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Breaking Down on the Road to Electric Cars

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DETROIT — No one answers the phones these days at Fisker Automotive. Its visionary founder has quit; its employees have been laid off or put on furlough without pay. Production of its sleek plug-in hybrid car, the Karma, ended months ago.

Veering on the edge of bankruptcy, without a buyer in sight, Fisker has become — to lawmakers and others — the Solyndra of the electric car industry. Not only private backers but millions of dollars in government loans gave life to a company, some would argue, that was a shaky investment from the start.

No electric vehicle initiative backed by Washington seems more of a debacle than Fisker, which was given a $529 million federal loan in 2009 to advance the project. Two years later, after Fisker repeatedly missed production targets and other deadlines, the Energy Department suspended the loans.

The all-but-closed company skipped a large loan payment that was due on Monday, leading the federal government to take the unusually aggressive step of seizing $21 million from the company's cash reserves to begin recouping the $192 million in taxpayer dollars spent on the company's flawed strategy.

Fisker, with its technical problems, management turmoil and mounting losses, offers a cautionary tale in the fiercely competitive arena of alternative-fuel vehicles and of government subsidies for start-up businesses.

The company's messy demise will fall under the glaring spotlight of a Congressional hearing on Wednesday that is titled "Examining the Department of Energy's Bad Bet on Fisker Automotive." Some of Fisker's top executives involved in the Karma's development are expected to testify, as well as agency officials involved in the loan program.

"The government is playing in a space where they have to recognize their limitations," said Van Conway, a corporate restructuring executive in Detroit. "Whatever they spent on Fisker was just not going to be enough."

Others, including members of the Senate and the House, complain that standards for awarding federal loans were overlooked in the rush to promote green technology. "How did the Energy Department determine Fisker's potential before writing a check?" asked Senator Charles

Grassley, a Republican from Iowa. “Was there due diligence, or instead a blind hope that Fisker would produce something useful?”

An Energy Department spokeswoman, Aoife McCarthy, said the loan to Fisker was one of only a handful of 33 clean-energy loans that did not prove successful. She asserted that its problems should not be considered representative of the Obama administration’s broader efforts to promote cleaner cars.

“There will always be an element of risk with investments in the most innovative companies,” she said. Major automakers like Ford and Nissan received billions of dollars in federal loans to produce electric cars and, so far, have succeeded. A smaller manufacturer, Tesla, has also been able to meet the conditions of its government loans while producing an electric model.

But Fisker never realized its early promise as a tiny start-up manufacturer in an industry dominated by automotive giants.

On the surface, Fisker had all the trappings of a potential player in the emerging electric car industry. The brainchild of the Danish car designer Henrik Fisker, the company was based in Southern California and staffed by experienced executives from Ford and other auto companies. A big Silicon Valley venture firm, Kleiner Perkins Caufield & Byers, was among its earliest investors.

Its first product, the low-slung Karma sedan, drew attention both for its looks and its $104,000 sticker price. One of a new breed of plug-in hybrids, the Karma could travel an estimated 50 miles on battery power before a gasoline engine kicked in to generate additional electricity.

While it resembled the Chevrolet Volt made by General Motors, the Karma lacked the Detroit automaker’s enormous marketing muscle and technical expertise. Fisker did not even have its own production facility. It used a contract manufacturer in Finland to build its first model.

Serious problems emerged almost as soon as the car hit the market. Some batteries from the supplier A123 Systems were defective, and others caught fire. A test drive by the influential magazine Consumer Reports ended abruptly when the Karma broke down and had to be hauled away on a flatbed truck.

Even the weather turned on the company when more than 200 new Karmas were submerged in a storage center flooded by Hurricane Sandy at Port Newark, N.J.

At times Fisker simply ran short of money, forcing it to suspend work at its gleaming headquarters in Anaheim, Calif. “Every time something went wrong, we trusted that management would find a way to keep us going,” said Sven Etzelsberger, a former top engineer.

The company scrambled constantly to prop up its image. After the embarrassing Consumer Reports episode, Fisker hired Tom LaSorda, a former chief executive of Chrysler, to address quality issues and control the damage. A few months later, he was replaced by Tony Posawatz, a retired G.M. executive who had worked on the Chevy Volt.

At last year's New York auto show, Fisker grandly unveiled a concept version of a smaller, less expensive model it hoped to build in an abandoned G.M. plant in Delaware. About the same time, it closed on $392 million in new financing from private investors.

But additional financing and shuffling of executives could not change the fact that American consumers were just not buying many electric vehicles. Last year, consumers bought 48,000 all-electric and plug-in models — a fraction of the 14.5 million vehicles sold in the United States, according to the auto research site Edmunds.com. Less than 900 of those sold were Fisker Karmas, Edmunds calculated.

In recent months, Fisker unsuccessfully negotiated with two Chinese carmakers to sell the company. The last-ditch efforts coincided with the departure of Henrik Fisker, who resigned from the company on March 13. He left "because of major disagreements" on business strategy, Mr. Fisker said in an e-mail.

Bankruptcy now appears unavoidable, and a political reckoning is coming. Mr. Posawatz and Mr. Fisker are among the witnesses expected to testify at Wednesday's hearing by the House Oversight and Government Reform subcommittee.

Some environmental activists worry about the potential ramifications of a Fisker bankruptcy.

"We can't get to where we need to be in electric vehicles without government help," said Dan Becker, head of the Safe Climate Campaign, an advocacy group in Washington.

Yet Fisker's legacy will be its record of failure rather than its advances in fuel efficiency. It could not meet loan benchmarks like other automakers, and it never created the jobs it promised at the old G.M. plant. Even its troubled battery supplier, A123, also a recipient of federal funds, managed to attract a Chinese buyer after going bankrupt. But no one is bidding to buy Fisker.

It is a tough lesson for Karma owners like David Cohen, a 57-year-old New Jersey resident, who said he loves driving the car but wonders whether there will be a company to service it down the road.

"If I was aware of the company's dire financial situation, I would not have purchased the vehicle," said Mr. Cohen. "But it is what it is."

Fisker's former employees find its downfall hard to accept. Mr. Etzelsberger recalled the heady days in 2009 when employees worked nights and weekends to deliver the first working version of the Karma.

At that point, Fisker was desperately seeking private capital and loans from the federal government to move forward. Management's message to workers was blunt. "These cars are the future of the company," Mr. Etzelsberger recalled being told. "Without them, no one will have a job soon."

This month, Mr. Etzelsberger was one of 160 Fisker employees suddenly laid off without severance benefits. He is now the lead plaintiff in a lawsuit against his former company and another in a long line of disillusioned believers.

“I don’t really feel betrayed,” he said. “It’s more disappointment than anything.”

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