof; and (iii) the Court has entered an order approving such Successful Bid(s); provided, under no circumstances shall the Debtors consider any bid made after the conclusion of the Auction.

EACH QUALIFIED BID SUBMITTED (OTHER THAN THE STALKING HORSE APA, WHICH MAY BE TERMINATED IN ACCORDANCE WITH ITS TERMS) SHALL CONSTITUTE AN IRREVOCABLE OFFER AND BE BINDING ON THE APPLICABLE QUALIFIED BIDDER FROM THE TIME THE BID IS SUBMITTED UNTIL THE ENTRY OF THE SALE ORDER. THE BACK UP BID(S) SHALL BE IRREVOCABLE AND BINDING ON THE BIDDER UNTIL THE EARLIER OF ONE (1) BUSINESS DAYS AFTER THE CLOSING OF THE SALE OF THE APPLICABLE ASSETS OR TWENTY (20) DAYS AFTER THE SALE ORDER IS ENTERED. ALL QUALIFIED BIDDERS AT THE AUCTION SHALL BE DEEMED TO HAVE CONSENTED TO THE JURISDICTION OF THE BANKRUPTCY COURT AND WAIVED ANY RIGHT TO A JURY TRIAL IN CONNECTION WITH ANY DISPUTES RELATING TO THE AUCTION, AND THE CONSTRUCTION AND ENFORCEMENT OF ANY SALE TRANSACTION DOCUMENTS

XIII. The Sale Hearing

The Successful Bid(s) for the Applicable Assets and/or Remaining Assets will be presented to the Bankruptcy Court for approval at the Sale Hearing. If no other Qualified Bid is

received by the Debtors and the Stalking Horse Bidder's original Stalking Horse APA is the Successful Bid, then the Debtors will seek entry of an order at the Sale Hearing authorizing and approving the Sale Transaction, including the sale of the Purchased Assets to the Stalking Horse Bidder, pursuant to the terms and conditions set forth in the Stalking Horse APA. If a different bid is the Successful Bid(s), then the Debtors anticipate that they will seek the entry of an order, or orders, modified as necessary to reflect the terms of the Successful Bid(s), authorizing and approving the sale of the Applicable Assets and/or Remaining Assets to the Successful Bidder(s).

Unless the Bankruptcy Court orders otherwise, the Sale Hearing shall be an evidentiary hearing on all matters relating to the proposed sale, and parties shall be prepared to present their evidence in support of or in opposition to the proposed sale at the Sale Hearing; *provided however*, that issues relating to the assumption and assignment of executory contracts and unexpired leases may be addressed at separate hearings before the Bankruptcy Court.

XIV. "As Is Where Is"

The sale transaction(s) shall be on an "as is, where is" basis and without representations or warranties of any kind, nature or description by the Debtors, their agents or their estates, except to the extent expressly set forth in the purchase agreement corresponding to the Successful Bid(s), as the case may be. Except as otherwise provided in the Successful Bid(s) or such other bid which may ultimately be consummated, all of the Debtors' right, title and interest in and to the Applicable Assets and/or Remaining Assets shall be sold free and clear all liens, claims (as such term is defined by section 101(5) of the Bankruptcy Code), encumbrances, rights, remedies, restrictions, interests, liabilities, leasehold interests and contractual commitments of any kind or nature whatsoever, whether arising before or after the Petition Date, whether at law or in equity, including all rights or claims based on any successor or transferee liability, all environmental claims, all change in control provisions, all rights to object or consent to the effectiveness of the transfer of the Applicable Assets and/or Remaining Assets, all as more specifically set forth and defined in the Sale Motion and the proposed order(s) approving the sale transaction(s) (the "**Claims**"), and as set forth in the Stalking Horse APA, any other agreements governing the sale of the Remaining Assets and the Sale Order, with such Claims to attach to the net proceeds of the sale with the same validity and priority as such Claims applied against the Applicable Assets and/or Remaining Assets. The Stalking Horse Bidder and each Qualified Bidder shall be deemed to acknowledge and represent that it had an opportunity to conduct any and all due diligence regarding the Applicable Assets and Remaining Assets prior to making its offer, that it has relied solely on its own independent review, investigation, and/or inspection of any documents and/or the Applicable Assets and/or Remaining Assets in making its Qualified Bid, and that it did not rely on any written or oral statements, representations, promises, warranties, or guaranties whatsoever, whether express, implied, by operation of law or otherwise regarding the Applicable Assets and/or Remaining Assets, or the completeness of any information provided in connection therewith or the Auction except as expressly stated in these Bidding Procedures, and (a) as to the Stalking Horse Bidder, the terms of the sale of the Purchased Assets set forth in the Stalking Horse APA, or (b) as to any other Successful Bidder, the terms of the sale of the Applicable Assets and/or Remaining Assets set forth in the applicable purchase agreement.

Notwithstanding the foregoing, the Debtors reserve the right to contest the validity, nature, extent or priority of and/or seek to set aside or avoid any and all Claims under applicable law.

XV. Return of Deposits

A Deposit submitted by the Back Up Bidder(s) will be held by the Debtors until forty eight (48) hours after the Back Up Bid(s) has been terminated in accordance with the Bidding Procedures. As to all other bidders (except the Successful Bidder), Deposits will be returned promptly after conclusion of the Sale Hearing. Other than with respect to the Deposit of the Stalking Horse Bidder, which shall be governed by the Stalking Horse APA, if the Successful Bidder(s) or the Back Up Bidder(s) fails to consummate an approved sale because of a breach or failure to perform on the part of the Successful Bidder(s) or the Back Up Bidder(s), the Debtors shall be entitled to retain the Deposit in partial satisfaction of any damages resulting from the breach or failure to perform by the Successful Bidder(s) or the Back Up Bidder(s), without prejudice to any other rights the Debtors may have. The Debtors may, in consultation with the Committee and counsel to the United States Department of Energy, credit the Deposit of the Successful Bidder(s) or the Back Up Bidder(s) towards the purchase price on the closing of the sale of the Applicable Assets.

XVI. Reservation of Rights

Except as otherwise provided in the Stalking Horse APA or the Bidding Procedures Order, the Debtors (in consultation with the Committee and counsel to the United States Department of Energy as further set forth herein) reserve the right as they may reasonably determine to be in the best interests of their estates, to: (i) determine which bidders are Qualified Bidders; (ii) determine which bids are Qualified Bids; (iii) determine which Qualified Bid(s) is the highest and best proposal and which is the next highest and best proposal; (iv) reject any bid that is (a) inadequate or insufficient, (b) not in conformity with the requirements of the Bidding Procedures or the requirements of the Bankruptcy Code, or (c) contrary to the best interests of the Debtors and their estates, (vi) waive terms and conditions set forth herein with respect to all Potential Bidders; (vii) impose additional terms and conditions with respect to all Potential Bidders ; (viii) extend the deadlines set forth herein; (ix) adjourn or cancel the Auction and/or Sale Hearing in open court without further notice; and (x) modify the Bidding Procedures as it may determine to be in the best interests of their estates or to withdraw the Motion at any time with or without prejudice; provided, that without the consent of the Stalking Horse Bidder, the Debtors may not: (a) waive any conditions to a bid being a Qualified Bid set forth in Article VIII above (which consent from the Stalking Horse Bidder to such waiver not to be unreasonably withheld), (b) impair or modify the Stalking Horse Bidder's rights and obligations hereunder or under the Stalking Horse APA, including the Stalking Horse Bidder's rights with respect to the timing of the Auction and the Sale Hearing, or the Stalking Horse Bidder's right to credit the Break-Up Fee and Expense Reimbursement as part of any Subsequent Bids.

SCHEDULE 2

NOTICE OF AUCTION AND SALE HEARING

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

----- X
In re: : Chapter 11
: :
A123 SYSTEMS, INC., et al., : Case No. 12-12859 (KJC)
: :
Debtors.¹ : Jointly Administered
: :
: **Sale Hearing Date:** [November 26], 2012 at [___]
: (ET)
: **Objection Deadline:** [_____], 2012 at [5]:00
: p.m. (ET)
----- X

NOTICE OF PUBLIC AUCTION AND SALE HEARING

(“Sale Notice”)

PLEASE TAKE NOTICE that the above-captioned debtors and debtors in possession (collectively, the “**Debtors**”), have entered into an asset purchase agreement, dated October 16, 2012 (the “**APA**”),² with Johnson Controls, Inc. (the “**Stalking Horse Bidder**”) to sell certain assets of the Debtors free and clear of all liens, claims, encumbrances and other interests to the Stalking Horse Bidder, subject to the submission of higher or better offers in an auction process (the “**Auction**”).

PLEASE TAKE FURTHER NOTICE that in connection with the proposed sale (the “**Sale**”) to the Stalking Horse Bidder and the sale of the Debtors’ remaining assets, on October 16, 2012, the Debtors filed a motion [Docket No. 34] (the “**Motion**”) seeking court orders for the approval and authorization of, among other things, (a) bidding procedures governing the Sale, (b) Stalking Horse Bid Protections, (c) the form and manner of notices related to the Sale, (d) the Sale of certain assets free and clear of all claims, liens, liability, rights, interests and encumbrances, (e) the Debtors’ entry into and performance of their obligations under the APA or such other agreement(s) governing the sale of some or all of the Debtors’ assets and (f) procedures related to the assumption and assignment of executory contracts and unexpired leases in connection with the Sale.

PLEASE TAKE FURTHER NOTICE that, on November [___], 2012, the United States Bankruptcy Court for the District of Delaware (the “**Court**”) entered an order [Docket No. ___] (the “**Bidding Procedures Order**”) approving the bidding procedures (the “**Bidding Procedures**”), which establish the key dates and times related to the Sale. All interested bidders should carefully read the Bidding Procedures. The summary of the Bidding Procedures

¹ The Debtors in these Chapter 11 Cases, along with the last four digits of each Debtor’s federal tax identification number, are: A123 Systems, Inc. (3876); A123 Securities Corporation (5388); and Grid Storage Holdings LLC (N/A). The above-captioned Debtors’ mailing address is c/o A123 Systems, Inc., 200 West Street, Waltham, Massachusetts 02451.

² All capitalized terms used but otherwise not defined herein shall have the meanings set forth in the Motion.

contained in this Sale Notice is provided for convenience only. To the extent that there are any inconsistencies between the Bidding Procedures and the summary description in this Sale Notice, the terms of the Bidding Procedures shall control. The deadline by which all "Qualified Bids" (as defined in the Bidding Procedures) must be actually received by the parties specified in the Bidding Procedures is [November 16], 2012 at [5]:00 [p].m. prevailing Eastern Time.

PLEASE TAKE FURTHER NOTICE that copies of the Motion, Bidding Procedures and Bidding Procedures Order, as well as all related exhibits including the APA, are available on the website of the Court-appointed claims and noticing agent for the Debtors' chapter 11 cases, Logan & Company, Inc., at www.loganandco.com, or can be requested by email at A123@loganandco.com.

PLEASE TAKE FURTHER NOTICE that, if the Debtors receive one or more qualified competing bids that satisfy the requirements and time frame specified by the Bidding Procedures, the Debtors will conduct the Auction to determine the highest or otherwise best bid for the purchased assets on [November 19], 2012 at [11]:00 a.m. prevailing Eastern Time at the offices of Latham & Watkins LLP, 233 South Wacker Drive, Suite 5800, Chicago, IL 60606, or at any such other location as the Debtors may hereafter designate (with notice of such alternate location given to all qualified bidders under the Bidding Procedures).

PLEASE TAKE FURTHER NOTICE that only the Debtors and their representatives, proper representatives of statutorily appointed committees, the Stalking Horse Bidder, the United States and its representatives and any other Qualified Bidder that has timely submitted a Qualified Bid shall be permitted to attend the Auction.

PLEASE TAKE FURTHER NOTICE that the Debtors will seek approval of the Sale before the Honorable Judge Carey, United States Bankruptcy Judge for the Bankruptcy Court for the District of Delaware, at 824 North Market Street, 5th Floor, Wilmington, Delaware 19801, on [November 26], 2012 at []:00 [].m. prevailing Eastern Time.

PLEASE TAKE FURTHER NOTICE that objections to the Motion if any, must: (i) be in writing; (ii) conform to the applicable provisions of the Bankruptcy Rules and the Local Rules for the United States Bankruptcy Court for the District of Delaware; (iii) state with particularity the legal and factual basis for the objection and the specific grounds therefor; and (iv) be filed with the Court and served so actually received no later than [], 2012 at [4]:00 [p].m. prevailing Eastern Time by the following parties:

Debtors	Co-Counsel to Debtors
<p>c/o A123 Systems, Inc. 200 West Street Waltham, MA 02541 Attn: David Vieau and Eric Pyenson</p>	<p>Latham & Watkins LLP 233 South Wacker Drive Suite 5800 Chicago, IL 60606 Attn: Caroline Reckler and Matthew Warren</p> <p>and</p> <p>Richards, Layton & Finger, P.A. One Rodney Square P.O. Box 551 Wilmington, Delaware 19899 Attn: Mark D. Collins</p>
Counsel to the Official Committee of Unsecured Creditors	United States Trustee
<p>[]</p>	<p>Office of the United States Trustee for the District of Delaware 844 King Street Suite 2207, Lockbox 35 Wilmington, DE 19801 Attn: Mark Kenney</p>
Counsel to the Stalking Horse Bidder	
<p>Wachtell, Lipton, Rosen & Katz 51 West 52nd Street New York, NY 10019 Attn: Joshua A. Feltman and David K. Lam</p>	

CONSEQUENCES OF FAILING TO TIMELY FILE AND SERVE AN OBJECTION

ANY PARTY OR ENTITY WHO FAILS TO TIMELY FILE AND SERVE AN OBJECTION TO THE SALE ON OR BEFORE THE OBJECTION DEADLINE IN ACCORDANCE WITH THE BIDDING PROCEDURES ORDER SHALL BE FOREVER BARRED FROM ASSERTING ANY OBJECTION TO THE SALE, INCLUDING WITH RESPECT TO THE TRANSFER OF THE PROPERTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES AND OTHER INTERESTS AFFECTED THEREUNDER.

NO SUCCESSOR OR TRANSFEREE LIABILITY

The proposed Sale Order provides that the purchaser in the Sale (the "**Purchaser**") will have no responsibility for, and the assets will be sold free and clear of, any successor liability, including the following:

To the greatest extent allowable by applicable law, the Purchaser shall not be deemed, as a result of any action taken in connection with the APA, the consummation of the Transactions (as defined in the Sale Order) contemplated by the APA, or the transfer or operation of the Acquired Assets, to (a) be a legal successor, or otherwise be deemed a successor to the Debtors (other than, for the Purchaser, with respect to any obligations as an assignee under the Assigned Agreements arising after the Closing); (b) have, *de facto* or otherwise, merged with or into the Debtors; or (c) be an alter ego or mere continuation or substantial continuation of the Debtors including, without limitation, within the meaning of any foreign, federal, state or local revenue law, pension law, the Employee Retirement Income Security Act, the Consolidated Omnibus Budget Reconciliation Act, the WARN Act (29 U.S.C. §§ 2101 et seq.), the Comprehensive Environmental Response Compensation and Liability Act ("**CERCLA**"), the Fair Labor Standard Act, Title VII of the Civil Rights Act of 1964 (as amended), the Age Discrimination and Employment Act of 1967 (as amended), the Federal Rehabilitation Act of 1973 (as amended), the National Labor Relations Act (29 U.S.C. § 151, et seq.), environmental liabilities, debts, claims or obligations arising from conditions first existing on or prior to Closing (including, without limitation, the presence of hazardous, toxic, polluting, or contaminating substances or wastes), which may be asserted on any basis, including, without limitation, under CERCLA, any liabilities, debts or obligations of or required to be paid by the Debtors for any taxes of any kind for any period, labor, employment, or other law, rule or regulation (including without limitation filing requirements under any such laws, rules or regulations), or under any products liability law or doctrine with respect to the Debtors' liability under such law, rule or regulation or doctrine. All rights of any party to set off any claims, debts or obligations owed by or to the Purchaser in connection with the Purchased Assets shall be extinguished on the Closing Date pursuant to the proposed Sale Order. Other than as expressly set forth in the APA with respect to Assumed Liabilities, the Purchaser shall not have any responsibility for (a) any liability or other obligation of the Debtors or related to the Purchased Assets or (b) any remaining Claims (as defined in the Sale Order) against the Debtors or any of their predecessors or affiliates. To the greatest extent allowed by applicable law, the Purchaser shall have no liability whatsoever with respect to the Debtors' (or their predecessors' or affiliates') respective businesses or operations or any of the Debtors' (or their predecessors' or affiliates') obligations based, in whole or part, directly or indirectly, on any theory of successor or vicarious liability of any kind or character, or based upon any theory of antitrust, environmental, successor or transferee liability, *de facto* merger or substantial continuity, labor and employment or products liability, whether known or unknown as of the Closing, now existing or hereafter arising, asserted or unasserted, fixed or contingent, liquidated or unliquidated, including liabilities on account of any taxes arising, accruing or payable under, out of, in connection with, or in any way relating to the operation of the Purchased Assets prior to the Closing.

**IF YOU HAVE ANY QUESTIONS REGARDING THIS SALE NOTICE,
PLEASE CONTACT THE CLAIMS AND NOTICING AGENT AT
A123@LOGANANDCO.COM.**

Dated: Wilmington, Delaware
[_____], 2012

RICHARDS, LAYTON & FINGER, P.A.

Mark D. Collins (No. 2981)
Michael J. Merchant (No. 3854)
Drew G. Sloan (No. 5069)
920 N. King Street
Wilmington, Delaware 19801
Telephone: 302-651-7700
Facsimile: 302-651-7701
Email: collins@rlf.com
merchant@rlf.com
sloan@rlf.com

- and -

D. J. Baker
Rosalie W. Gray
Adam S. Ravin
LATHAM & WATKINS LLP
885 Third Avenue
New York, New York 10022-4834
Telephone: 212-906-1200
Fax: 212-751-4864
Email: dj.baker@lw.com
rosalie.gray@lw.com
adam.ravin@lw.com

and

Caroline A. Reckler
Matthew L. Warren
LATHAM & WATKINS LLP
Suite 5800
233 South Wacker Drive
Chicago, IL 60606
Telephone: (312) 876-7700
Fax: (312) 993-9767
Email: caroline.reckler@lw.com
matthew.warren@lw.com

Proposed Counsel for Debtors and Debtors
in Possession

SCHEDULE 3

NOTICE OF POTENTIAL ASSUMPTION AND ASSIGNMENT

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

----- X
In re: : Chapter 11
: :
A123 SYSTEMS, INC., et al., : Case No. 12-12859 (KJC)
: :
Debtors.¹ : Jointly Administered
: :
: **Sale Hearing Date:** [November 26], 2012 at [___]
: (ET)
: **Objection Deadline:** [November 16], 2012 at
: [5]:00 p.m. (ET)
----- X

**NOTICE OF (I) CURE AMOUNT WITH RESPECT TO EXECUTORY CONTRACTS
AND UNEXPIRED LEASES TO BE ASSUMED AND ASSIGNED AND
(II) POTENTIAL ASSUMPTION AND ASSIGNMENT OF
EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

PLEASE TAKE NOTICE OF THE FOLLOWING:

1. Pursuant to the *Order (I) Approving Bid Procedures in Connection with Sale of Certain Assets of the Debtors; (II) Scheduling Hearing to Consider Sale of Assets; (III) Approving Form and Manner of Notice Thereof; (IV) Approving Break-Up Fee and Expense Reimbursement and (V) Granting Related Relief* [Docket No. ___] (the “**Bidding Procedures Order**”)² entered by the United States Bankruptcy Court for the District of Delaware (the “**Court**”) on November [___], 2012, the above-captioned debtors and debtors in possession (collectively, the “**Debtors**”) hereby provide notice (the “**Notice**”) that they are a party to various executory contracts and unexpired leases set forth on Exhibit 1 attached hereto (each a “**Contract**” and, collectively, the “**Contracts**”) and that they intend to seek to assume and assign

¹ The Debtors in these Chapter 11 Cases, along with the last four digits of each Debtor’s federal tax identification number, are: A123 Systems, Inc. (3876); A123 Securities Corporation (5388); and Grid Storage Holdings LLC (N/A). The above-captioned Debtors’ mailing address is c/o A123 Systems, Inc., 200 West Street, Waltham, Massachusetts 02451.

² Capitalized terms used but not herein defined shall have the meanings set forth in the Bidding Procedures approved as part of the Bidding Procedures Order.

some or all of the Contracts (each a "**Potentially Assumed Contract**" and, collectively, the "**Potentially Assumed Contracts**") to the Successful Bidder in connection with the proposed sale of certain of the Debtors' assets.

2. You have been identified as a party to a Potentially Assumed Contract. The Potentially Assumed Contract to which you have been identified as a non-Debtor counterparty is set forth on Exhibit 1 attached hereto. If this Contract is **actually** to be assumed or assigned, a separate notice of such assumption and assignment will be provided.

3. Also set forth on Exhibit 1 is the amount the Debtors' records reflect is owing to cure any and all defaults under the Potentially Assumed Contract to which you are a party (the "**Cure Amount**") so as to permit the assumption and assignment of such Potentially Assumed Contract (if designated for assumption and assignment by the Successful Bidder) pursuant to 11 U.S.C. § 365. As of the date hereof, the Debtors' records reflect that all postpetition amounts owing under the Potentially Assumed Contract to which you are a party have been paid and will continue to be paid and that there are no other defaults under the Potentially Assumed Contract. Amounts due and owing under the Contracts with respect to the period after the Petition Date are not included in the calculation of the Cure Amounts.

4. Objections, if any, to the proposed Cure Amount, or to the possible assumption, assignment and/or transfer of any Potentially Assumed Contract to the Successful Bidder, as applicable ("**Cure/Assignment Objections**"), must be filed with the United States Bankruptcy Court for the District of Delaware, at 824 North Market Street, 5th Floor, Wilmington, Delaware 19801, and served so as to be **actually received** on or before the later of (i) 5:00 p.m. on [November 16, 2012] or (ii) ten (10) days after service of any Supplemental Notice of Potential

Assumption and Assignment, if applicable (together, the “**Cure/Assignment Objection Deadline**”). Service should be made by mail to:

Debtors	Co-Counsel to Debtors
<p>c/o A123 Systems, Inc. 200 West Street Waltham, MA 02541 Attn: David Vieau and Eric Pyenson</p>	<p>Latham & Watkins LLP 233 South Wacker Drive Suite 5800 Chicago, IL 60606 Attn: Caroline Reckler and Matthew Warren</p> <p>and</p> <p>Richards, Layton & Finger, P.A. One Rodney Square P.O. Box 551 Wilmington, Delaware 19899 Attn: Mark D. Collins</p>
Counsel to the Official Committee of Unsecured Creditors	United States Trustee
<p>[_____]</p>	<p>Office of the United States Trustee for the District of Delaware 844 King Street Suite 2207, Lockbox 35 Wilmington, DE 19801 Attn: Mark Kenney</p>
Counsel to the Stalking Horse Bidder	
<p>Wachtell, Lipton, Rosen & Katz 51 West 52nd Street New York, NY 10019 Attn: Joshua A. Feltman and David K. Lam</p>	

5. Any Cure/Assignment Objection must (i) be in writing; (ii) conform to the applicable provisions of the Bankruptcy Rules and the Local Rules for the United States Bankruptcy Court for the District of Delaware; (iii) state with particularity the legal and factual basis for the objection and the specific grounds therefor and (iv) if challenging a Cure Amount, set forth the prepetition cure amount being claimed by the objecting party with appropriate documentation in support thereof.

6. Cure/Assignment Objections that are timely filed and cannot be resolved by the Debtors and the counterparty to the Potentially Assumed Contract will be heard at a hearing to be held before the Honorable Judge Carey, United States Bankruptcy Judge for the Bankruptcy Court for the District of Delaware, at 824 North Market Street, 5th Floor, Wilmington, Delaware 19801, on [November 19, 2012] at []:00 []m. prevailing Eastern Time unless the Debtors, the Committee and the Stalking Horse Bidder agree otherwise or the Court orders otherwise.

7. Unless a non-debtor counterparty to any Potentially Assumed Contract files a Cure/Assignment Objection by the Cure/Assignment Objection Deadline, such counterparty shall be (i) forever barred from objecting to the Cure Amount and from asserting any additional cure or other amounts with respect to such Contract in the event it is assumed and/or assigned by the Debtors and the Debtors shall be entitled to rely solely upon the Cure Amount, and (ii) deemed to have consented to the assumption, assignment and/or transfer of such Contract (including the transfer of any related rights and benefits thereunder) either the Stalking Horse Bidder or a Stalking Horse Bidder Designee, or any other Successful Bidder or any other assignee of the relevant Contract, and shall be forever barred and estopped from asserting or claiming against the Debtors, the Stalking Horse Bidder, the Stalking Horse Bidder Designee, or any other Successful Bidder or any other assignee of the relevant Contract that any additional amounts are due or defaults exist, or conditions to assumption, assignment, and/or transfer must be satisfied under such Contract, or that any related right or benefit under such Contract cannot or will not be available to the Stalking Horse Bidder or Stalking Horse Bidder Designee or any other Successful Bidder or any other assignee of the relevant Contract.

8. At the Sale Hearing, the Debtors shall present evidence necessary to demonstrate adequate assurance of future performance by the Successful Bidder.

9. The presence of a contract, lease or other agreement on Exhibit 1, as attached hereto, does not constitute an admission that such contract, lease or other agreement is an executory contract or unexpired lease or that such contract or lease will be assumed by the Debtors and assigned to any Successful Bidder. The Debtors reserve all of their rights, claims and causes of action with respect to the contracts, leases and other agreements listed on Exhibit 1.

10. The Debtors may determine not to assume or assign any Contract. Upon a determination by the Debtors made in accordance with the Bidding Procedures Order that a Contract, other than a lease of nonresidential real property, should be rejected, the Debtors shall serve by first class mail or hand delivery a notice of rejection of such Contracts (a “**Notice of Rejection**”) on all non-debtor parties to such Contracts, and such Contracts shall be rejected ten (10) days from the date of service of such Notice of Rejection.

11. All documents filed with this Court in connection with these Chapter 11 Cases, including orders of this Court, are available for free on the website of the Court-appointed claims and noticing agent in these Chapter 11 Cases, Logan & Company, Inc., at www.loganandco.com, or can be requested by email at A123@loganandco.com.

Dated: Wilmington, Delaware
[_____], 2012

RICHARDS, LAYTON & FINGER, P.A.

Mark D. Collins (No. 2981)
Michael J. Merchant (No. 3854)
Drew G. Sloan (No. 5069)
920 N. King Street
Wilmington, Delaware 19801
Telephone: 302-651-7700
Facsimile: 302-651-7701
Email: collins@rlf.com
merchant@rlf.com
sloan@rlf.com

- and -

D. J. Baker
Rosalie W. Gray
Adam S. Ravin
LATHAM & WATKINS LLP
885 Third Avenue
New York, New York 10022-4834
Telephone: 212-906-1200
Fax: 212-751-4864
Email: dj.baker@lw.com
rosalie.gray@lw.com
adam.ravin@lw.com

and

Caroline A. Reckler
Matthew L. Warren
LATHAM & WATKINS LLP
Suite 5800
233 South Wacker Drive
Chicago, IL 60606
Telephone: (312) 876-7700
Fax: (312) 993-9767
Email: caroline.reckler@lw.com
matthew.warren@lw.com

Proposed Counsel for Debtors and Debtors
in Possession

Exhibit 1

Potentially Assumed Contracts

SCHEDULE 4

ASSUMPTION NOTICE

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

----- X
In re: : Chapter 11
: :
A123 SYSTEMS, INC., et al., : Case No. 12-12859 (KJC)
: :
Debtors.¹ : Jointly Administered
: :
----- X

NOTICE OF ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS

PLEASE TAKE NOTICE OF THE FOLLOWING:

1. On November [___], 2012, the United States Bankruptcy Court for the District of Delaware (the "**Court**") entered the *Order (I) Approving Bid Procedures in Connection with Sale of Certain Assets of the Debtors; (II) Scheduling Hearing to Consider Sale of Assets; (III) Approving Form and Manner of Notice Thereof; (IV) Approving Break-Up Fee and Expense Reimbursement; and (V) Granting Related Relief* [Docket No. ___] (the "**Bidding Procedures Order**").²

2. On [November __, 2012], the Court entered the *Order Authorizing (A) the Sale of Certain Assets of the Debtors Free and Clear of All Claims, Liens, Liabilities, Rights, Interests and Encumbrances; (B) the Debtors to Enter into and Perform Their Obligations Under the Asset Purchase Agreement; (C) the Debtors to Assume and Assign Certain Executory Contracts and Unexpired Leases; and (D) Granting Related Relief* [Docket No. ___] (the "**Sale Order**").

¹ The Debtors in these Chapter 11 Cases, along with the last four digits of each Debtor's federal tax identification number, are: A123 Systems, Inc. (3876); A123 Securities Corporation (5388); and Grid Storage Holdings LLC (N/A). The above-captioned Debtors' mailing address is c/o A123 Systems, Inc., 200 West Street, Waltham, Massachusetts 02451.

² Capitalized terms used but not herein defined shall have the meanings set forth in the Bidding Procedures approved as part of the Bidding Procedures Order.

3. Pursuant to the Sale Order, the Debtors have accepted the bid of [_____] (the “**Successful Bidder**”) for the purchase of certain of the assets (the “**Assets**”) related to the Debtors’ business (the “**Sale**”). The terms of the bid are set forth in that certain asset purchase agreement (the “**APA**”), dated as of [November __], 2012 among the Debtors and the Successful Bidder.

4. The Bidding Procedures Order, among other things, authorized procedures for the Debtors to assume and assign certain executory contracts and unexpired leases (the “**Assumed Contracts and Assumed Leases**”) to the Successful Bidder. Attached hereto as Exhibit 1 is a list of the Assumed Contracts and Assumed Leases that the Debtors will assign to the Successful Bidder in connection with the closing of the Sale and the cure amount, if any, with respect to each Assumed Contract and Assumed Lease.

5. All documents filed with the Court in connection with these Chapter 11 Cases, including orders of this Court, may be obtained: (i) at the website of the Debtors’ claims and noticing agent, Logan & Company, Inc. (www.loganandco.com) or by email to A123@loganandco.com; and (ii) through the webpage for the Court (www.deb.uscourts.gov) (access via this link requires registration with Pacer Service Center at 1-800-676-6856 or on-line at www.pacer.gov).

Dated: Wilmington, Delaware

[_____], 2012

RICHARDS, LAYTON & FINGER, P.A.

Mark D. Collins (No. 2981)
Michael J. Merchant (No. 3854)
Drew G. Sloan (No. 5069)
920 N. King Street
Wilmington, Delaware 19801
Telephone: 302-651-7700
Facsimile: 302-651-7701
Email: collins@rlf.com
merchant@rlf.com
sloan@rlf.com

- and -

D. J. Baker
Rosalie W. Gray
Adam S. Ravin
LATHAM & WATKINS LLP
885 Third Avenue
New York, New York 10022-4834
Telephone: 212-906-1200
Fax: 212-751-4864
Email: dj.baker@lw.com
rosalie.gray@lw.com
adam.ravin@lw.com

and

Caroline A. Reckler
Matthew L. Warren
LATHAM & WATKINS LLP
Suite 5800
233 South Wacker Drive
Chicago, IL 60606
Telephone: (312) 876-7700
Fax: (312) 993-9767
Email: caroline.reckler@lw.com
matthew.warren@lw.com

Proposed Counsel for Debtors and Debtors
in Possession

EXHIBIT 1

Assumed Contracts and Assumed Leases

SCHEDULE 5

NOTICE OF REJECTION

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

----- X
In re: : Chapter 11
: :
A123 SYSTEMS, INC., et al., : Case No. 12-12859 (KJC)
: :
Debtors.¹ : Jointly Administered
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**NOTICE OF REJECTION OF UNEXPIRED LEASES AND
EXECUTORY CONTRACTS**

PLEASE TAKE NOTICE OF THE FOLLOWING:

1. On November [___], 2012, the United States Bankruptcy Court for the District of Delaware (the “**Court**”) entered the *Order (I) Approving Bid Procedures in Connection with Sale of Certain Assets of the Debtors; (II) Scheduling Hearing to Consider Sale of Assets; (III) Approving Form and Manner of Notice Thereof; (IV) Approving Break-Up Fee and Expense Reimbursement and (V) Granting Related Relief* [Docket No. ___] (the “**Bidding Procedures Order**”).

2. The Debtors hereby provide this “Notice of Rejection of Unexpired Leases and Executory Contracts” (the “**Rejection Notice**”) of their intent to reject all unexpired leases and executory contracts to which one or more of the Debtors is party that are listed on Schedule 1 hereto (the “**Leases and Contracts to Be Rejected**”). Pursuant to the terms of the Bidding Procedures Order, the Leases and Contracts to Be Rejected shall be deemed rejected ten (10) days from the date of this Rejection Notice (the “**Effective Date of Rejection**”).

¹ The Debtors in these Chapter 11 Cases, along with the last four digits of each Debtor’s federal tax identification number, are: A123 Systems, Inc. (3876); A123 Securities Corporation (5388); and Grid Storage Holdings LLC (N/A). The above-captioned Debtors’ mailing address is c/o A123 Systems, Inc., 200 West Street, Waltham, Massachusetts 02451.

3. Counterparties to Leases and Contracts to Be Rejected that wish to file a rejection damages claim relating to the rejection of such Leases and Contracts to Be Rejected must do so by the later of (i) the deadline, or “bar date,” set by the Bankruptcy Court for the District of Delaware (the “**Court**”) for the filing of claims against the Debtors, of which you will receive a subsequent notice, and (ii) thirty (30) days from the Effective Date of Rejection. Any such rejection damages claims must be filed with the Debtors’ claims and noticing agent, Logan & Company, Inc., Attn: A123 Systems, Inc., 546 Valley Road, Upper Montclair, NJ 07043. If you do not properly and timely file such proof of claim, you shall be forever barred from asserting any claims for such rejection damages.

4. The Debtors do not waive any claims they may have against counterparties to Leases and Contracts to Be Rejected, whether or not such claims arise under, are related to the rejection of, or are independent of such Leases and Contracts to Be Rejected. Additionally, nothing herein shall be deemed an admission with respect to whether a contract or lease is executory.

5. All documents filed with the Court in connection with these Chapter 11 Cases, including orders of the Court and a copy of this Rejection Notice, may be obtained: (i) at the website of the Debtors’ claims and noticing agent, Logan & Company, Inc. (www.loganandco.com) or by email to A123@loganandco.com; and (ii) through the webpage for the Court (www.deb.uscourts.gov) (access via this link requires registration with Pacer Service Center at 1-800-676-6856 or on-line at www.pacer.gov).

Dated: Wilmington, Delaware
[_____], 2012

RICHARDS, LAYTON & FINGER, P.A.

Mark D. Collins (No. 2981)
Michael J. Merchant (No. 3854)
Drew G. Sloan (No. 5069)
920 N. King Street
Wilmington, Delaware 19801
Telephone: 302-651-7700
Facsimile: 302-651-7701
Email: collins@rlf.com
merchant@rlf.com
sloan@rlf.com

- and -

D. J. Baker
Rosalie W. Gray
Adam S. Ravin
LATHAM & WATKINS LLP
885 Third Avenue
New York, New York 10022-4834
Telephone: 212-906-1200
Fax: 212-751-4864
Email: dj.baker@lw.com
rosalie.gray@lw.com
adam.ravin@lw.com

and

Caroline A. Reckler
Matthew L. Warren
LATHAM & WATKINS LLP
Suite 5800
233 South Wacker Drive
Chicago, IL 60606
Telephone: (312) 876-7700
Fax: (312) 993-9767
Email: caroline.reckler@lw.com
matthew.warren@lw.com

Proposed Counsel for Debtors and Debtors
in Possession

Schedule 1

Leases and Contracts to Be Rejected