

(BN) Obama Team Stood by Solyndra's U.S. Loan as Troubles Mounted (1)

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2011-09-12 16:59:54.108 GMT

(Updates with U.S. decision on restructuring request in eighth paragraph.)

By Jim Snyder and Christopher Martin

Sept. 12 (Bloomberg) -- Solyndra LLC's workers making solar-power panels in a California factory subsidized by U.S. taxpayers showed "the promise of clean energy isn't just an article of faith," President Barack Obama said on a visit to the company in May 2010.

Two months before Obama's visit, accounting firm PricewaterhouseCoopers LLP warned that Solyndra, the recipient of \$535 million in federal loan guarantees, had financial troubles deep enough to "raise substantial doubt about its ability to continue as a going concern."

The Obama administration stood by Solyndra through the auditor's warning, the abandonment of a planned initial public offering and a last-ditch refinancing where taxpayers took a back seat to new investors. That unwavering commitment has come under increasing scrutiny since the company's travails culminated in its filing for bankruptcy protection on Sept. 6 and a raid on its headquarters by the Federal Bureau of Investigation two days later.

"People including our government put blinders on and did not want to believe in the obvious," Jonathan Dorsheimer, an analyst in Boston for Canaccord Genuity Inc. of Vancouver, said in an interview with Bloomberg Government. "The fact that the government chose Solyndra as their white horse is mind-boggling."

'Merit-Based Decision'

Selection of companies to receive U.S. backing are “merit-based decisions made by career staffers at the Department of Energy, and the process for this particular loan guarantee began under President George W. Bush,” Eric Schultz, a White House spokesman, said in an e-mailed statement Sept. 1. “Every project that receives financing through the Energy Department goes through a rigorous financial, legal and technical review process.”

The House Energy and Commerce Committee, which has been investigating the Solyndra award since February, has scheduled a hearing on the loan guarantees for Sept. 14.

“We smelled a rat from the onset,” Representatives Fred Upton, a Michigan Republican and the committee chairman, and Cliff Stearns, a Florida Republican and chairman of the investigation subpanel, said in a statement Aug. 31 when the company announced it had dismissed 1,100 employees and planned to file for Chapter 11 bankruptcy reorganization.

A day before Solyndra ceased operations, the Energy Department turned down the company’s request to renegotiate the U.S. loan agreement, saying “a second restructuring was not feasible,” according to a memo from committee Republicans.

### Stimulus Legislation

Originally authorized by Congress in a 2005 energy law, the loan guarantee program to encourage the development of clean-energy sources didn’t choose its first recipient until it was revamped under Obama’s 2009 stimulus legislation. Trade groups such as the Solar Energy Industries Association and the American Wind Energy Association lobbied Obama, urging in a letter that he prevent “further delay.”

Energy Secretary Steven Chu pledged during his Senate confirmation hearing to speed the approval of applications for the federal backing.

Solyndra, identified during Bush’s administration as a promising applicant, received the Energy Department’s first loan guarantee after Obama took office. Solyndra was given conditional approval in March 2009 and the award became final that September.

## Easier, Lighter

The goal was to help the Fremont, California-based company develop its cylinder-shaped solar devices, which convert sunlight into electricity using a thin film made mainly of copper, indium, gallium and selenium. Standard solar panels are flat and made from silicon.

The company said its product was easier to install and lighter, giving it an edge over conventional panels, especially for large rooftops that can't handle the weight of flat panels.

Solyndra used the U.S. backing to build the manufacturing plant Obama visited, shutting an older facility executives said couldn't produce panels efficiently enough to compete in a market increasingly dominated by cheaper Chinese imports.

The company disclosed the "going concern" warning by PricewaterhouseCoopers, its accounting firm, in a Securities and Exchange Commission filing on March 16, 2010.

"The company has suffered recurring losses from operations, negative cash flows since inception and has a net stockholders' deficit," PricewaterhouseCoopers said.

In June 2010, the month after Obama's visit, Solyndra executives withdrew a planned \$300 million initial public offering.

## Value 'Evaporated'

The challenge facing Solyndra only increased as prices of the silicon used in conventional solar panels from China fell, declining 30 percent this year, according to Bloomberg New Energy Finance.

"When polysilicon prices dropped Solyndra's value proposition evaporated," Joseph Berwind, managing partner of Alternative Energy Investing LLC in Summit, New Jersey, and the author of "Investing in Solar Stocks," said in an interview.

By December 2010, Solyndra was a month away from running out of cash, according to a government document obtained by Bloomberg News.

In what turned out to be a final effort to save the company, the Energy Department agreed to take a back seat to funds from new investors to keep the solar plant operating.

## Public, Private Investors

Under the terms, \$75 million in private financing will be paid ahead of all but \$150 million of the federal government's stake from any revenue from the sale of the company or its assets if Solyndra is liquidated, according to the January document. The government loaned about \$527 million to the company by the time it shut down.

Solyndra also put up more collateral to the government, including intellectual property.

After "a due-diligence effort" to "determine if the company still had a viable business" the Energy Department concluded it "believes that the restructuring plan represents the best possible course of action to achieve the highest return on its invested capital," according to the document.

House Republicans noted Solyndra's financial troubles in a February 17 letter to Energy Secretary Chu announcing their investigation into the loan-guarantee program.

## Kaiser Investment

Since then, Republicans have pointed to connections between Solyndra and billionaire George Kaiser, an Obama campaign fundraiser. The George Kaiser Family Foundation, a charitable organization based in Tulsa, Oklahoma, holds about 36.7 percent of the company, according to a filing with the Securities and Exchange Commission. Kaiser made 16 visits to the president's aides since 2009, according to White House visitor logs.

"George Kaiser is not an investor in Solyndra and did not participate in any discussions with the U.S. government regarding the loan," the foundation said in an e-mailed statement on Sept. 1.

As Solyndra struggled to stay afloat, it worked to reassure lawmakers. The company spent \$480,000 this year to lobby Congress, according to Senate records.

In July, days after Republicans on the House Energy and Commerce Committee subpoenaed the White House for documents related to the loan guarantee, Solyndra retained Glover Park Group LLC, a public relations and lobbying firm of former

congressional and White House aides based in Washington, to introduce executives to members of the committee, according to Senate records.

### Solyndra Forecasts

A July 13 letter from Solyndra to the Energy committee said revenue had increased to \$140 million from \$6 million in 2008 and was projected to almost double again in 2011.

On July 21, at a news conference at Glover Park's offices, Solyndra Chief Executive Officer Brian Harrison said policy makers should "separate Solyndra and its business results from the political process that is ongoing."

Democratic Representatives Henry Waxman of California and Diana DeGette of Colorado said in a letter Sept. 8 that Harrison assured them in a meeting less than two months ago that the company was in a "strong financial position."

The House Energy panel has asked Harrison to testify at this week's hearing along with Jonathan Silver, who heads the Energy Department's loan program, and Jeffrey Zients, deputy director of the White House Office of Management and Budget.

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