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March 6, 2012

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Energy-backed firms award bonuses, file bankruptcy

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By Ronnie Greene and Matthew Mosk, iWatch News

President Obama's Department of Energy financed a fleet of green energy companies that later fell into bankruptcy -- but not before the firms doled out six-figure bonuses and payouts to top executives, a Center for Public Integrity and ABC News investigation found.

Take, for instance, Beacon Power Corp., the second recipient of an Energy Department loan guarantee in 2009. In March 2010, the Massachusetts energy storage company paid cash bonuses of $259,285 to three executives in part due to progress made on the $43 million energy loan, Securities and Exchange Commission records show. Last October, Beacon Power filed for Chapter 11 bankruptcy.

Ener1 subsidiary EnerDel, maker of lithium-ion battery systems, landed a $118.5 million energy grant in August 2009. About one-and-a-half years later, Vice President Joe Biden toured a company plant in Indiana and heralded its taxpayer-supported expansion as one of the "100 Recovery Act Projects That Are Changing America."

Two months after Biden's visit, corporate parent Ener1 paid $725,000 in bonuses to three executives -- including $450,000 to then-CEO Charles Gassenheimer, who led Biden on the tour. This January, Ener1 filed for Chapter 11 bankruptcy protection.

At least two other firms that benefited from Energy Department funding -- one a $500,000 grant, the other a $535 million loan guarantee -- handed out hefty payouts to executives and later went bankrupt.

The Department of Energy, asked about the payments examined by the Center and ABC, said it is troubled by the practice and intends to convey that message to loan recipients.

"We don't begrudge companies or their executives for their success, but it is irresponsible for executives to be awarded bonus compensation when their workers are losing their jobs," said department spokeswoman Jen Stutsman. "We take our role as stewards of taxpayer dollars very seriously, and as such, we will make clear to loan recipients our view that funds should not be directed toward executive bonuses when the rest of the company is facing financial difficulty."

The bonuses and bankruptcies come against a growing wave of trouble for companies financed with Energy Department dollars. Of the first 12 loan guarantees the department announced, for instance, two firms filed for bankruptcy, a third has faced layoffs and a fourth deal never closed.

The nonprofit Citizens Against Government Waste counts nearly 20 government-backed energy companies that have run into financial trouble ranging from layoffs to losses to bankruptcies. An outside consultant hired by the White House said the Energy Department's loan pool includes $2.7 billion in potentially risky loans and suggests the agency hire a "chief risk officer" to help minimize problems.

To watchdogs, the pattern of firms awarding bonuses only to file for bankruptcy raises questions about how well the Energy Department chose its winners, and how thoroughly it kept an eye on them once selected.

"Giving a bonus to the executives under these circumstances is rewarding failure with our money with no chance of getting it back," said Leslie Paige, spokeswoman for the nonpartisan Citizens Against Government Waste.

"Taxpayers need some representation here. They didn't really get it."

The setbacks have intensified the glare on the president's environmental mission, already under scrutiny following the collapse of Solyndra Inc., the first recipient of an Obama green energy loan.

Solyndra, bankruptcy records show, was among the companies to dole out thousands in executive payments -- in its case, just months prior to its late August collapse and early September bankruptcy. As a criminal investigation and House inquiry continue into the company's implosion, the government must navigate bankruptcy proceedings in hopes of recovering a piece of its $535 million investment.

In interviews, executives with companies backed by public dollars defended the payments as proper. Some said bonuses were granted for work done in a previous year, before financial storm clouds had fully developed, and that the executive cash infusions were sometimes linked to broad corporate milestones.

One company executive said the Energy Department explicitly allows for federal funds to be used to pay out executive bonuses.

DOE does not set salaries and benefits of companies it backs, "but we do closely scrutinize all of the expenses submitted by the companies before they are reimbursed to ensure that taxpayer dollars are being used appropriately," said spokeswoman Stutsman. "Funds are paid out as the work is actually completed."

Secretary Steven Chu declined an interview request. The department has long defended the green energy movement as a way for government to help spur development of cutting edge products that aid the environment and economy. Sometimes, they say, investments in potential game-changing technologies simply don't work. The potential default rate, they say, is within the parameters set by Congress.

Yet some members of Congress -- already concerned about lucrative paydays at bankrupt Solyndra -- say they're particularly troubled that failed companies, backed by Energy Department funds, would pay bonuses at all.

"Any company that's going into bankruptcy or any executive that ran a company into bankruptcy shouldn't be getting bonuses in the first place," said Sen. Charles Grassley, R-Iowa, former chairman of the Senate Finance Committee. "In the case where there might be federal grants or federal loans, I would be very concerned."

Grassley added: "The purpose of our grants for energy or almost any other grant of government is for the purpose of innovation. It's not for the purpose of feathering the nest of a private company executive."

Bruce Kogut, director of the Sanford C. Bernstein Center for Leadership and Ethics at the Columbia Business School, said it is not uncommon for corporate bonuses to be awarded when executives meet key achievement milestones.

"The problematic issue," professor Kogut said, is giving out bonuses "near the time of bankruptcy."

Solyndra executives, bankruptcy records show, pocketed thousands in payments just months before the company dismissed 1,100 workers. At least 17 company executives received two sets of payments -- ranging from $37,000 to $60,000 each payment -- on the same days in April and July 2011. The insider payments, reported last year in the *San Jose Mercury News*, came as the company catapulted toward bankruptcy in early September. A Solyndra spokesman did not reply to interview requests.

Solyndra's crash last August put a sharp focus on the selection process the Energy Department follows in awarding taxpayer dollars. The administration backed the upstart firm despite concerns even from some government officials worried about Solyndra's financial viability, email records show. And, energy officials committed to the financing before all due diligence was in hand.

Bankruptcies and bonuses

Not as well-known are three other firms backed by Energy Department dollars -- ranging from $500,000 to $118.5 million -- that also suffered financial downturns. As with Solyndra, each corporate entity rewarded executives prior to its bankruptcy filing.

One example: Ener1, whose subsidiary EnerDel won the $118.5 million Energy Department grant in 2009 to help expand its manufacturing plant. The company also received supportive write-ups on the DOE website.

Vice President Biden's January 2011 visit to the company's Greenfield, Indiana, plant was part of the government's "White House to Main Street Tour."

"This Administration is forging a new path forward by making sure America doesn't just lead in the 21st Century, but dominates in the 21st Century," Biden said after a tour with Ener1 CEO Gassenheimer. "We're not just creating new jobs -- but sparking whole new industries that will ensure our competitiveness for decades to come -- industries like electric vehicle manufacturing."

A White House report listed the EnerDel project as No. 67 among the "100 Recovery Projects that are Changing America."

In March 2011, Gassenheimer was awarded a $450,000 bonus, SEC records show. Two other Ener1 executives pocketed bonuses of $225,000 and $50,000 for a total payout of $725,000.

In January 2012, one year after Biden's visit, Ener1 filed for bankruptcy, citing $73.9 million in assets and $90.5 million in debts.

Energy officials noted that while the bonuses were paid to executives from Ener1, the government grant went to a subsidiary called EnerDel, which was not part of the bankruptcy case. But the two are closely related -- bankruptcy records show EnerDel now provides all of the employees for the parent company. And the distinction is new for the Energy Department -- a press release touting Biden's visit referred to the parent company Ener1 as the recipient of administration support, not EnerDel.

Gassenheimer, reached for an interview, said he could not comment. He is no longer with Ener1.

A company spokesman said the bonuses were paid through Ener1, the corporate holding company, not EnerDel. DOE said the subsidiary's project is on schedule, and an Ener1 spokesman said the battery company aims to get back on its feet through reorganization.

Beacon Power's bonuses were specifically linked to executives' progress in landing the company's $43 million Energy Department loan guarantee in 2009.

Securing the loan was among the measures used to establish how much executives would pocket in bonuses, company SEC filings show. "The DOE loan application was approved by the credit review board, making us the first public company and the second of 16 applicants to receive the commitment," the document notes.

President and Chief Executive Officer F. William Capp received a $133,256 cash bonus in March 2010. Two other company officials pocketed combined bonuses that month of $126,029.

In an interview, Capp said the company's pay structure was reasonable and that executives took pay cuts in a bid to help Beacon Power survive.

"The record is clear on that. The executives have not enriched themselves," Capp said. "We all agreed to take a 20 percent reduction in pay just to make the funds last longer in order to keep the team together. There's hardly been self-enrichment."

Last week regulators approved Beacon Power's sale to an equity firm that should help it repay $25 million of the $39 million Beacon had drawn down from the loan. The company, under new ownership, plans to continue operating the 20-megawatt flywheel energy storage plant in Stephentown, New York, a project the department said would "ensure the reliable delivery of renewable energy to the electricity grid." It hopes to build a second plant in Pennsylvania.

Capp blamed the bankruptcy on a variety of factors, including government fears about restructuring loans after Solyndra filed for bankruptcy. His firm, he said, got swept up in "Hurricane Solyndra."

'It all happened so quickly'

Other energy companies struggled in the storm.

Among them: SpectraWatt, a New York state manufacturer of silicon solar cells. In 2009, SpectraWatt secured a $500,000 grant from the DOE's National Renewable Energy Laboratory Photovoltaic Technology Pre-Incubator program. In March 2010, U.S. Labor Secretary Hilda L. Solis and a local congressman toured the company's Hudson Valley Research Park in Hopewell Junction, N.Y., highlighting the wave of coming green jobs.

"President Obama and I understand and believe that the first thing we have to do to turn the economy around is provide American families with good jobs," the labor secretary said, according to a SpectraWatt press release. "That is why we are committed to investing in greening our economy."

Yet, not long after, the company's momentum suddenly halted.

Last August, SpectraWatt filed for Chapter 11 bankruptcy protection.

"It all happened so quickly," Richard J. Haug, SpectraWatt's President and COO, said in an interview. The company's innovative technology, he said, butted up against changing market and pricing conditions, competition from the Chinese -- and the fact that some early investors did not follow through.

"They couldn't locate any new money," he said. "It was very disappointing."

While the DOE's early grant supported research and development, Haug said, a later funding request was denied. Last March, he said, the company laid off its workforce and effectively shut down. "It became increasingly difficult for us to make any more money. By the end of 2010 we basically dropped down to a cash level ... that by March we would be out of business," Haug said.

In March, the big payouts began. Five company executives, including Haug, received six-figure payments in late March or early April 2011, bankruptcy records show. The five "insider payments" totaled more than $745,000.

Haug said the payouts were not bonuses, but accrued vacation and pay for executives that had been spelled out in severance agreements. "There were no golden parachutes," he said. "This was a very straightforward very honest group of people. I'd go to work with them again anytime."

Energy officials noted that their early investment in SpectraWatt was relatively small compared to other project financing. Late last year, the company held auctions to sell off its plant and property.

In recent weeks, several other companies backed by DOE dollars have encountered deep financial woes.

At least six Energy Department loan and grant recipients -- from electric car maker Fisker Automotive to electric-car battery maker A123 Systems to Colorado-based Abound Solar -- have laid off workers or suffered financial woes. Those setbacks come on top of the companies that have already filed for bankruptcy.

Administration officials, from Obama on down, say they continue to support the green energy mission. "There were going to be some companies that did not work out," Obama told reporters in October, after Solyndra's meltdown. "All I can say is the Department of Energy made these decisions based on their best judgments."

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