From Subprime To Satellites

PHIL FALCONE, FOUNDER OF HARBINGER CAPITAL PARTNERS, HAS MADE AND LOST BILLIONS WITH HIGHFLYING BETS ON MORTGAGES AND IRON MINES. NOW, IN A BID TO BUILD A NEW BROADBAND NETWORK, HE'S BLASTING INVESTORS' MONEY INTO SPACE.

by Anthony Effinger *and* Katherine Burton

Falcone's assets swelled to $26 billion after his winning bet against mortgage debt. These days, he manages $9 billion.

Philip Falcone left his hometown of Chisholm in northern Minnesota's rusting Iron Range in 1980 in the passenger seat of a 12-year-old Mercury Cougar that cost $150. Neil Sheehy, from nearby International Falls, had offered Falcone a ride to Harvard University, which had recruited both of them to play hockey for the Crimson. The car stalled in front of Falcone's house, and Sheehy had to restart it on a hill while Falcone's mother and one of his sisters sobbed their goodbyes.

"It'll be all right, Mrs. Falcone; it'll be all right," Sheehy recalls telling Caroline Falcone as the car chugged to life and headed east. Phil was the youngest of nine children and had grown up poor. His mother worked in a shirt factory, and his father never made more than $14,000 a year as a superintendent at a local utility.

Falcone rode to Cambridge, Massachusetts, with his feet on the dashboard because Sheehy had packed a skate-sharpening machine on the floor of the front seat. Halfway there, the roof liner came loose and showered the young men with fiberglass insulation that stuck to them as they sweated in the late summer heat.

Now, when he goes home to Minnesota, Falcone can fly in his own jet, on which the linens are made by the luxury Italian textile firm Frette, according to a person who's flown with him. He and his wife, Lisa Maria, are renovating a 27-room mansion in New York for which they paid $49 million and which was once owned by Bob Guccione, the publisher of *Penthouse* magazine. The household includes a pet potbellied pig named Wilbur.

Falcone, 48, is the founder of New York–based Harbinger Capital Partners. In 2008, Harbinger was one of the world's most successful hedge funds, with assets of $26 billion. Falcone succeeded by coaxing value out of stocks and bonds of struggling companies. Beginning in late 2006, Falcone bet millions that securities cobbled together from subprime mortgages would collapse. When they did, in 2007, Harbinger made $11 billion, driving a 116 percent return for its flagship, Harbinger Capital Partners Fund.

Then, Falcone lost his touch. His funds, which loaded up on shares of iron-mining companies and power producers, plunged as the economy slowed. The Capital Partners Fund fell 50 percent from its peak in mid-2008 to the end of that year. It rose again in 2009, placing 13th in BLOOMBERG MARKETS' annual hedge-fund ranking, with a 42 percent return. That, however, only made up for 2008 losses. Spooked investors asked for their money back. These days, Falcone manages just $9 billion, a third of his boom-time pile.

Many hedge funds have had a lackluster 2010. The private pools of cash—raised from wealthy families, pensions and endowments—returned 1.45 percent on average in the

FALCONE'S BROADBAND BET

The hedge-fund manager plans to spend $7 billion to build and operate the LightSquared network. To succeed and keep his FCC licenses, he must meet a series of deadlines, several of which are required by the federal agency.

DECEMBER 2010	FIRST HALF 2011	MID-2011	DEC. 31, 2012	DEC. 31, 2015
Start building a network of 36,000 cellular base stations and launch a satellite.	**Begin trials of wireless broadband service in Baltimore, Denver, Las Vegas and Phoenix.**	**Provide service to smartphones that can use both cellular and satellite network.**	**Expand cellular network capacity to serve 100 million people in the U.S.**	**Allow 260 million people, or 90 percent of the U.S. population, to access network.**

Sources: Bloomberg, LightSquared

PREVIOUS PAGE COURTESY APCO

Falcone, second from right, testifies before Congress along with fellow hedge-fund managers, from left, **George Soros**, **James Simons**, **John Paulson** and **Ken Griffin**.

DANIEL ROSENBAUM/REDUX

first eight months of 2010, according to Hedge Fund Research Inc. in Chicago. Mom-and-pop investors in the Pimco Total Return Fund, the world's biggest bond fund, earned 8.7 percent in the same period, including reinvested dividends.

Managers who are still in the game—2,900 hedge funds closed from the beginning of 2008 to June 30—are paring risk. Many are shunning investments in private companies, which have proved hard to sell since the credit markets went into convulsions two years ago.

Falcone is trying to recover with his biggest bet ever. He's building a wireless network powered by satellites and cell towers that will cover the entire U.S. and compete with AT&T Inc., Verizon Communications Inc. and billionaire Craig McCaw's Clearwire Corp. to deliver fast Internet service to smartphones. Falcone says Harbinger has spent $2.9 billion on its broadband company, LightSquared, which in turn plans to pay Nokia Siemens Networks $7 billion to build and operate its network over the next eight years.

"I've always been a believer in wireless," Falcone says in a rare interview at his office 30 stories above Park Avenue in New York. He also acknowledges that his clients see LightSquared as a giant gamble because it accounts for much of Harbinger's portfolio. "This has been a hot button for some of my investors, the biggest issue for me in the last 12 months," Falcone said in mid-September.

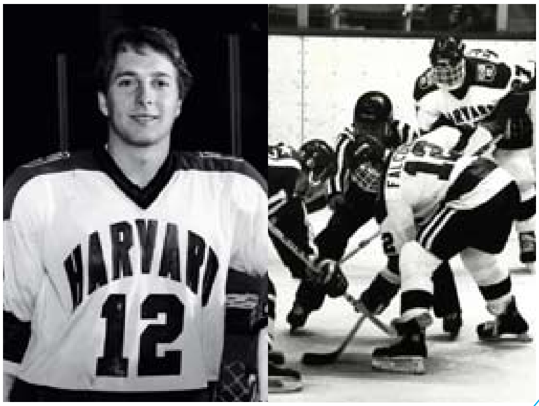
Falcone's is one of at least three big hedge funds that have stumbled since their career-making wins in the mortgage collapse. Paulson & Co., the $31 billion fund that earned $15 billion in 2007 betting against mortgages, was down 11 percent this year as of August. Founder John Paulson's former top lieutenant, Paolo Pellegrini, set up his own firm, PSQR LLC, in 2009. After gaining 62 percent that year, he lost 11 percent in 2010 through August and then decided to return money to outside investors and just manage his own funds, according to a person briefed on the decision.

"Just because a manager got the subprime trade right, it doesn't necessarily mean he's a skilled manager," says Brad Balter, managing partner of Balter Capital Management LLC, a Boston-based firm that invests in hedge funds for clients. "There have been several funds that benefited from that bet in 2007 whose performance was mediocre before and continues to be mediocre today."

These days, Falcone is literally blasting his investors' money into space. Late in 2010 or early in 2011, LightSquared plans to launch its first communications satellite aboard a Russian-built rocket fired from Kazakhstan. A second bird will go up sometime after that, giving the company the ability to provide mobile Internet access anywhere in the U.S.

The risk for Falcone is alienating investors who thought they were putting money into a hedge fund that traded securities that were easy to buy and sell, not one that locks up their money in a private wireless company that could take years to build and years longer to turn a profit. “He’s changed the very focus of the fund,” says Geoffrey Bobroff, president of Bobroff Consulting, an investment fund consultant in East Greenwich, Rhode Island. “If you do that, you need to afford people the opportunity to exit.”

Like many hedge-fund managers, Falcone declined to give investors all of their money back in 2008 because he would have had to sell assets at bargain-basement prices, if he could sell them at all. Those clients are still waiting for more than 90 percent of their money, they say.



Minnesota-born **Falcone** was recruited by Harvard to play hockey and later played professionally. In his junior year, the team went to the NCAA championships.

Falcone has always had a taste for offbeat investments. His portfolio includes a 49 percent stake in African Medical Investments Plc, a London-based startup company that operates clinics for middle-class Africans and expatriates across the continent. Harbinger is also an investor in a casino in Vietnam.

The Falcones are hedge-fund celebrities in New York, covered in gossip pages and photographed at charity dinners, where Lisa turns up in diaphanous gowns and short skirts, usually with a different bejeweled cross around her neck for each event. Phil shook up the city in 2008 when he became the biggest shareholder of New York Times Co. and tried to wrest strategic changes from the controlling Sulzberger clan. Tabloids pounced when the Falcones’ former butler, a gay man, alleged in a lawsuit that Lisa sexually harassed him. She denies it. This year, Lisa produced *Mother and Child,* a film that stars Annette Bening and Naomi Watts and that deals with adoption issues.

FALCONE BORROWED $113 million from the Harbinger Special Situations Fund to pay his personal taxes. He says the move was proper and was fully disclosed to investors.

The wireless play could save or break Falcone and his dwindling fund. Falcone started 2009 with just $6.5 billion, an investor says, after losses and the return of billions of dollars to anxious clients. Falcone has at least $800 million of his own money in the Capital Partners Fund, according to investors. In 2009, he borrowed $113 million from his Special Situations Fund to pay his personal taxes, a move that could invite scrutiny from the U.S. Securities and Exchange Commission because the fund wasn’t allowing investors to take money out at the time, says Bobroff, a former SEC attorney. “Regulators would love to jump on that,” he says.

Falcone says the loan was proper. “That’s been disclosed and discussed with investors,” he says.

Falcone is going all in on wireless. LightSquared and other telecommunications investments account for about 90 percent of net assets in the Capital Partners Fund and more than 50 percent of the Special Situations Fund, which together hold about $5.5 billion, according to investors. Falcone declined to confirm the numbers.

Harbinger has to move fast. The Federal Communications Commission is requiring LightSquared to build out a network that can serve 100 million people by Dec. 31, 2012. If it doesn’t, the FCC can nullify LightSquared’s licenses for the radio frequencies it needs to operate.

Building a network will cost about $5 billion, says Credit Suisse Group AG telecom analyst Jonathan Chaplin. Falcone will have to cover another $3 billion in losses while he hustles for customers, Chaplin says. “It’s going to take a lot of capital to get it built, and I’m not sure the capital is available,” he says.

Falcone secured a piece of what LightSquared needs in September, getting a $750 million, four-year loan from UBS AG, according to two people familiar with the matter.

One option for Falcone is to sell his licenses now and forget the fuss of building a network, Chaplin says. Harbinger got the licenses when it completed its purchase of a money-losing satellite company called SkyTerra

L–R: TIM MORSE, JET COMMERCIAL PHOTOGRAPHERS COURTESY HARVARD

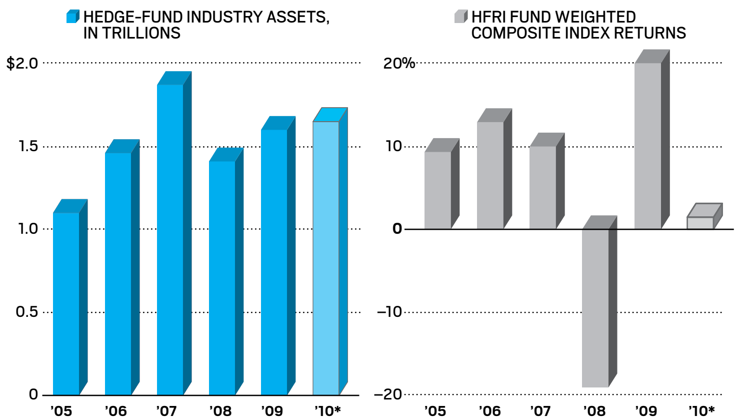
Communications Inc. in March. The licenses are probably worth $9 billion today, according to Chaplin. They cost Falcone about $4 billion, including leases on wireless frequencies he signed to complement SkyTerra's, Chaplin says. Any transaction would need approval from the FCC.

Investors will have to wait longer, perhaps for an initial public offering, if Falcone keeps building. McCaw's Kirkland, Washington–based Clearwire, which sold shares to the public in April 2007, has a market value of $7.3 billion.

Whether he builds a telecom system or sells his spectrum, Falcone needs a winner. His $3.4 billion Capital Partners Fund is struggling. In 2008, it lost billions making bullish bets on iron-ore producers, including Perth, Australia–based Fortescue Metals Group Ltd., whose stock was down 74 percent for that year. Harbinger lost still more investing in Houston-based power company Calpine Corp., whose shares fell 56 percent in 2008.

Partial Recovery

Hedge-fund assets have come back since 2008, yet 2010 returns are anemic.



**Assets as of June 30; returns as of Aug. 31. Source: Hedge Fund Research*

Harbinger recouped those losses in 2009, when Calpine, Fortescue and other stocks rebounded. This year, Falcone is down again. As of the end of August, Harbinger's flagship fund had lost 16 percent, partly because of a plunge in the stock of TerreStar Corp., another satellite communications company. Harbinger owned 31 percent of TerreStar as of June 30; its shares were down 71 percent for the year as of Sept. 13, to 27 cents. In August, the company warned in a regulatory filing that it would have to declare bankruptcy if it couldn't borrow more money to operate a satellite that it launched in July 2009.

Investors have already lost patience. Falcone is liquidating about 80 percent of his $2 billion Special Situations Fund, which holds a chunk of the LightSquared investment, at the request of clients, investors say. Falcone has been trying since June to raise $1 billion to $1.5 billion for LightSquared from investors who would be willing to commit capital for several years, according to potential investors who have seen the marketing documents. That money would be used to buy some of the wireless bet from his two hedge funds. As of mid-September, he had no takers. Falcone declined to comment on the matter.

Falcone is betting that the boom in wireless data triggered by Apple Inc.'s iPhone and Google Inc.'s Android operating system for mobile phones will create a shortage of spectrum—the radio frequencies needed to transmit phone calls, Web pages, YouTube videos and Twitter updates over the air. "Spectrum, by its nature, is a finite resource," Falcone says. "I'm a big believer in finite resources." The U.S. government leases rights to the frequencies. Data traffic on AT&T's network, where the iPhone operates, grew 5,000 percent in the three years after that device came out, the Dallas-based company says.

Unlike AT&T and Verizon, LightSquared won't run its own, branded wireless service. It will sell space on the network at wholesale prices to other carriers, retailers and media companies. If Apple wanted to sell iPhones that run on an Apple-branded network, for example, it could contract with LightSquared for the capacity.

Investors who stick with Falcone must accept that he makes big bets that don't always work out. Falcone's most public blunder was paying an estimated $500 million for almost 20 percent of the New York Times's publicly traded Class A shares. The company is controlled by the family of Times publisher Arthur Ochs Sulzberger Jr. through their Class B shares, which give them the right to appoint 9 of the 13 directors.

Falcone bought the stake in 2008, when he was fresh from his mortgage killing and the newspaper's revenue was falling as advertisers migrated to the Internet. In January 2008, he offered a slate of four new directors and urged the company to sell extraneous assets, such as its stake in the Boston Red Sox baseball team, and to use that money to build its online business. Two of Falcone's nominees won election to the board: Scott Galloway, founder of Firebrand Partners, a consulting firm that advised Falcone on the purchase, and James Kohlberg, chairman of Kohlberg & Co. and son of Jerome Kohlberg, a founder of private-equity giant KKR & Co.

Falcone hasn't been able to turn around New York

Times's slumping stock. Since Galloway and Kohlberg joined the board on April 22, 2008, the company's shares have fallen 57 percent as of Sept. 13, to $8.41. Falcone still owned 9 percent of the Class A shares as of June 30. Kohlberg remains on the board; Galloway left this year.

People who know Falcone say he's a hard-working guy who retains his Midwestern values. "Phil is a product of his upbringing," Galloway says. "He has good manners. He's not a chair thrower. I've never seen him yell."

When Harbinger was looking for office space a few years ago, Falcone's broker found a prime location on which another, smaller hedge fund had put a deposit. The broker told Harbinger it could certainly outbid them. "Phil's words were, 'That's bad karma; I don't want to push out a smaller firm,'" Galloway says.

Family is important to Falcone, Galloway says. His twin daughters come to lunch at his office, 10 blocks south of their home, every Friday. Galloway says he once set up a meeting for Falcone with a billionaire investor who was interested in Harbinger. Falcone said he couldn't make the meeting because he had to go see his mother.

HARBINGER RETURNED 18.7 percent a year for its first five and a half years, buying distressed debt. In 2007, Falcone's flagship fund earned 116 percent betting against subprime mortgages.

Phil and **Lisa Falcone** at a party for donors to New York's new High Line park. She took the microphone to proffer a $10 million donation.

PATRICK MCMULLAN

Falcone was wide-eyed when he arrived at Harvard in 1980, says hockey teammate Greg Olson, who's now a dentist in Minnetonka, Minnesota. "He was a deer in the headlights," Olson says. After recovering from the initial shock, Falcone made himself something of a campus don. Hockey teammates called him "Fashion Phil" because he cared so much about his clothes, Olson says. He had a blue, three-piece suit that he wore often, and he always wore stylish shoes.

The center on the hockey team, Falcone practiced hard and studied hard. "He took a lot of ribbing because of his intensity," says teammate Brad Karp, a former energy executive in Santa Fe, New Mexico. In his freshman year, Falcone won the George Percy award, given to first-year players for enthusiasm and sportsmanship. Harvard went to the NCAA championships in 1983, Falcone's junior year. The team lost to Wisconsin, 6-2.

After graduating with a B.A. in economics, Falcone played hockey for a professional team in Malmo, Sweden, for a year. He quit when he injured his leg. He returned to the U.S. and went to work for investment bank Kidder, Peabody & Co. in New York, where he traded high-yield debt for about five years.

In 1990, Falcone and Edward Garden, a friend from Harvard, pooled their money, got some loans and bought AAB Manufacturing Corp., a struggling Newark, New Jersey–based maker of brushes and combs. Then a drugstore chain that was one of AAB's biggest customers went bankrupt, taking the combmaker's receivables with it. In congressional testimony on hedge funds' role in the financial crisis, Falcone said he was so broke he couldn't pay his electric bill.

Falcone returned to Wall Street, trading distressed debt for several firms, including Barclays Plc.

In 2001, Harbert Management Corp., a Birmingham, Alabama–based money management company, was looking for someone to start a fund to trade distressed debt and came across a PowerPoint presentation from Falcone. Harbert hired him to start what became Harbinger, staking him with $25 million.

Falcone was a valuable commodity. Harbinger returned

The Falcones are renovating this 27-room **mansion** on New York's Upper East Side, which they bought from *Penthouse* publisher Bob Guccione for $49 million.

18.7 percent a year on average over the next five and a half years compared with 15 percent for competing distressed-asset funds. In 2006, he put on the trade that would make his name. Like Paulson and other mortgage megabears, he bought credit-default swaps, contracts that rose in value as the price of interest-paying securities constructed from individual home mortgages lost value. Also like Paulson, Falcone bought many of the swaps from a salesman named Greg Lippmann at Deutsche Bank AG, according to a person familiar with the purchases.

When the housing market collapsed in 2007 and defaults soared, Falcone got rich.

Falcone's wealth has made him and his wife, Lisa, highly visible newcomers to big-time philanthropy. Lisa rattled the titans of charity in June 2009 at a party for donors to the High Line, a new park in Manhattan built atop a disused elevated railway. In the middle of a speech by High Line founder Joshua David, Lisa, clad in a gray, shimmery minidress tied at the waist with a white bow, strode to the front of the crowd, asked for the microphone and said she would match a $10 million gift to the High Line that had just been announced by Barry Diller, chairman of IAC/InterActiveCorp., and his wife, fashion designer Diane von Furstenberg.

Lisa's upbringing was even more hardscrabble than her husband's: She grew up in Spanish Harlem and was raised by a single mother on welfare. She was working as a model when she met Phil Falcone through mutual friends at a Manhattan restaurant in the late 1980s. They were married in 1992.

Lisa is now the overseer of the Falcones' properties, one of which is a compound on the island of St. Barts in the Caribbean that the Falcones bought for $39 million in 2008—the most expensive home purchase in the island's history, according to Sotheby's International Realty, the listing agent.

William Gamble, the former manager of their homes, says in a complaint filed in February in New York State Supreme Court that Lisa sexually harassed him on a trip to St. Barts in March 2008. First, she told him to wear a smaller bathing suit to help improve his tan, he says in the suit. Days later, she put her hand down his pants while drunk and, when rebuffed, hit him with her hand three times, leaving bruises on his abdomen, the suit says.

FALCONE SAYS his big bet on wireless broadband 'has been a hot button for some of my investors, the biggest issue for me in the last 12 months.'

The Falcones denied Gamble's charges in a response filed in court on April 20. "Plaintiff's job performance during his employment by the defendants was unsatisfactory," the response says.

Falcone bought the St. Barts house just before he got clobbered by the credit crisis and the subsequent slowdown in the economy. That's when his Calpine bet, among others, went south. Like other hedge funds, Harbinger had to fight its way through the crisis, selling assets to limit losses and to return money to anxious investors. "People looked at us like an ATM," Falcone says. Harbinger wouldn't let investors have all the money they demanded.

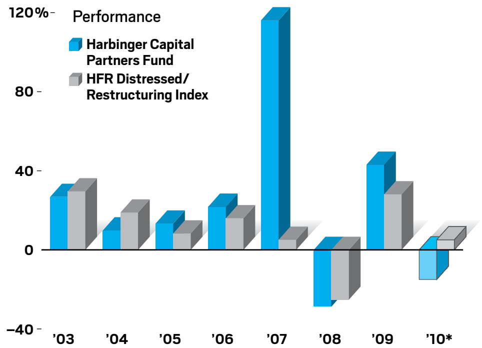
He broke the news in an e-mail around midday on Christmas Eve 2008, saying he would limit redemptions to two-thirds of investors' requests. He put 15 illiquid private-equity investments into a segregated account called a side pocket, according to investors. The holdings would be sold off over time, with investors getting cash back as sales were made. As of late September, investors had received only 7 percent of the money they had demanded, they say. Falcone declined to comment on the matter.

While denying clients, Falcone in October 2009 took a $113 million loan from the Special Situations Fund to pay his personal taxes, according to investors who learned of the loan in the fund's 2009 financial statements. Investors say they would have preferred having

CHRIS GOODNEY

Distressed

Falcone's biggest fund is down again in 2010 after a 41 percent return in 2009.



Through Aug. 31. Sources: Harbinger investors, Hedge Fund Research

excess cash returned to them. The fund allowed no redemptions after the 2008 bankruptcy of Lehman Brothers Holdings Inc., which was the fund's broker and held its assets.

Falcone's funds are too narrowly focused for some investors. Executives that manage a fund for PNC Financial Services Group Inc. in Pittsburgh asked for the return of their whole investment—an unspecified amount—from Harbinger Capital during the fiscal year ended on March 31, according to a regulatory filing. Harbinger "got caught up in concentrated, illiquid situations in 2008," managers of the PNC Long-Short Master Fund LLC said in the filing.

The New York State Common Retirement Fund is pulling its entire $68 million investment in Harbinger. It asked for $27 million at the start of 2010 and the remaining $41 million in mid-September, spokesman Dennis Tompkins says. He declined to say why the fund decided to redeem.

Falcone, in an August 2009 investor conference call, pledged to reduce the amount of stock and private-equity investments in the Capital Partners Fund to about 50 percent of assets, moving more into bonds, according to investors who were on the call. They say that didn't happen. Falcone declined to comment on the matter.

One investor is taking the big bets in stride. Mark Yusko, chief investment officer at Morgan Creek Capital Management LLC in Chapel Hill, North Carolina, says betting lots of money on a few ventures isn't necessarily bad. "Concentration indicates passion and conviction," Yusko says. "I can manage around concentration because I don't have all my money with him. Philip is an outstanding investor. He has the intestinal fortitude and patience to stick with an investment."

Falcone's satellite play started out as the kind of distressed-debt investment typical of Harbinger. The licenses he's using to build his network have been bouncing from one owner to the next since 2000, when Motient Corp., a company that sold package-tracking services to United Parcel Service Inc., set up a partnership with other investors called Mobile Satellite Ventures LP (MSV) to try to build a network. It sold part of its stake in the unit in October 2001 and then sought bankruptcy protection.

Apollo Global Management LLC, the private-equity firm run by Leon Black, bought a piece of an Internet software company called Rare Medium Group Inc. in 1999. Two years later, Rare Medium bought a piece of MSV. As the Internet boom went bust, Rare Medium morphed into a satellite communications company, changing its name to SkyTerra Communications in 2003 and going on to accumulate a majority of MSV in May 2006.

Falcone started acquiring SkyTerra shares about the same time, according to regulatory filings. He's been on a telecom bender ever since. He says buying wireless spectrum is a better bet than buying media properties. "Do you want to own the Lincoln Tunnel or the cars that go through it?" he asks. "You want to own the road."

In April 2008, Falcone paid Apollo $10 apiece for 16.4 million shares of SkyTerra. By the end of 2008, the shares had dropped 86 percent, to $1.79. Harbinger bought the shares of SkyTerra it didn't already own in March of this year for another $262.5 million. Falcone renamed the Reston, Virginia–based company LightSquared in July. He hired Sanjiv Ahuja, former chief executive officer of France Telecom SA's Orange Group mobile phone unit, to run it.

FALCONE'S WIRELESS network will combine satellite transmission and cell towers. Each satellite will cost $300 million to build and launch.

In addition to LightSquared and his stake in cash-strapped TerreStar, Falcone bought a 28 percent stake in Inmarsat Plc, a London-based competitor to SkyTerra that has 11 satellites providing worldwide voice and data service. Falcone wanted all of Inmarsat. He said in a July 2008 press release that Harbinger and SkyTerra, then independent, would team up and bid for the company after getting regulatory approval. Global credit markets seized up months later, and dealmaking halted. If Falcone bid, it wasn't made public.

Controlling Inmarsat would make Falcone's investment much more valuable, says Patrick Comack, an analyst at Zachary Investment Research & Management LLC in Miami Beach, Florida. Inmarsat controls wireless spectrum that's interwoven with LightSquared's. Having broader swaths of spectrum means you can send more information over the air. If LightSquared is to use it for broadband Internet, it must be separated into contiguous blocks, Comack says. "They've got a huge amount of high-quality spectrum, but the majority isn't usable until they clean it up," he says.

To solve that problem, LightSquared said in August that it would pay Inmarsat $337.5 million over 18 months to modify its network so the frequencies can be untangled.

The FCC originally set aside the SkyTerra spectrum strictly for satellite use. The FCC encourages satellite systems because they aren't affected by hurricanes, earthquakes or other events that can knock out cell towers. The downside of satellites is that they don't provide good connections in cities, where buildings can block transmissions, and that all of the expense is upfront: SkyTerra's two satellites will cost $300 million each to build and launch, Credit Suisse analyst Chaplin says.

The SkyTerra spectrum became more valuable in November 2004, when the FCC ruled that its satellite system could be augmented with land-based cell towers, making it more attractive to mobile phone users.

Falcone still must launch satellites in order to comply with the FCC licenses. Lots of companies have tried to build satellite networks and failed. One of the first, Teledesic LLC, planned to dish up Internet service from space with 288 inexpensive satellites by 2002. It was backed by McCaw, Microsoft Corp. co-founder Bill Gates and, later, Saudi Arabian Prince Alwaleed Bin Talal. The backers halted funding, and the network never got built.

Falcone knows the risks. Yet he takes pride in never losing his calm. "You tell me I need a heart transplant and then I'll get stressed out," he says.

Galloway of Firebrand agrees that his friend keeps his cool. "He doesn't scare easily," Galloway says. "He does a lot of homework, makes a decision and doesn't look back."

Falcone better hope his investors don't scare easily either. The ride they're on could be bumpier than Falcone's cross-country trip in that battered Mercury.

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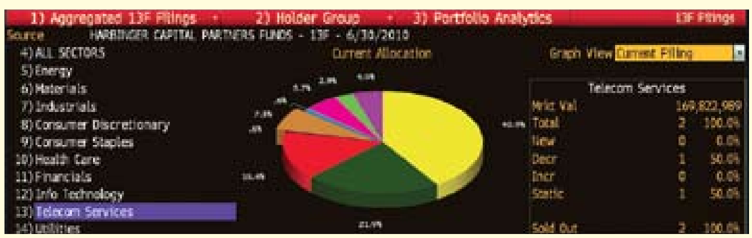
Bloomberg Tips — FALCONE'S TELECOM BETS



You can use the 13F Filing Summaries (FLNG) function to track Falcone's investments in publicly traded telecommunications services firms. Type **FLNG <Go>**, tab in to the COMPANY NAME field and enter *HARBINGER CAPITAL*. Type <Go> 4 <Go> to view the fund's holdings of publicly traded stocks, based on quarterly regulatory filings. Click on the arrow to the right of Graph View and select Current Filing. Then click on Telecom Services to display Harbinger's telecom holdings, which included money-losing TerreStar as of June 30. BETH WILLIAMS

COURTESY APCO