
From: David Stern <[REDACTED]>
Sent: Monday, April 16, 2012 4:10 PM
To: Jeffrey Epstein
Subject: Ferrous

The iron ore asset I sent you information about might be bought by Icahn. I still have direct access to the seller.

Key paragraph from article below:

"Icahn is nearing agreement to buy a 14.9 percent stake of Ferrous Resources Ltd., a closely held Brazilian iron-ore producer, from Harbinger for \$1.50 a share, four people familiar with the transaction said last week. That's about one-third of what Harbinger paid when it bought part of the firm in 2008."

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Falcone Waits for Icahn Doubting Down on Network

By Katherine Burton, Max Abelson and Saijel Mishra - Apr 16, 2012

Phil Falcone waited at the bar of the Post House in New York with two colleagues and a \$199 bottle of Tignanello. His guest, Carl Icahn <<http://topics.bloomberg.com/carl-icahn/>>, was late.

Falcone, the hedge-fund manager who has invested \$3 billion in wireless broadband startup LightSquared Inc., said he hoped the vulture investor, who made billions seizing control of companies, might become a partner, according to a person at the restaurant that night in March.

It had been a difficult few months. On Valentine's Day, the U.S. Federal Communications Commission said it was preparing to withdraw LightSquared's permission to operate a nationwide network, citing interference with global-positioning devices used in navigating everything from fighter jets to minivans. The company said it was cutting 45 percent of its staff, and Chief Executive Officer Sanjiv Ahuja <<http://topics.bloomberg.com/sanjiv-ahuja/>> resigned.

In December, the Securities and Exchange Commission told Falcone it may sue him over a \$113 million loan he took from his hedge fund, Harbinger Capital Partners LLC, to pay personal taxes. Then, for the second time in three years, he blocked investors from exiting the fund. Weeks later Harbinger borrowed \$190 million at an effective rate of 24 percent to repay debt.

The three men at the bar reassured one another that LightSquared could meet its loan payments before Icahn, in a red jacket, walked in.

Treadmill, first

Falcone is fighting to maintain control of LightSquared and reverse the biggest drop in assets in hedge-fund history -- \$23 billion from withdrawals and losses. He's doing it with the same obstinacy that led him to gamble his fund on a startup, then ignore signs that his plan to compete with entrenched telecommunications companies was in danger.

When backed into a corner, the 49-year-old former professional hockey player, whose bets against subprime mortgages propelled his fund to a mid-2008 peak of \$26 million, puts his head down and charges, according to interviews with friends, investors and Falcone himself.

"This is pounding every single day and not giving up," Falcone said last month, sitting in a Park Avenue office that features a treadmill in a bathroom and a Damien Hirst pin painting. "I tend to be pretty aggressive."

LightSquared's creditors, including Icahn, 76, have agreed to wait until the end of the month before deciding whether to put the company in technical default as a result of the FCC's announcement. If Falcone, who heads the firm's executive committee, can't persuade them to extend the deadline, LightSquared could file for bankruptcy and wage war against debt holders who want a rapid sale of his spectrum, he said.

Falcone and Icahn wouldn't comment on their discussions.

Sagaponack lien

At least \$850 million of Falcone's own money was at risk in Harbinger's main fund as of Aug. 31, loan documents show, and Falcone has written down the value of LightSquared's spectrum by 70 percent, or about \$2 billion, in the past year, according to people familiar with the fund who asked not to be identified because the valuations are private.

He has halted construction on a house near the beach in Sagaponack on the eastern end of Long Island <http://topics.bloomberg.com/long-island/>, where he owes his former contractor \$1.2 million, according to a lien filed last month in Suffolk County. Falcone said he dismissed the contractor because of delays. Renovations on a 27-room mansion near Central Park once owned by former Penthouse publisher Bob Guccione that he and his wife Lisa bought in 2008 for \$49 million should be completed next year, he said.

'Not Losing Sleep'

Falcone's spectrum investment accounts for about 40 percent of his main hedge fund. He said he's considering a legal campaign, hiring lawyers including former U.S. solicitor General Theodore Olson, to make the case that the government changed the rules and undermined his business.

"What's happening is quite frankly outrageous, it's un-American, it's unfair," Falcone said during the interview. "You mandate me to build out a network as a condition to buying the company, so I go and buy the company. And now you're not letting me build out the network?"

Falcone doesn't look besieged. Dressed in a blue Domenico Vacca shirt and gray pinstripe pants, he wears his collar-length hair in the same style as when he played center on Harvard's hockey team in the early 1980s. He sports a beaded rainbow-colored bracelet on his right wrist and purple and pink ones on his left, gifts from his twin, 7-year-old daughters.

"I am not losing sleep in this -- why would I lose sleep?" he said. "I still believe that we had a great, and we still do have a great vision."

'Complete Mismanagement'

Some investors have lost patience with Falcone's vision to build a 4G network. He was sued in federal court in February by Lili Schad, a Wallkill, New York, resident who said she invested \$4 million with Harbinger and wasn't told how much of the fund's money went into LightSquared or that its plan faced obstacles from regulators. Lew helps, a spokesman for Harbinger, said the fund will respond once an amended complaint is filed next month.

"This has been nothing but a complete mismanagement of the fund," said Peter Rup, chief investment officer of New York-based Artemis Wealth Advisors LLC, which invests in hedge funds <http://topics.bloomberg.com/hedge-funds/> for clients and doesn't have any money in Harbinger. "There should have been constraints on risk and concentration of the investments."

Falcone's doubling down on LightSquared fits a pattern, said Nathan Pettit, an assistant professor of management at New York University's Leonard N. Stern School of Business who has done research on how status colors judgment.

"People of status and power have an illusory sense they can control more than they do," said Pettit. "That leads to unrealistic optimism, increased risk-taking and decreased inhibitions."

Concentrated Bets

Most hedge fund managers have shunned illiquid holdings since the 2008 financial crisis, when they were forced to block client redemptions to avoid a fire sale.

Eddie Lampert, who runs Greenwich, Connecticut-based ESL Investments Inc., is one of the few billion-dollar hedge-fund managers to have taken a bet as concentrated as Falcone's. After orchestrating a 2004 merger between his two biggest holdings, retail icons Kmart Holding Corp. and Sears, Roebuck & Co., the combined company, Sears Holdings Corp. (SHLD), has tumbled 46 percent.

Falcone started buying shares and debt of SkyTerra Communications Inc. as early as 2005 in a bid to control a swath of scarce radio spectrum that could be used for surfing the Web and watching YouTube videos. In 2010, he received permission from the FCC to buy all of the company on the condition he build a wireless network, using cell towers and satellites, that could serve 260 million Americans.

'New Driver'

Even then, Falcone knew there were interference issues. He said in the interview they weren't easy to solve because GPS users were encroaching on his spectrum.

"People who are in adjacent bands have to understand that there is now a new driver in town driving on that highway," he said. "And they can't be weaving in and out of that highway."

GPS users and government officials weren't keen on getting out of Falcone's way. They objected after he sought a waiver from the FCC in November 2010 to lift a requirement that devices using his network communicate with satellites. The waiver would let phones, tablets and computers work off nearby towers rather than distant satellites, allowing LightSquared to compete with AT&T Inc. (T) and Verizon Communications Inc. (VZ), the two biggest U.S. wireless carriers.

AT&T Objections

AT&T said in a letter to the FCC on Dec. 2, 2010, that there was "increasing concern" in the industry about LightSquared signals interfering with GPS devices. A month later, on Jan. 12, 2011, the National Telecommunications and Information Administration wrote that the plan to use airwaves reserved mainly for satellite communications raised "significant interference concerns." Deputy Defense Secretary William Lynn, then the Pentagon's No. 2 civilian, wrote a letter the same day citing "critical national security" issues.

The letters didn't stop the FCC from granting the waiver two weeks later. The agency required that interference concerns be resolved, and a working group was set up to study the matter while LightSquared signed up wholesale customers.

GPS users, including Deere & Co. (DE) and Delta Air Lines Inc., formed a lobbying group in March to oppose LightSquared's plan. The organization, Coalition to Save Our GPS, said in a press release that month that Falcone's network posed "a serious threat" to GPS and recommended safeguards.

'Can't Believe This'

Senator Charles Grassley, a Republican from Iowa, told FCC chairman Julius Genachowski <http://topics.bloomberg.com/julius-genachowski/> in April that the SEC's investigation of Falcone should have led the agency "to proceed with caution rather than step on the gas." AT&T, based in Dallas, and Verizon in New York are among Grassley's biggest donors, according to campaign-spending tracker OpenSecrets.

In June, the Federal Aviation Administration said outdoor and laboratory tests showed that GPS receivers would be affected by signals from LightSquared's 40,000 base stations. Six months later, the Defense and Transportation departments issued a statement <http://www.gps.gov/news/2011/12/lightsquared/>, citing an FAA analysis, that said LightSquared's signals caused "interference with a flight safety system designed to warn pilots of approaching terrain."

While he doesn't have "direct evidence" of a conspiracy to thwart him, "common sense will tell me that it's a concerted effort on behalf of certain competitors," Falcone said. "Still, to this day, I'm like, I just can't believe this."

Michael Balmoris, an AT&T spokesman in Washington, said in an e-mail that his company has been "strictly neutral" on the matter. Bob Varettoni, a spokesman for Verizon, declined to comment. The Coalition to Save Our GPS said in a March 30 FCC filing that LightSquared relied on the "faulty premise" it had authority to operate a nationwide ground-based network. "This is simply not the case and continued repetition will not make it so," the group said.

LightSquared 'Blindsided'

LightSquared was "blindsided," said Martin Harriman, an executive vice president who left the Reston, Virginia-based firm this year.

"You've bought your really nice house in Beverly Hills, and someone comes and knocks on the door and says, 'I'm sorry, but actually I'm not sure if you can continue to live here,'" said Harriman, who has been named head of business development at Telefonica SA's O2 unit. "You say, 'Why?' They say, 'Well, we just don't like it.'"

Others in the industry foresaw trouble. DirecTV, the largest U.S. satellite-TV provider, looked at LightSquared's spectrum in 2004, according to CEO Michael White.

"A young engineer we had went and tested it and said, 'It conflicts with GPS, it will never work.' So we backed away immediately," White said in an interview. Falcone made a bet that the government would say, 'Sure, go ahead,' or somehow make it right."

Last-Minute Loan

The December warning that lightSquared signals could cause planes to crash came less than a week after Harbinger disclosed in a letter to clients the receipt of a Wells notice from the SEC saying the agency was considering suing Falcone. The letter also said New York-based Harbinger was halting withdrawals from its main fund.

The disclosures led to another crisis: A deal to refinance the remaining portion of a \$400 million loan to Harbinger from Zurich-based UBS AG collapsed, he said.

As a Jan. 30 deadline to repay UBS approached, Falcone turned to investment bank Jefferies Group Inc. (JEF) for help. That weekend Falcone was in Wellington, Florida, his daughters riding horses while he negotiated by phone.

Five Harbinger lawyers worked through the night in New York hammering out a deal. Six minutes before a 5 p.m. deadline, Jefferies wired money. Falcone agreed to pay an effective interest rate of 24 percent for \$190 million, four times what the riskiest corporate borrowers pay.

"People say, 'Boy, why would you have done that loan? Look at the terms!'" Falcone said. "There were things that happened that kind of backed me in."

Harvard Hockey

Falcone has had the fighting instinct since he played hockey in Chisholm, Minnesota, where he grew up the youngest of nine children living in a three-bedroom house. His father, who moved out when Falcone was 9, never made more than \$14,000 a year as a superintendent at a local utility.

Falcone threw himself into hockey. Harvard University recruited him, and after graduation he played for a professional team in Malmo, Sweden. He ended up on Wall Street in 1985 after being sidelined by a leg injury, trading high-yield debt at Kidder, Peabody & Co. in New York.

"He was willing to push things, push hard on things, and push the limit on things," said Wade Lau, a Harvard teammate who was also from Minnesota and is now an executive at Minneapolis-based real estate investor Founders Properties LLC. "Phil certainly had that personality as a player and, obviously, it continued on in business."

White-Truffle Pasta

Falcone acknowledged his pushiness could be a handicap. He said it was a mistake to have shouldered the GPS industry.

We should have "reached out and tried to do it in a more amicable fashion, as opposed to going in and saying they're wrong, it's their problem, they should spend the money to fix it," Falcone said. "We tried to bully, not bully, but push our way through."

Still, when Falcone and five LightSquared colleagues met over a meal of white-truffle pasta and prosciutto at a Washington restaurant in January, they failed to come up with anything they could have done differently, according to a person who was there who asked not to be identified because the meeting was private.

'Desperate and Naïve'

Falcone said he's spending a day a week in Washington and is trying to negotiate a spectrum swap with the military or others that would eliminate the GPS problem. The Pentagon won't go along, said Walt Piecyk, an analyst at TIG LLC in New York.

"A swap of spectrum isn't a realistic option," Piecyk said. "First, there's nothing readily available and second, if there was, that's spectrum that could be auctioned off for billions in proceeds."

Falcone said if the swap doesn't work he'll try to negotiate with GPS manufacturers to put filters on their devices or to use the lower end of his spectrum. Or here's the court.

"If I have to, I'll put it into bankruptcy, I don't care," Falcone said. "I will maintain control."

Falcone faces some of the toughest creditors in the business, said Brad Balter, head of Boston-based Balter Capital Management LLC, which invests client money in hedge funds. Icahn along with investors including David Tepper, head of hedge fund Appaloosa Management LP, have bought about \$300 million of LightSquared debt.

'Alpha-Male Investor'

"Icahn is a take-control, alpha-male investor," Balter said. "Falcone is both desperate and naïve if he thinks of Icahn as anything other than an adversary who would wrest control of the spectrum if LightSquared went into bankruptcy."

Icahn is nearing agreement to buy a 14.9 percent stake of Ferrous Resources Ltd., a closely held Brazilian iron-ore producer, from Harbinger for \$1.50 a share, four people familiar with the transaction said last week. That's about one-third of what Harbinger paid when it bought part of the firm in 2008.

Falcone, who last year wrote down the value of LightSquared's spectrum by 59 percent and cut it about 25 percent more in February, said the losses aren't forcing him to change his lifestyle. He has a house on the Caribbean island of St. Barts, owns a Gulfstream V jet and said he's planning to build a horse farm on Long Island.

Mark Baron, who has known Falcone since they grew up in Minnesota, said his friend always seems unfazed by adversity.

"When his father left, no one knew what was going on, and it didn't seem to affect him, though I'm sure it did," said Baron, co-owner of computer-equipment provider Compudyne in Duluth, Minnesota.

Domenico Vacca

One place Falcone is visiting less frequently is Domenico Vacca, the New York boutique where suits retail for \$3,900 and shirts \$490, according to a person with knowledge of his purchases. He orders every four or five months compared with every two or three months between 2006 and 2009, and is spending less money at the Madison Avenue store, the person said. Falcone said his shopping remains the same.

While one of those shirts appeared darker under the arms in his office last month, Falcone said he doesn't sweat and didn't when checking his TW Steel watch during January's own-to-the-wire loan negotiations.

"This is not for the faint of heart," Falcone said. "I've never looked at it as having \$4 billion or \$25 billion as defining Philip Falcone. But who's to say I won't get back to \$25 billion?"

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