

How Reuters Hedge Fund Reporters show bias and speculation in their reporting on Harbinger/Falcone because they can't get an interview with the fund managers or they are just sloppy reporters.

Falcone receives Wells Notice from U.S. government

12/9/2011 COMMENTS (0)

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Dec 9 (Reuters) - [Philip Falcone](#), a hedge fund manager who became an overnight billionaire [It did take him all of 2007 and some of 2006 to make \$1.5bn personally] by betting on the collapse on the U.S. housing market, is now fighting to keep his career afloat.

The investor, who has since bet much of his [Harbinger Capital Partners](#) money on a cash-strapped wireless telecom company [There is no evidence reported here that shows LightSquared has a cash flow problem. Did you ask Falcone how new investments and sales are going], said on Thursday that U.S. securities regulators are considering filing civil fraud charges against him and what is left of his once \$26 billion hedge fund empire.

Falcone and two top lieutenants, including his general counsel Robin Roger, have received Wells Notices from the U.S. Securities and Exchange Commission, said Harbinger Capital parent Harbinger Group Inc.

This means the regulators are considering bringing an enforcement action against them over a number of potential violations, including alleged manipulative trading in debt securities during the period from 2006 to 2008. [It's in one debt security not multiple securities as the Harbinger press release states]

Falcone previously said that regulators were investigating his funds' trading in unnamed bonds. But those earlier filings had downplayed the potential seriousness of the matter. [This is a separate issue than the market manipulation investigation. How do you know when he announced in April the SEC was investigating that they made any mention it was a formal investigation or intended to charge]

HEDGE FUND INDUSTRY DARLING NO MORE

Falcone once was a favorite with big name investors like Goldman Sachs Group Inc and Blackstone Group LP. As of this summer, George Soros' family office had as much as \$200 million still with Harbinger. A Soros spokesman declined to comment. [Forbes actually reported Blackstone took out some money in his BlueLine fund last year but not all of it. Blackstone withdrew after Falcone let go a former Blackstone staffer who was working for him.] But Falcone's funds have disappointed mightily the past two years. This year, his flagship fund is off 11.6 percent, according to an investor. [His distressed credit fund BlueLine with over \$1bn of AUM actually performed really well last few year with a total returns of 106%] Now some speculate that this latest blow may make it impossible for him to go on. Already earlier this week he told investors in his Blue Line Credit fund that they could not get their money out immediately. [BlueLine investors know the fund strategy is set to end next year. The stop on redemptions while Falcone unwinds the fund is a normal move and expected.]

"Conducting a business during these volatile times is difficult enough, and receiving a Wells Notice

further threatens the viability of running a successful firm," said Ron Geffner, who works with hedge funds as a partner at law firm Sadis & Goldberg.

The timing of the trading being examined is of great interest because it coincides with the period that Falcone was making his big bet on the collapse of the U.S. housing market. That is a trade which catapulted him to hedge fund stardom along with a handful of other managers like John Paulson and Steve Eisman. [Silly speculative sentence because Reuters reporters don't know the names Falcone bought and sold during this time]

A spokesman for Falcone declined to comment on the potential action by the SEC. The spokesman said he could not offer any more information about the alleged improper trading in debt securities the SEC is looking into.

DEBT TRADES CAUGHT REGULATORS' EYE

A former employee said he doubted the trading issue involved the subprime trade because most of it had to do with buying credit default swaps on mortgage securities, and not building collateralized debt obligations as other hedge fund managers did. The former employee said he did not know what trades the SEC might be looking at. [And neither do the Reuters reporters because they have never had a chance to interview Falcone. Falcone's subprime strategy also consisted of shorting banks he thought would fail like Bear, Wachovia, WaMu, Lehman]

For Falcone, the notification from the SEC that it may file civil fraud charges against him -- officially called a Wells Notice -- marks the latest setback at the top of the hedge fund empire.

Harbinger now manages less than \$4 billion [According to who/what document. Harbinger has stated assets are \$5.6bn] and roughly half of the money is tied up in its investment in LightSquared LP [According to who? Why is no number reported here? Exactly how much of Harbinger funds are in LightSquared this month. It reads like you don't know], the upstart wireless telecom on which Falcone has bet the ranch. LightSquared is running low on cash and its outstanding debt trades at a steep discount [why is a price it's trading at not listed] as its fortunes have floundered due to a number of technical issues.

Recently the company's technology was said to interfere with the global positioning system, the widely used technology involved in everything from navigation to managing irrigation. Some lawmakers have accused the Federal Communications Commission of fast-tracking LightSquared's project, although the agency says its process has been engineering-based.

"Now the FCC is faced with the real possibility that it made a multibillion-dollar grant of valuable spectrum to someone who could be charged with violating securities laws," said Iowa Senator Chuck Grassley. "The FCC chairman should lead the effort to provide documents and offer insight into how the agency decided to give Mr. Falcone, Harbinger Capital and LightSquared this multibillion-dollar grant."

In recent years, Harbinger has angered his investors by closing his funds to redemptions [Not accurate his AUM dropped by billions because he gave money back] and committing so much money to LightSquared. He has also angered investors by borrowing \$113 million from his fund to pay his taxes without first notifying his investors.

Even though Falcone has since paid back the loan, the SEC began looking into the loan disclosure last year. Potential problems with the disclosure over the loan is another reason regulators are considering suing Falcone, said a person familiar with the matter.

The filing of the Wells Notice on Falcone and his funds was disclosed Friday in a regulatory filing by Harbinger Group, an investment company Falcone controls which has been buying up assets from his hedge funds.

The SEC, according to the filing, also sent Wells Notices to two of Falcone's top lieutenants, Omar Asali and Robin Roger.

Falcone, who grew up poor in Minnesota's mining region, came to Wall Street via Harvard College, where he was a star hockey player. After developing his expertise in credit markets as a high yield and distressed securities trader at Kidder Peabody, Falcone set off on his own, often returning to his roots and hiring former Harvard hockey players. He and his wife, Lisa, a fixture in New York's social circles, moved into Penthouse mogul Bob Guccione's townhouse and have undertaken a lengthy and costly renovation.

Known for his demanding personality [Where is the quote from someone who worked with him to back this up-total speculation], Falcone upset many investors when he told them on Christmas Eve a few years ago that their money would be locked up for a long time. [According to Falcone this never happen. Instead he told Forbes last year in April 09 the investors in his Special Sits fund voted to allow only 25% of redemptions to happen at a time- so the fund didn't fire sale assets].

Editing by Teri Buhl