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Venture Capitol: New VC Force

By [NEIL KING JR.](#)

When tiny Fisker Automotive Inc. hit a financing glitch last year, threatening its plan to build a fancy gasoline-electric hybrid car in Finland, it turned to the U.S. Department of Energy.

The DOE had a bolder idea. Why not also step up the company's plans to develop a less-expensive model, and assemble it in a closed U.S. auto plant?

Within months, Vice President Joe Biden, the former senator from Delaware, was helping lure the embryonic car company to a shuttered General Motors Co. factory four miles from his house in Wilmington, right across the tracks from Biden Park. Soon, Fisker Automotive, a two-year-old business that has yet to sell a car, won loans from the federal government totaling \$528 million.

Fisker had joined a flock of other businesses seeking cash from the biggest venture capitalist of all, the U.S. government.

The DOE hopes to lend or give out more than \$40 billion to businesses working on "clean technology," everything from electric cars and novel batteries to wind turbines and solar panels. In the first nine months of 2009, the DOE doled out \$13 billion in loans and grants to such firms. By contrast, venture-capital firms -- which have long been the chief funders of fledgling tech firms, taking equity stakes in the start-ups that will pay off if they go public -- poured just \$2.68 billion into the sector in that time, according to data tracker Cleantech Group.

Thus, while much attention has been focused on the federal government's involvement in banking, Washington also is gaining sway in another swath of the economy. By financing clean-tech ventures on a large scale, the government has become a kingmaker in one of technology's hottest sectors.

Some young companies are tailoring their business plans to win DOE cash. Private investors, meanwhile, are often pulling back, waiting to see which projects the government blesses. Success in winning federal funds can attract a flood of private capital, companies say, while conversely, bad luck in Washington can sour their chances with private investors. The result is an intertwining of public and private-sector interests in an arena where politics is never far from the surface.

In Delaware, "We had five individuals beating the band -- the three members of the [congressional] delegation, the governor and the vice president," said the state's chief of economic development, Alan Levin. "We had in the vice president a secret weapon, except there is nothing secret about Joe Biden."

A spokeswoman for Mr. Biden said he made no direct appeals to DOE on Fisker's behalf before the loan was approved, though he did talk to the company several times afterward to put in a plug for his home state.

At the DOE, Matthew Rogers, who helps oversee the department's loans, said proposals are vetted by "deal teams" insulated as much as possible from outside pressure. "Lots of people can call the [energy] secretary, but that doesn't mean that any of that necessarily flows down to the deal-team level," he said.

More than 40 auto-related companies have sought government money to build parts or vehicles, ranging from hybrid roadsters and delivery vans to all-electric three-wheelers that could go 120 miles on a charge. They are chasing \$25 billion in federal low-interest loans for a sector that has attracted less than a tenth that much in venture capital over the past five years, according to Cleantech.

"The existence of an 800-pound gorilla putting massive capital behind select start-ups is sucking the air away from the rest of the venture-capital ecosystem," said Darryl Siry, former head of marketing at Tesla Motors Inc., a San Carlos, Calif., company that got a \$365 million DOE loan in June to build high-end electric cars. "Being anointed by DOE has become everything for companies looking to move ahead."

Bright Automotive Inc. is still seeking anointment. Based in a small warren of offices outside Indianapolis, Bright looked set to take off in September 2008. Investors were poised to give it more than \$100 million to move ahead on a lightweight hybrid delivery van, and it had lined up major corporations as potential customers.

When the financial crisis hit in that same month, investors bowed out. Though a few have since tiptoed back, enabling Bright to build a prototype, its principal hope for now lies in the DOE, from which it is seeking a large loan to get under way.

"We are caught in this blender of historically new forces, somewhere between the public and private worlds," said Bright's chief executive, John Waters. Without a government loan, private investors are reluctant to jump in, he says, while the DOE loan team is wary of backing ventures that haven't already won significant support in the private sector.

The DOE acknowledges it looks to back companies that already have substantial private funding, with the hope that federal money will in turn attract more private investment.

Fisker, based in Irvine, Calif., got rolling two years ago with seed money from two of Silicon Valley's largest venture-capital firms, Palo Alto Investors LLC and Kleiner Perkins Caufield & Byers. They and some smaller investors put up nearly \$160 million to move Fisker's first car, called the Karma, off the design table and into early production. But to fine-tune the engineering and put it into full production, Fisker needed at least \$200 million more.

In December 2008, Fisker turned to the DOE's \$25 billion Advanced Technology Vehicle Manufacturing loan program, which Congress had funded to launch new, high-efficiency vehicles.

Fisker applied for about \$170 million to get the Karma rolling. It also put in a second application, hoping eventually to win financing to build a cheaper model, code-named the Kx, which the company didn't envision bringing to market until around 2015.

DOE officials and their advisers expressed strong interest in the Karma proposal, say people involved in the talks, but they were wary of the Kx. Its engineering remained vague, and Fisker was far from having a prototype.

By late spring, DOE was pushing ahead briskly on the Karma loan, say people involved in the deal. But the Karma presented a political challenge: It was already being assembled, under contract, at a plant in Finland. Though it used mainly U.S.-made components, so a federal loan would help U.S. parts makers, the boost for U.S. workers would be limited.

DOE then came to Fisker with a surprising proposal: Find a U.S. site to build the Kx, and DOE would agree to fund both projects together. Fisker could then start gearing up to make the Kx even before the Karma hit the market. Close advisers to Fisker said the issue of job creation had become key to officials within the administration.

"The government's interest sped it all up," said David Anderson, a partner at the Palo Alto Investors venture-capital firm, who followed the DOE process closely. "The government basically said, 'Let's make this happen sooner rather than later.'"

On June 1, GM said it was closing 14 plants, including the one in Delaware. This gave fresh urgency to the DOE's quest for Fisker, say officials involved in the loan discussions.

GM's Delaware factory, called the Boxwood Road plant and dating from 1947, once employed 5,000. It was the last auto assembly plant in the Northeast. State officials and politicians were determined to keep it alive.

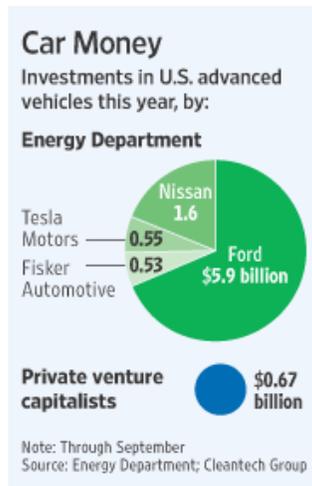
In the middle of August, they learned the plant had drawn interest from Fisker. CEO Henrik Fisker came to see it and dropped by the office of a Delaware senator, Tom Carper, a Democrat. The visit unleashed a flurry of activity. Gov. Jack Markell, also a Democrat, quickly called an old friend at Kleiner Perkins to check on Fisker. "Basically, we wanted to know, 'Are they for real?'" said Mr. Levin.

Kleiner Perkins itself has political roots. A leading partner, John Doerr, sits on President Barack Obama's economic advisory board, and another partner is former Vice President Al Gore.

The DOE, in August, hadn't yet ruled on Fisker's loan request. Delaware's governor and congressional delegation began peppering U.S. Energy Secretary Steven Chu with calls on Fisker's behalf. They also had repeated discussions with Vice President Biden and his staff, according to Mr. Levin and several others.

In early September, Gov. Markell told Fisker that if it occupied the shuttered GM plant it would get an array of state incentives worth up to \$22 million, including \$9 million in cash for utilities. He promised to buy the first car off the line.

On Sept. 17, he ran into Mr. Chu at an event in Pennsylvania. "I know, I know -- Fisker," Mr. Chu said as soon as he saw him, according to the governor, who said Mr. Chu told him he was "hearing from everyone in Delaware."



Five days later, Mr. Chu announced the government had signed a provisional agreement to lend Fisker nearly \$170 million to complete engineering of the Karma, as well as \$360 million to develop the less-expensive model Kx, which the company then began to call the Nina. Fisker still plans to assemble the Karma in Finland but will make the Nina in Delaware. Mr. Chu said the DOE funding would help reduce dependence on foreign oil as well as create "thousands of new American jobs."

People familiar with the loan say the government based the amount partly on its assessment that the Nina, which will sell for about \$40,000 after government tax rebates, could draw world-wide annual sales of around 130,000 -- nearly twice Fisker's own projection.

Mr. Fisker, a former designer of sleek sports cars for BMW and Aston Martin, said he is sure his company would have won DOE funding without the Delaware politicians' support but credits it with speeding the approval. He added that Fisker picked the Delaware plant because it made economic sense.

Though its first model, the Karma, won't be available for test drives for months, Fisker says more than 1,500 potential buyers have put down refundable deposits on the car, expected to sell for \$88,000.

On Oct. 27, about a month after the DOE approved loans to Fisker, its executives and Delaware politicians gathered in Wilmington for an announcement. In the morning, Mr. Biden played host to United Auto Workers brass for breakfast at his house near the Boxwood Road plant.

Then they joined hundreds of auto workers and local dignitaries at the factory. Gov. Markell announced Fisker was buying it from the post-Chapter 11 remnant of GM called Motor Liquidation Co. for just \$18 million. The deal includes a high-end paint facility and other equipment that industry experts say would cost more than \$300 million to replace.

In a rousing speech, Mr. Biden recalled how every election year, including his first in 1972, "I would stand here at this gate and shake hands at every shift." He told of many "long talks" he said he had had with Mr. Fisker. He called the project "a metaphor for the rebirth of the country."

Afterward, Mr. Fisker escorted the dignitaries behind a curtain for their first look at a mock-up of the planned second model, the Nina. It was a sporty car body, bright red, but with no drivetrain or engine. Gov. Markell, though, was impressed. "It was just a beautiful car," he said.

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